

How Does Downstream Firms' Efficiency Affect Exclusive Supply Agreements?*

Hiroshi Kitamura[†]

Noriaki Matsushima[‡]

Misato Sato[§]

April 21, 2013

Abstract

This paper constructs a model for examining anticompetitive exclusive supply contracts that prevent an upstream supplier from selling input to a new downstream firm. With regard to the technology to transform the input produced by the supplier, as an entrant becomes increasingly efficient, its input demand decreases, and thus, the supplier earns smaller profits when socially efficient entry is allowed. Hence, the inefficient incumbent can deter socially efficient entry via exclusive supply contracts, even in the framework of the Chicago School argument where a single seller, a single buyer, and a single entrant exist.

JEL classifications code: L12, L41, L42.

Keywords: Antitrust policy; Entry deterrence; Exclusive supply contracts; Transformational technology.

*We thank Junichiro Ishida, Shingo Ishiguro, Akifumi Ishihara, Keisuke Kawata, Toshihiro Matsumura, Keizo Mizuno, Masaki Nakabayashi, Takashi Shimizu, Katsuya Takii and the seminar participants at Kyoto Sangyo University, Osaka University, Contract Theory Workshop, and International Workshop on Innovation and Global Competition for helpful discussions and comments. We especially thank Tommaso Valletti for his insightful comments. The second author thanks the warm hospitality at MOVE, Universitat Autònoma de Barcelona where part of this paper was written. We gratefully acknowledge financial support from JSPS Grant-in-Aid for Scientific Research (A) No. 22243022, for Scientific Research (C) No. 24530248, and for Young Scientists (B) No. 24730220. The usual disclaimer applies.

[†]Faculty of Economics, Kyoto Sangyo University, Motoyama, Kamigamo, Kita-Ku, Kyoto 603-8555, Japan. Email: hiroshikitamura@cc.kyoto-su.ac.jp

[‡]Institute of Social and Economic Research, Osaka University 6-1 Mihogaoka, Ibaraki, Osaka 567-0047, Japan. Email: nmatsush@iser.osaka-u.ac.jp

[§]Graduate School of Economics, George Washington University, 2115 G street, NW Monroe Hall 340 Washington DC 20052, USA. Email: smisato@gwmail.gwu.edu