Journal of Law and Legal Reform
Vol. 5 Issue 4 (2024) 1697-1736
DOI: https://doi.org/10.15294/jllr.v5i4.12437
Online since: December 15, 2024

Journal of Law & Legal Reform
journal.unnes.ac.id/journals/index.php/jllr/index

Measuring Vertical Integration in the Technology Sector: Indonesia, the US, and the EU in Unfair Competition

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Abstract

On several occasions, Indonesian competition authorities have attempted to apply Article 14 to adjudicate violations related to vertical integration practices; however, these attempts were invalidated at the objection and cassation levels. The utilised criteria include unfair business competition and public harm, as these terms are instrumental in determining the impacts of violations concerning vertical integration. This research examines Indonesian competition authorities' legal approaches in addressing vertical integration, focusing on the technology sector. The findings indicate that the criteria for assessing whether vertical integration of unfair business competition varies among Indonesia, the United States, and the European Union. In Indonesia, the emphasis is on preventing the exclusion of access to essential raw materials or significant buyers, utilizing the Rule of Reason approach. In contrast, the U.S. evaluates public detriment by balancing fairness and competitive benefits, whereas the EU focuses on market dominance and its potential to reduce competition. Despite these variations, all three jurisdictions share a common objective of enhancing consumer welfare and promoting competitive market conditions, specifically regarding differing regulations on online sales restrictions.

Keywords *Technology Sector, Unfair Competition, and Vertical Integration*

Introduction

To remain competitive in the market, business players use corporate restructuring diversification and expansion[1]. To achieve this goal, business actors sometimes deviate from the rules of fair competition, one of which is vertical integration[2]. Vertical integration is interesting to study because the applicable regulations require that such actions result in unfair competition and public harm. In the European Union, it is only a violation of competition law if it results in substantial losses.

Controlling a series of production processes for certain goods from upstream to downstream or specific business actors' continuous process

1 Ahmad Sabirin and Raafid Haidar Herfian, "Keterlambatan Pelaporan Pengambilalihan Saham Perusahaan Dalam Sistem Post Merger Notification Menurut Undang-Undang Persaingan Usaha Di Indonesia," *Jurnal Persaingan Usaha* 1, no. 2 (2021): 55–63,

2 Husna Maulidah Ramadhani, Elisatris Gultom, and Sudaryat, "Penggunaan Produk Goto Group Dalam Rangkaian Operasi Marketplace Tokopedia Berdasarkan Undang-Undang Larangan Praktek Monopoli Dan Persaingan Usaha Tidak Sehat," *Reformasi Hukum* 26, no. 2 (2022): 189–208,

of a particular service is a general definition of vertical integration[3]. According to Kenneth and Roger LeRoy Miller, vertical integration is a practice carried out by a single business actor to control all elements in the production chain from upstream to downstream. In Indonesia, conglomerate companies usually carry it out; for example, instant noodle businesses will enter into vertical integration agreements upstream with wheat flour producers. The companies do not compete with each other, but the two companies merge under one control or ownership. Vertical integration is a form of merging business activities. According to Kenneth W. Clarkson and Roger Leroy Miller[4]:

> *Vertical integration and conglomerate diversification are mergers, simply defined as joining two more firms under a single ownership or control. Vertical integration may be viewed as the merger of firms involved in various stages of the production of a single product or service."*

In vertical integration agreements, two distinct types exist backward integration in the upstream direction and forward integration in the downstream direction. This vertical agreement involves a sequence of productions that run perpendicular to each other and do not belong to the same relevant market despite the interrelated nature of the two products[5].

Business actors often employ vertical integration to "control" various business activities, including the production process of specific goods and/or services. This strategy helps mitigate uncertainty about the supply of raw materials for their products. The advantages of vertical integration lie in the efficiency it brings to the production costs, allowing companies that control both upstream and downstream products to achieve a more significant profit margin. This principle was examined by Azizah and her team in the context of business activity, specifically analyzing a vertical integration agreement between PT

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3 Munir Fuady, *Hukum Anti Monopoli (Menyongsong Era Persaingan Usaha Sehat)*, (Bandung: PT Citra Aditya Bakti, 1999).

4 Kenneth W. Clarkson, and Roger Leroy Miller. *Industrial Organization: Theory, Evidence, and Public Policy*. (New York: McGraw-Hill, 1982).

5 Bela Gold, "Technological Change and Vertical Integration," *Managerial and Decision Economics* 7, no. 3 (1986): 169–76,

Solusi Transportasi Indonesia (Grab Indonesia) and PT Teknologi Pengangkutan Indonesia (PT TPI). The agreement highlighted how the benefits of vertical integration contribute to enhanced production cost efficiency and, consequently, a more significant profit margin for companies controlling upstream and downstream products”[6].

Meanwhile, Saroniemi and his team explored a vertical integration strategy involving digital platforms in the agricultural industry. Their research findings reveal this strategy's impact on the vertical integration of digital platforms, spanning all stages along the product chain of platform users. The conclusion drawn is that digitalization and data can pave the way for "*new avenues*" to engage in vertical integration practices, proving highly beneficial for businesses[7].

The prohibition of vertical integration in Indonesia is regulated in Article 14 of Law No. 5 of 1999 on the Prohibition of Monopolistic Practices and Unfair Business Competition ("Law No. 5/1999"), while in the US it is regulated by the Sherman Antitrust Act of 1890 as later amended by the Clayton Antitrust Act of 1914 in Section 2(2), and in the European Union in Article 101 of the Treaty on the Functioning of the European Union (TFEU) and European Commission Regulation (EU) 2022/720[8].

Despite the prohibition against such practices, Article 14 of Law No. 5/1999 states, “Business actors are prohibited from entering into agreements with other business actors to control the production of a certain set of products that are part of the production chain of specific goods and/or services. Each production chain is a result of processing or further processes, either directly or indirectly, which may result in unhealthy business competition and/or harm to the public; vertical involvement often plays a significant role in economic activities, with

6 Azizah Saffanatullah Rifdah et al., “Vertical Integration Practice: The Case of PT Solusi Transportasi Indonesia and PT Teknologi Pengangkutan Indonesia,” *The Lawpreneurship Journal* 1, no. 1 (2021): 82–99,

7 Roni Saroniemi, Kari Koskinen, and Virpi Kristiina Tuunainen. "Vertical Integration of Digital Platforms in the Agricultural Industry." *Annual Hawaii International Conference on System Sciences*. Hawaii International Conference on System Sciences, 2022.

8 EU Legislation, “Guidelines on Vertical Restraints,” European Union Law, 2022, https://eur-lex.europa.eu/EN/legal-content/summary/guidelines-on-vertical-restraints.html.

businesses fulfilling their needs in the market while concurrently sustaining their business operations. The argument focuses on the absolute size of vertical involvement across diverse markets[9]. It is directed at absolute size rather than vertical involvement in various markets. In this regard, George J. Stigler Smith explains that larger markets lead to vertical disintegration. For instance, each farmer or rancher may need to handle their meat processing in a small and remote village. However, these activities may be pursued separately in a larger society, resulting in high-quality work or lower costs. As the market evolves, procuring products from others gradually becomes more efficient than self-production. Eventually, with both production lines in place, both parties may enter into an agreement known as a vertical agreement.[10]

One of the objectives of business actors engaging in vertical integration is to mitigate the uncertainty surrounding future raw material supply. The goal is to yield savings for business actors through cost savings, thereby minimizing uncertainty and enhancing efficiency to secure competitive prices for their marketed products. Efficiency can be achieved by streamlining production processes for specific products, mitigating double margins, and reducing production costs and time. Typically, such processes are carried out by businesses at different levels of the production process, avoiding competition within the same market.

While vertical integration has numerous potential benefits, it is not without costs and challenges. Whether the benefits outweigh the costs depends on the specific context. The extent to which vertical integration should be pursued depends on each country's unique circumstances and policy stance on its feasibility. Before adopting a vertical integration approach, potential financial and economic to fiscal costs must be carefully weighed against the objectives. This evaluation

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9 Nicole Woolsey Biggart, ed., *Readings in Economic Sociology* (New York: Wiley, 2002).

10 Richard N. Langlois, “Economic Change and the Boundaries of the Firm,” *The Journal of Institutional and Theoretical Economics* 144, no. 4 (1988): 35–57.

ensures that vertical integration delivers more significant benefits than costs[11].

However, vertical integration has a positive side as it can alleviate the adverse effects of monopolistic markets across various stages of production and distribution, curbing double margins and allowing consumers to benefit from lower prices. On the other hand, it may impede competition by elevating costs for competitors' raw materials or necessary distribution channels, hindering their ability to sell their products. In addition, it can reduce the availability of production materials and increase the capital required for market entry[12].

As a result, it can be inferred that vertical integration may create barriers to entry for potential business competitors. Consequently, competition authorities worldwide pay close attention to the regulation and prohibition of vertical integration, aiming to prevent competitors from entering the market and thereby fostering unfair business competition. This paper seeks to explore the qualifications of vertical integration that lead to unfair business competition and harm the public, examining its application in various cases in the technology sector.

Similar previous research by Gunawan reveals a comprehensive interpretation of vertical integration by the KPPU (Business Competition Supervisory Commission). In addition to assessing the fulfilment of the elements outlined in Article 14 of Law No. 5/1999, the KPPU also assesses its impact extensively. He also delves into the difference between the Garuda case, resulting in a guilty verdict, and the Cineplex Group case, which was deemed not guilty of violating Article 14 of Law No. 5/1999.

The practice of vertical integration by PT Garuda Indonesia positions business actors in a dominant stance. Specifically, PT Garuda Indonesia exercises continuous control over a particular service, involving the ongoing control of domestic and international flight ticket information and distribution services. This control over flight ticket

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[11] United Nations and Department of Economic and Social Affairs United Nations, *Working Together: Integration, Institutions and the Sustainable Development Goals, World Public Sector Report 2018* (United Nations: New York, 2018),

[12] Ahmad Sabirin, Anna Mari Tri Anggaini, "Quo Vadis Tokopedia Acquisition by Gojek in the Digital Economy Era?," *Amicus Curiae Journal* 1, no. 2 (2024): 914-931.

sales ultimately establishes PT Garuda Indonesia's dominant position[13]. In the concluding remarks of her paper, she advocates for improving Law No. 5/1999 with firm and unequivocal regulations. Such improvements are imperative for a clear and specific application of the Article 14 assessment, ensuring legal certainty and fostering benefits for the community and the country's economy[14]. This aligns with the theory of responsive law put forward by Nonet-Selznick, which is an instrument to serve human needs. This means responds to social provisions and public aspirations that accept social change to achieve justice and public emancipation[15].

In parallel research, Herbert Hovenkamp stated that vertical integration occurs when a firm does something for itself that may be acquired in a particular market. Vertical integration can occur through three different legal instruments. A company can vertically integrate by 1) undertaking an action to choose to do something for itself rather than buying or selling goods to the market (e.g., a plastic manufacturer deciding to produce vuvuzelas instead of selling the raw materials to a vuvuzela manufacturer); 2) undertaking a merger[16], wherein one firm acquires another in a vertically connected market (e.g., a plastic manufacturer acquiring a vuvuzela manufacturer); and 3) adopting a contractual mechanism, such as a franchise agreement (e.g., a vuvuzela manufacturer entering into a franchise agreement for vuvuzela sales by the franchisee).

Based on the findings of previous studies, what distinguishes this research is the comparative analysis of three countries: Indonesia, the United States, and the European Union. It examines the qualifications

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[13] Hanifah Prasetyowati, Paramita Prananingtyas, and Hendro Saptono, "Analisa Yuridis Larangan Perjanjian Integrasi Vertikal Sebagai Upaya Pencegahan Praktek Monopoli Dan Persaingan Usaha Tidak Sehat," *Diponegoro Law Journal* 6, no. 2 (2017): 1–12.

[14] Beny Gunawan, "Integrasi Vertikal Dan Dampak Pengaruhnya Terhadap Pasar Menurut Hukum Persaingan Usaha Di Indonesia", *Thesis.* (Depok: Universitas Indonesia, 2016).

[15] Bernard L Tanya, Yoan N Simanjuntak, and Markus Y Hage, *Teori Hukum Strategi Tertib Manusia Lintas Ruang dan Generasi*. (Yogyakarta: Genta Publishing, 2006).

[16] Christine Siegwarth Meyer, and Yijia (Isabelle) Wang. "Determining the Competitive Effects of Vertical Integration." *Economics Committee Newsletter* 2, no. 1 (2021): 7-11.

of vertical integration that result in unfair business competition and harm the community and the application of these qualifications in technology-related violations of vertical agreements. Interestingly, this research also discusses the technology field, where many companies utilize it in their business operations. This is an exciting topic to discuss because, unlike the previous pre-digital era of vertical integration, detecting products in non-technology fields was comparatively more straightforward in terms of product markets and the market power of each integrated market. Meanwhile, in the technology field, complexity arises because the technology companies operate as multi-sided markets, requiring extraordinary efforts and posing challenges in qualifying and measuring the impact of market power on competition and harm to society. Furthermore, the choice to compare the United States and the EU stems from their implementation of antitrust laws, with the United States having done so for over 133 years and the EU representing an alliance with unified law for mainland Europe.

Furthermore, the research is organized into several sections, commencing with the introduction, which discusses the urgency and reasons for choosing the topic, similar previous studies, and the relevance of this research. Subsequently, the methodology is used, delving into the discussion to answer the formulation or purpose of this paper related to the qualification of vertical integration that results in unfair business competition and public harm. In addition, it looks further at its application in violating vertical agreements in the technology field.

The research method used in this study is normative legal research with a juridical approach to examine the development of positive law and its implications for regulating the topics discussed. This research focuses on understanding the history of the formation of legal norms and their development in the Indonesian legal system, including an analysis of the philosophical principles underlying the formation of the law. The data used in this study is sourced from secondary data consisting of two categories of legal materials. First, primary legal materials include binding legal instruments, such as laws, government regulations, and court decisions. This primary legal material provides a direct overview of the relevant regulatory framework. Second, secondary legal materials are derived from academic literature, such as journal articles, books, and legal commentaries. These secondary legal materials provide a critical interpretation and analysis of the primary legal material, helping to place these regulations in a broader theoretical and practical context.

Data collection and analysis were carried out using analytical descriptive methods. The data collected was analyzed qualitatively, emphasising in-depth text descriptions without involving numerical or statistical analysis. Priority is given to the data quality so that the resulting analysis can provide a comprehensive understanding of legal texts, especially in tracing the development of specific legal norms and their philosophy. The data collection process is carried out by reviewing relevant legal literature and documents. In contrast, data analysis is carried out by systematically evaluating legal materials to identify emerging patterns and themes. This research does not rely on quantitative metrics but aims to present a thematic narrative regarding legal developments. In conclusion, this study uses a deductive method, in which specific legal findings from historical data are used to draw general principles and broader conclusions regarding the regulatory framework. This method ensures that the produced findings are based on a robust analysis of legal materials and literature, thus providing a solid basis for the research results.

Qualification of Vertical Integration Resulting in Unfair Business Competition

Vertical integration in Indonesia is expressly provided for in Article 14 of Law 5/1999, with the definition written in its explanation. Meanwhile, the USA does not explicitly regulate the act of vertical integration. Still, it includes vertical barriers, such as resale price maintenance, restraint of the distribution chain, tying arrangements, or exclusive dealings. Meanwhile, the European Union provides an exception if the agreement increases the production or distribution of goods to promote technical or economic progress (Article 101 (1) TFEU).

Vertical integration in Indonesia is included in the category of agreements; this brings consequences to the understanding of agreements. An agreement is an act by one or more business actors to bind themselves to another business actor by any name, either written or unwritten. Vertical agreements, conversely, are trade agreements entered into by business actors at different levels in a production and distribution chain. Various vertical agreements are made between suppliers and their distributors, such as wholesalers and retailers, through simple agreements[17]. But often, the relationship is governed by medium- or long-term contracts that impose certain obligations on one of the parties or so-called exclusive agreements, such as a supplier granting exclusive sales territory to a distributor who must commit not to sell to other territory-based distributors. Another long-term agreement is for a distributor who wants to be part of a franchise network to commit not to sell the products supplied to distributors outside the network[18]. Such agreements fall under the category of vertical restraint[19].

The elucidation of Article 14 of Law No. 5/1999 defines "*controlling the production of several products included in a series of productions*", commonly referred to as vertical integration, as controlling a series of production processes for certain goods from upstream to downstream. This includes the continuous processing of a particular service by certain business actors. While the practice of vertical integration may result in cost-effective goods and services, it can lead to unfair business competition that damages the fabric of the community's economy. Such practices are prohibited to the extent that they create unfair business competition and/or harm the public.

Economists call this the elimination of double marginalisation. On the other hand, vertically integrated firms are incentivised to raise input prices for their downstream competitors. Once the upstream monopolist integrates downstream, it is incentivised to raise input prices for its downstream competitors or shut them out completely, thus causing them to raise prices or exit the market (barrier to entry).

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17 Ahmad Sabirin and Anna Maria Tri Anggraini, "Competition Law and Artificial Intelligence: Solution or Threat," *Jurnal Persaingan Usaha* 4, no. 1 (2024): 77–90.

18 Ahmad Sabirin and Raafid Haidar Herfian, "Dampak Ekosistem Digital Terhadap Hukum Persaingan Usaha Di Indonesia Serta Optimalisasi Peran Komisi Pengawas Persaingan Usaha (KPPU) Di Era Ekonomi Digital," *Jurnal Persaingan Usaha* 1, no. 2 (2021): 75–82.

19 Pranvera Këllezi, "Distribution Agreements and Vertical Restraints," in *Competition Law in Switzerland* (Cham: Springer International Publishing, 2023), pp. 91–159.

Competitors will then lose sales, which the vertically integrated firm will partially recapture[20].

Vertical agreements stand in stark contrast to horizontal contracts, mainly because agreements made between companies can fulfil an indispensable function in placing products on the market, which suggests that they are necessary to make vertical combinations more efficient. In relation to consumers, actions that adversely impact the consumers also impact other trading partners. Therefore, this specialised interdependent relationship can be considered a natural ally with consumers.

Looking at the law in the United States, various forms of vertical integration are not expressly defined. Instead, the concept has evolved through judicial decision-making, commonly called 'common law' antitrust. Different types of vertical restraints have been the subject of review under antitrust law, and the most common are as follows:[21]

1) *Resale Price Maintenance*
   Agreements at various levels of the distribution chain pertain to the resale price of supplied goods or services. Maintenance resale price arrangements may involve specifying a particular price. Still, generally, they affect the establishment of a floor price below which or a ceiling price above which sales are made.
2) *Restraint of Customer or Territory* [22]
   This involves the upstream supplier or manufacturer of a product prohibiting distributors from selling outside a predetermined territory or selling to specific categories of customers.

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[20] Andrea Asoni, "The Effect of Platform Integration on Competition and Innovation," *Charles River Associates*, 2021, https://media.crai.com/wp-content/uploads/2021/06/21103329/The-effect-of-platform-integration-on-competition-and-innovation.pdf.

[21] Stephen Kinsella, and Sidley Austin (eds). *Vertical Agreements 2014*. (Lancaster, UK: Law Business Research Ltd, 2014).

[22] Vertical Territorial and Customer Restrictions: White Motor and Its Aftermath, *Harvard Law Review* 22, no. 1 (1967): 1419-1438.

3) *Restraint of the Distribution Chain*[23]
   This function is similar to customer or territory restrictions, where a manufacturer or supplier of an upstream product prohibits distributors from selling outside their approved distribution channels. Typically, this involves a manufacturer prohibiting its distributors from selling over the Internet.
4) *Exclusive Dealings*[24]
   This requires the buyer to purchase products or services exclusively from a single supplier for a specified period. The arrangement may take the form of an agreement that prohibits the buyer from purchasing from competing suppliers or contractual terms that oblige the buyer to buy all or most of its total requirement for a particular good or service only from that supplier.
5) *Exclusive Distribution*[25]
   This usually provides the distributor with the right to be the sole outlet for the manufacturer's products or services in a specific geographical area. Under the agreement, the manufacturer may not establish its own distribution outlets in the area or sell to other distributors.
6) *Tying Arrangements*[26]
   An agreement by one party to sell one product (the tied product), but only on the condition that the buyer also buys a different product (or tied product). Binding can involve services as well as products.

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[23] Gregory T. Gundlach and Alex G. Loff, "Dual Distribution Restraints: Insights from Business Research and Practice," *The Antitrust Bulletin* 58, no. 1 (2013): 69–105.

[24] Steven N. S. Cheung, "The Structure of a Contract and the Theory of a Non-Exclusive Resource," *The Journal of Law & Economics* 24, no. 1 (1970): 49–70.

[25] Louis M. Solomon, and Robert D. Joffe, "Exclusive Distribution and Antitrust," *Fordham Law Review* 53, no. 3 (1984): 491-526.

[26] Ward S. Bowman, "Tying Arrangements and the Leverage Problem." *The Yale Law Journal* 67, no. 1 (1957): 19-36.

7) *Conspiracy hub-and-spoke*[27]

An agreement between two or more parties at the same level in the distribution structure to enter into a series of agreements with the same parties at other levels in the distribution structure.

Of the seven business activities, there are several issues: first, whether the agreement is exclusive and whether it excludes competitors from the market; or second, whether it significantly reduces the effectiveness of competition between them by raising costs or denying needed inputs. If not, then it is harmless and should not infringe on competition. The requirement generally has two (2) components to consider, namely that a highly competitive competitor cannot easily avoid increased costs by switching to another input supplier or an alternative to the expropriated input;[28] and that the forfeiture of inputs or increase in costs has a material impact on the ability of those competitors to conduct business in the markets in which they compete with the producer.

The criteria for vertical integration agreements that should be considered is to use the *argumentum a contrario*, meaning that if the agreement is an excluded or "*exceptional*" matter, or if the agreement creates reasonable efficiency, then this agreement is considered valid under the law. Conversely, if the opposite is true, in some instances, then the agreement will be subject to antitrust allegations. This type of anticompetitive lawsuit will be used as a justification for competitors who are unable to compete effectively but will also be used as an excuse to protect themselves from more efficient and innovative competitors[29].

If there is reasonable efficiency, the question is whether the exclusion agreement is likely to create or maintain market power for the manufacturer. If not, then the agreement should be lawful because, in the absence of such market power, the compensation required to induce

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27 Benjamin Klein, "The Apple E-Books Case: When Is A Vertical Contract A Hub In A Hub-And-Spoke Conspiracy?," *Journal of Competition Law & Economics* 13, no. 3 (2017): 423–474.

28 Robert H. Averitt, Neil W. and Lande, "Consumer Sovereignty: A Unified Theory of Antitrust and Consumer Protection Law," *Antitrush Law Journal* 45, no. 1 (1997): 713-756.

29 Thomas M Jorde and David J Teece, "Innovation and Cooperation: Implications for Competition and Antitrust," *Journal of Economic Perspectives* 4, no. 3 (1990): 75–96.

distributors to agree to the agreement would clearly not comprise a share of the supra-competitive advantage created by the agreement. The participation of the distributors and the existence of the agreement can thus be regarded as a result of the efficiencies created by the agreement.

The focus here is not on whether the producer has market power[30], but rather on whether the "*exempt agreement*" is likely to create or maintain market power for the producer. It is likely to be important only in relation to producers who do not yet have market power; exclusion agreements that favour producers who already have market power will almost always increase their market power.

Where market power is involved, the question is whether some or all of the exclusionary aspects of the agreement are not reasonably necessary to achieve efficiency. For example, has the monopoly producer secured more extensive exclusivity agreements or entered into exclusive agreements with more distributors than necessary to realise efficiency? If so, these unnecessary agreements should be invalid and amount to a competition offence[31].

There are times when inter-firm relationships aim to increase efficiency between suppliers and distributors and promote competition, but there are also circumstances where their behaviour may be anti-competitive. Therefore, vertically integrated agreements that are vertical restraints on trade must be looked at on a case-by-case basis, so a per se illegal approach is not appropriate for vertical integration.[32] The mechanism of relationship between one business activity and other business activities that are vertically integrated is described in a series of production/operations that are the result of processing or further

[30] Yang Yu, Baosen Zhang, and Ram Rajagopal, "Do Wind Power Producers Have Market Power and Exercise It?," in *2014 IEEE PES General Meeting | Conference & Exposition* (IEEE, 2014), 1–5.

[31] Thomas O Barnett and Hill B Wellford, "The DOJ's Single-Firm Conduct Report: Promoting Consumer Welfare Through Clearer Standards for Section 2 of the Sherman Act," *Global Competition Policy*, 2008. Also *see* S. Thomas, "Guilty of a Fault That One Has Not Committed. The Limits of the Group-Based Sanction Policy Carried out by the Commission and the European Courts in EU-Antitrust Law," *Journal of European Competition Law & Practice* 3, no. 1 (2012): 11–28.

[32] Friedrich Kessler and Richard H. Stern, "Competition, Contract, and Vertical Integration," *The Yale Law Journal* 69, no. 1 (1959): 1-129.

processing, either in a direct or indirect series (including a series of production of substitute and or complementary goods/services).

William F. Baxter made an observation in the form of an analogy of the difference between substitute products and complementary products.[33] A product is said to be a substitute when the companies providing it compete directly with each other. A price cut by one party will negatively affect the profits of the other firm, as demand for their product will fall. This effect is external in the sense that the firm doing the price cutting would not normally take it into account. Therefore, it is in every firm's interest to see the price of substitute products raised by its competitors. The existence of a profit-maximising collective agreement between firms (e.g., a cartel) will lead to a collective price increase, with consumers being disadvantaged by the agreement.

When goods and services are considered complementary, a price cut causes the opposite effect. A price cut by one firm will tend to stimulate demand for the complementary product. This effect is again an external effect, and the price-cutting firm usually does not take it into account. Thus, it is in each firm's interest to see price cuts by suppliers of complementary products. A profit-maximising collective agreement between complementary firms will then seek to internalise the price externality and lead to price reductions. This is in the interest of consumers. As a result, deals made by complementary product providers are unlikely to adversely affect the welfare of society[34].

In the European Union ("EU"), Article 101(1) of the Treaty on the Functioning of the European Union ("TFEU") prohibits agreements between companies that significantly restrict competition unless such vertical integration agreements can be exempted under Article 101(3) TFEU "the restrictive agreement must contribute to improving the production or distribution of goods or to promoting technical or economic progress. This provision defines types of efficiency gains that can be taken into account"[35]. However, the

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[33] F. M. Scherer, "The Economics Of Vertical Restraints," *Antitrust Law Journal* 57, No. 3 (1983): 687–718.

[34] Subramani, "How Do Suppliers Benefit from Information Technology Use in Supply Chain Relationships?," *MIS Quarterly* 28, no. 1 (2004): 45-73.

[35] David Bailey, "Restrictions of Competition by Object under Article 101 TFEU," *Common Market Law Review* 49, no. Issue 2 (2012): 559–599.

modernization of antitrust regulations and enforcement procedures[36] in EU vertical integration agreements placed greater emphasis on economic analysis in developing vertical integration policies. In particular, it introduced the presumption that vertical integration is legitimate if there is no market power on the side of the beneficiary[37].

The application of Article 101 TFEU to vertical integration specifically addresses the general aspects of Article 101 in outline only. This provision prohibits all anti-competitive agreements, decisions, and practices that may affect trade between EU member states and that have as their object and affect the restriction or distortion of competition in the internal market. The prohibition can be captured by Article 101(1), which explains that a vertical agreement infringing and prejudicial to competition must have a considerable impact on competition and trade between member states in the EU[38].

Emerging practices in the European Union suggest that vertical integration measures relating to competition may be considered part of a closely related case in the economic sphere.[39] In her research entitled "Functional Separation and Economies of Vertical Integration", Clementina Bruno states that diseconomies of vertical integration are relevant, thus providing an important argument in favour that a vertical agreement violates and harms competition[40]. In vertical integration agreements in the European Union, there may be exceptions,[41] If it fulfils certain conditions, namely:

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[36] Dennis W Carlton, "Does Antitrust Need to Be Modernized?," *Journal of Economic Perspectives* 21, no. 3 (2007): 155–176,

[37] Laurence C. Baker, M. Kate Bundorf, and Daniel P. Kessler, "Vertical Integration: Hospital Ownership Of Physician Practices Is Associated With Higher Prices And Spending," *Health Affairs* 33, no. 5 (2014): 756–763.

[38] Christian Bergqvist, "When Do Agreements Restrict Competition in EU Competition Law?," *Nordic Journal of European Law* 5, no. 1 (2022): 96–117,

[39] F. W. Scharpf, "The Asymmetry of European Integration, or Why the EU Cannot Be a 'Social Market Economy,'" *Socio-Economic Review* 8, no. 2 (2010): 211–50.

[40] Clementina Bruno, "Functional Separation And Economies Of Vertical Integration In European Fixed Telecoms" *Working Paper Higher Education and Research on Mobility Regulation and the Economics of Local Services* (HERMES), no. 03 (2012).

[41] Virginie Guiraudon, "European Integration and Migration Policy: Vertical Policy-making as Venue Shopping," *JCMS: Journal of Common Market Studies* 38, no. 2 (2000): 251–71.

1) It contributes to the production or distribution of goods or promotes technical or economic progress;
2) It enables consumers to obtain a fair share of the benefits generated;
3) It does not impose restrictions that are not necessary to achieve the objective;
4) It does not permit such undertakings to eliminate competition in respect of a substantial part of the product concerned.

In assessing vertical integration as described under Article 101(3) TFEU, the main considerations are the following objectives: 1) promoting competition in the internal market; 2) free trade between EU member states and consumer protection; and 3) efficiency. In this case, efficiency also plays a role, as the European Competition Commission (ECC) considers the benefits of vertical integration and accepts the reduction of intra-brand competition in certain circumstances[42].

Vertical agreements made between competing undertakings are, in principle, exempt. An exception to this is when the supplier is active upstream as a manufacturer, importer, or wholesaler and downstream, and the retailer or buyer is an importer, wholesaler, or retailer at that downstream level but does not compete at the upstream level where they purchase the goods. Similar exceptions relate to the provision of services. Dual distribution arrangements that fulfill the conditions may fall within the scope of the exemption as described in Article 2(4) of Regulation 2022/720.

The vertical integration guidelines state that an agreement will generally be deemed to be an agency agreement if title to the goods does not vest in the agent[43] and if the agent does not:

1) contribute to the costs associated with the supply or purchase of contract goods or services;

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[42] Francesco Carloni, Scott S. Megregian, and Mélanie Bruneau, "The E-Commerce Sector Inquiry: Can It Stop National Competition Authorities from Adopting an Overly Restrictive Approach?," *Journal of European Competition Law & Practice* 6, no. 9 (2015): 639–51.

[43] Nigel Key and David Runsten, "Contract Farming, Smallholders, and Rural Development in Latin America: The Organization of Agroprocessing Firms and the Scale of Outgrower Production," *World Development* 27, no. 2 (1999): 381–401.

2) maintain at its own expense or bear the risk of inventory of contract goods;
3) be liable to third parties for damages caused by the products sold, with the exception of those caused by the agent's own fault;
4) be liable for non-performance of the contract by the customer, unless the agent is responsible for such fault;
5) accept the obligation to invest in sales promotion;
6) make market-specific investments in equipment, premises or personnel training, unless these costs are fully reimbursed by the principal; or
7) undertake other activities within the same product market required by the principal, unless these activities are fully reimbursed by the principal.

The Vertical Agreement Guidelines provide that where an agent bears one or more significant risks, the Commission will consider that the agreement would not qualify as a true agency agreement; therefore, Article 101 may apply as if the agreement were a standard distribution agreement[44]. In Völk v Vervaecke (Case 5/69) EU:C:1969:35,[45] where the ECJ said that: "*an agreement is excluded, if the prohibition of Article 101 where it has only an insignificant effect on the market, takes into account the weak position held by the undertaking concerned in the market for the product concerned*".

Guidelines for determining whether an agreement has a significant impact on competition have now been established by the Commission on competition in the European Union. A separate section of the Guidelines also describes the circumstances in which the Commission considers that an agreement will not have an impact on trade between EU member states as described in the Guidelines on the impact on EU trade.

According to the Vertical Restraints Guidelines, where an undertaking is dominant or becomes dominant as a result of a vertical agreement, measures that are vertical restraints and have substantial anticompetitive effects cannot be categorized as "*exempt*" under EU

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44 David Wouters, "Which Sustainability Agreements Are Not Caught by Article 101 (1) TFEU?," *Journal of European Competition Law & Practice* 12, no. 3 (2021): 257–270.

45 Pablo Ibáñez Colomo, "Appreciability and de minimis in Article 102 TFEU." *Journal of European Competition Law & Practice* 7, no. 10 (2016): 651-660.

competition law. In addition, the Commission's Vertical Guidelines also provide guidance on when one party's explicit or tacit acceptance of another party's unilateral policy may constitute an agreement between the parties for the purposes of Article 101. The Vertical Guidelines state that[46]:

> *"There are two ways in which consent to a particular unilateral policy can be established. Firstly, consent can be inferred from the authority given to the parties in a general agreement made beforehand. If clauses in the agreement [...] provide for or authorize one party to adopt a particular unilateral policy that will bind the other party, consent to that policy by the other party may be established on that basis. Second, in the absence of such explicit consent, the Commission may demonstrate tacit consent. For that, first, the Commission needs to show that one party requires explicitly or implicitly the cooperation of the other party to implement its unilateral policy, and second, the other party fulfils that requirement by implementing the unilateral policy in trade practice."*

Under Article 101(3), vertical agreements must fulfil the following criteria[47]:

1) The agreement must contribute to increasing production or distribution or to promoting technical or economic progress;
2) The agreement must give consumers a fair share of those benefits (this can often be assumed if there is sufficient or healthy competition in the market);
3) It should not impose any restraints on the vertically concerned enterprises that are not necessary to achieve those benefits.
4) We should not allow such firms to eliminate competition in a substantial part of the relevant product.

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46 D Healey and M Jacbos, "Vertical Agreements Under EU Competition Law: Proposals for Pushing Article 101 Analysis, and the Modernization Process, to a Logical Conclusion," *King's College London Law School Research Paper*, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2930943.

47 L. Vogel, "EU Competition Law Applicable to Distribution Agreements: Review of 2010 and Outlook for 2011," *Journal of European Competition Law & Practice* 2, no. 3 (2011): 245–258.

Vertical integration often implies increased economic efficiency and overcoming market failures[48]. Jerome Pouyet and Thomas Tregouet analyze vertical integration between platforms that provide operating systems to device manufacturers in the presence of indirect network effects between device buyers and app developers. This includes vertical integration, which creates market power over non-integrated manufacturers and app developers. This market power creates coordination between platform owners and device manufacturers to set prices in both relevant markets. This allows for better internalization of network effects [49]. Often, the act of vertical integration cannot be separated from other acts, such as exclusive agreements, market control, or dual positions between two or more companies that are in a vertical production chain. Fernando Luco and Guillermo Marshall argue that vertical integration in multi-product industries can result in price changes that are detrimental to consumers. This is also confirmed by TV industry watcher Tasneem Chipty, who basically points out that integrated operators try to block competing program services to prevent them from entering the distribution networks of vertically integrated cable operators.

Several references show that vertical integration allows integrated companies to achieve greater synergies at every stage of the industry, which ultimately results in unfair competition and even harms consumers[50]. Determining the impact of vertical integration resulting in unfair business competition and consumer harm is important, as stated in Article 14 of Law 5/1999. Webster explains competition as a struggle or contest between two or more people for the same object. Arie Siswanto views competition law as a legal tool determining how competition should be conducted properly and healthily. Meanwhile, unfair business competition is understood as a condition of competition

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48 Mohamed Hamdaoui and Brahim Bouayad, "Determinants and Effects of Vertical Integration on the Performance of Moroccan Manufacturing," *Athens Journal Of Mediterranean StudieS* 5, no. 1 (2019): 57–78.

49 Tasneem Chipty, "Vertical Integration, Market Foreclosure, and Consumer Welfare in the Cable Television Industry," *American Economic Review* 91, no. 3 (2001): 428–453.

50 Catherine C. de Fontenay and Joshua S. Gans, "Can Vertical Integration by a Monopsonist Harm Consumer Welfare?," *International Journal of Industrial Organization* 22, no. 6 (2004): 821–834.

between business actors that is carried out dishonestly, unlawfully, and by the act of harming or inhibiting other companies [51].

The above description encourages the authors to qualify vertical integration as an action that includes the following:

1) vertical integration is not solely related to agreements but includes activities;
2) these agreements or actions are carried out by several companies involving advanced products or a series of production;
3) It generally consists of at least two (2) different relevant markets;
4) one of the parties may hold a dominant position, but this is not a determining factor for competition law violations (antitrust law). Instead, the decisive element is the conduct of one of the business actors occupying the dominant position to invite the integrated company to increase in terms of economic benefits. The size limit of a dominant position differs from one country to another; for example, Indonesia sets it at 50%, while the EU sets it at 30%[52].

Application of Qualification for Infringement of Vertical Integration Agreements in the Field of Technology Company

The provisions of Article 14 of Law No. 5/1999 on vertical integration also require an impact in the form of public harm. Although the elucidation section does not regulate this in detail, KPPU tries to provide guidelines for measuring the anti-competitive effects of vertical integration agreements through several stages of testing:

1) capability analysis, i.e., whether the company can utilize market power in both upstream and downstream markets by closing access to competitors, resulting in higher costs for competitors;
2) incentive analysis, i.e., whether the company can utilize its market power so as to obtain excessive profits;
3) consumer impact analysis, i.e., whether the anti-competitive actions

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[51] Hermansyah, *Pokok-Pokok Hukum Persaingan Usaha Di Indonesia* (Jakarta: Kencana Prenada Media Group, 2008).

[52] V. V. Bardakova, "Dominant Position and Concept of Abuse in the European Union," *The Journal Eastern European Law* 23, no. 1 (2019): 237-244.

harm consumers.

The description implies that an integrated vertical agreement can be seen from two (2) aspects, namely:

1. The motive aspect, meaning that the parties to the agreement are integrated companies, carried out by two or more complementary companies;
2. The impact aspect, meaning that the agreement can impact supporting or damaging competition or harming consumers.

In addition, several vertical integration behaviours can be categorized as anti-competitive actions, including: 1) vertical restraint, which consists of intra-brand and inter-brand competition. In this case, business actors can prohibit business actors at the previous level of trade (backwards) or its advanced products (forward) from selling certain products with the aim of maximizing profits. 2) Exclusive dealings in the form of foreclosure, which is an action by an integrated business actor to refuse to do business with other business actors in favor of the integrated company; 3) Tying actions, i.e., the actions of integrated business actors offering one product to consumers with the requirement to purchase another product in a tied manner. This action can result in two things: efficiency for the tying product and a reduction in consumer surplus as they have to pay more for the tying product.

Some literature shows that the act of vertical integration has the potential to enable mutually integrated firms to adjust profit levels increasingly in each industry, which ultimately harms consumers[53]. The theory of consumer harm is also reinforced by other experts, namely Fernando Luco and Guillermo Marshall, who state that vertical integration in a multi-product industry can cause price changes that harm consumers even in the absence of market foreclosure[54]. This is confirmed by Tasneem Chipty's work on the television industry which essentially shows that integrated operators tend to exclude competing

[53] Catherine C. de Fontenay and Joshua S. Gans, "Can Vertical Integration by a Monopsonist Harm Consumer Welfare?," *International Journal of Industrial Organization* 22, no. 6 (2004): 821–834,

[54] Fernando Luco and Guillermo Marshall, "Vertical Integration With Multiproduct Firms: When Eliminating Double Marginalization May Hurt Consumers," *SSRN Electronic Journal*, 2018, https://doi.org/10.2139/ssrn.3110038.

programme services from gaining access to the distribution networks of vertically integrated cable system operators[55].

The development of industries with digital platforms adds to the complexity of detecting vertical integration, given that these industries often use vertical integration strategies, even though the operating model of digital platforms is largely based on external actors who have close relationships among platform owners in different industries. Research by Roni Saroniemi, Kari Koskinen, and Virpi Kritiina Tuunainen shows that integrated firms can function as drivers along the value chain of the platform user group and not only along the platform, so digitization and data mastery are increasingly opening up new avenues towards broader patterns of vertical integration[56].

Regarding digital platforms, Jerome Pouyet and Thomas Tregouet analyze the vertical integration between platforms that provide operating systems to device manufacturers and the indirect network effects between device buyers and app developers. Vertical integration creates market power over non-integrated manufacturers and app developers. That market power enables the merging entity to coordinate pricing decisions on both sides of the market, which allows it to better internalize network effects[57]. This vertical integration provision cannot be separated from other measures, such as exclusive agreements, market dominance, vertical integration through concurrent positions between two or more companies in one vertical production chain, and corporate actions in the form of vertical mergers.

Drawing from this context, consider the cases of PT STI and PT TPI, found guilty of engaging in monopolistic practices in specialized transport services, resulting in a decline in the number of orders from non-TPI partner drivers. As a consequence of this mistake, STI, the Grab application provider, and TPI, the public transport company, incurred fines totalling Rp 49 billion from KPPU. In addition, examining the scope of mergers in Indonesia, two technology companies, Tokopedia and Gojek, emerge as perfect competitors.

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55 Chipty, "Vertical Integration, Market Foreclosure, and Consumer Welfare in the Cable Television Industry."

56 Saroniemi, Roni, Koskinen, Kari, Tuunainen, "Vertical Integration of Digital Platforms in the Agricultural Industry."

57 Jérôme Pouyet and Trégouët Thomas, "The Competitive Effects of Vertical Integration in Platform Markets," 2021.

Despite their competition, Tokopedia and Gojek are service providers, utilizing mergers to amalgamate different products that they offer. For example, customers buying products from Tokopedia are offered several payment options, such as OVO, GoPay, and so on. However, after the merger, Tokopedia customers were also offered payment through GoPay. On the other hand, Gojek's Gosend service is also used to deliver goods purchased from Tokopedia. This is a company's desire to maintain or increase their market power at the expense of actual and/or potential competitors.

Companies like Amazon, Google, and Facebook rely almost exclusively on business models that provide direct contact between customers and users, bypassing layers of intermediaries by utilizing existing technological developments. Traditional businesses are fragmented, as many are still afraid to adapt to the development of online market-based businesses. A change of this magnitude inevitably creates tension between suppliers and distributors, such as between competing distributors. For example, when mail order, telephone sales or supermarkets were first introduced, traditional retailers expressed fears that it was being touted as the end of the traditional market[58]. The development of e-commerce will lead, sooner or later, to a transaction where market participants will be forced to adapt to the new context[59]. However, some of them may still be tempted to engage in anti-competitive practices to restrict online product distribution in order to maintain their market position.

The European Commission acknowledges the importance of e-commerce for consumers and its crucial role in achieving the primary goals of the single internal market in Europe. This is evidenced by its recent adoption of new competition rules specifically targeting restrictions on online sales in distribution agreements. These restrictions are addressed in order to prevent potential barriers in the internal market that could adversely affect consumers. The internet technology is at the core of the retail revolution, so it cannot be separated or detached from the system of marketing and sales online. E-commerce

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58 Swee Hoon Ang, Siew Meng Leong, and Philip Kotler, "The Asian Apocalypse: Crisis Marketing for Consumers and Businesses," *Long Range Planning* 33, no. 1 (February 2000): 97–119.

59 John Humphrey et al., "E-Commerce for Developing Countries: Expectations and Reality," *IDS Bulletin* 35, no. 1 (2004): 31–39.

can significantly reduce entry barriers for online retailers due to lower initial costs compared to traditional retailers[60]. Most online retail businesses do not have or require very low-cost logistics and stock provision, making sales more convenient and improving efficiency.

This is nothing new, as most cost-reducing innovations in online retail have been implemented in new formats[61]. Online marketplaces are one of the obstacles that online sellers need to overcome to attract customers by building a good brand reputation and trust among internet users[62]. This especially happens to small businesses. Many buyers may not be aware of the existence of a particular seller, or perhaps they still don't trust them. Salespeople may have the same concerns regarding potential customers. This information asymmetry can be partially overcome by the role of E-malls and online markets. E-malls are very similar to traditional shopping centers; they bring together sellers of different products under the umbrella of one website, often providing additional services such as product delivery and credit facilities for customers[63][64]. In terms of sales growth potential, the real difference between online distribution and traditional retail lies in the internet environment itself and the modern tools and technologies associated with it, such as online advertising. Unique features of online advertising include the use of internet-based technologies and data collection mechanisms to target and track individuals and to automate the buying and selling of advertising inventory[65].

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60 Steve Burt and Leigh Sparks, "E-Commerce and the Retail Process: A Review," *Journal of Retailing and Consumer Services* 10, no. 5 (September 2003): 275–286.

61 Klaus Rennings and Christian Rammer, "The Impact of Regulation-Driven Environmental Innovation on Innovation Success and Firm Performance," *Industry & Innovation* 18, no. 3 (2011): 255–283.

62 Ye Diana Wang and Henry H. Emurian, "An Overview of Online Trust: Concepts, Elements, and Implications," *Computers in Human Behavior* 21, no. 1 (January 2005): 105–125.

63 Gabriele Accardo, "Vertical Antitrust Enforcement: Transatlantic Perspectives on Restrictions of Online Distribution Under EU and US Competition Laws," *European Competition Journal* 9, no. 2 (2013): 225–340.

64 Mike Simpson and Anthony J. Docherty, "E-commerce Adoption Support and Advice for UK SMEs," *Journal of Small Business and Enterprise Development* 11, no. 3 (2004): 315–328.

65 David S. Evans, "The Economics of the Online Advertising Industry," *Review of Network Economics* 7, no. 3 (2008): 359-391.

The reason for this phenomenon is that online advertising offers a solution to the problems faced by traditional retailers. Furthermore, search engines and online retailers have raised concerns about Google's practices related to unpaid search services. In 2010, the European Commission initiated an antitrust investigation into allegations of Google's abuse of dominance in the online search market, particularly to ascertain whether Google altered its search algorithms to promote its services over those of its competitors[66]. Manufacturers typically want to maintain control over how and where their products are distributed, especially when vertical separation is considered a more efficient business structure than vertical integration. This may appear to be truer in the online space, as manufacturers are concerned that venturing into distribution channels may give them less control over marketing and distribution, potentially damaging the brand image and goodwill of the business entity[67].

Cases of vertical integration in the United States are analyzed based on fairness rules[68] adapted to existing regulations. Analysis based on the rule of reason begins with an examination of the nature of the relevant agreement and whether the deal has caused or is likely to cause anti-competitive harm[69]. Competition regulatory authorities in the United States, whether the courts, the US Federal Trade Commission (FTC) or even the Department of Justice, conduct detailed market analyses to determine whether the agreement has or is likely to create or increase market power[70]. Various market conditions are evaluated as part of the analysis, including ease of entry. If a detailed investigation of

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66 *See* United Kingdom. *Decision No. ME/4912/11, Merger Clearance, Google/BeatThatQuote, 24.* (U.K. Office of Fair Trading Aug. 11, 2011), available online at http://www.oft.gov.uk/shared_oft/mergers_ea02/2011/Google-BeatThatQuote.pdf

67 Inge Geyskens, Katrijn Gielens, and Marnik G. Dekimpe, "The Market Valuation of Internet Channel Additions," *Journal of Marketing* 66, no. 2 (2002): 102–119.

68 Patrice Bougette, Marc Deschamps, And Frédéric Marty, "When Economics Met Antitrust: The Second Chicago School and the Economization of Antitrust Law," *Enterprise & Society* 16, no. 2 (2015): 313–353.

69 Michal S. Gal, "Regional Competition Law Agreements: An Important Step For Antitrust Enforcement," *University of Toronto Law Journal* 60, no. 2 (2010): 239–6.

70 Richard A. Posner, "The Federal Trade Commission," *The University of Chicago Law Review* 37, no. 1 (1969): 47-89.

the agreement and its impact on the market indicates that there is an anti-competitive danger, then the next step is to examine whether the deal in question is reasonably necessary to achieve benefits in favour of business competition (fair competition) that are likely to offset the anti-competitive harm[71].

Furthermore, the process of weighing the fairness and benefits in favour of business competition of an agreement against harm to business competition is the essence of fairness rules as regulated in competition law in the United States. If the benefits of favouring business competition are more significant than the losses to business competition, then the agreement will be considered valid according to the rules of reasonable reasons. On the other hand, if there is evidence that the agreement has an anti-competitive impact, then the rule of reason analysis can sometimes be shortened through a quick test analysis[72] to obtain certainty that the agreement violates business competition law.

Currently, the Commission's policy towards vertical agreements has developed rapidly since modernization in various fields. In addition, several National Competition Authorities, known as NCAs, are now taking a new interest in vertical practices, especially in relation to online markets and sales. Therefore, it is important to solve these problems with the increasing development of technology and adequate regulations to address the challenges of the development of digital technology[73].

In cases related to vertical integration, it often raises the question of why companies, especially those with little or no market power, would want to include vertical restraints in agreements, especially if producers wish to sell their products as much as possible. Addressing

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71 Dayu Padmara Rengganis, *Hukum Persaingan Usaha: Perangkat Telekomunikasi Dan Pemberlakuan Persetujuan ACFTA* (Bandung: Penerbit Alumni, 2021).

72 Alison Jones and William E. Kovacic, "Identifying Anticompetitive Agreements in the United States and the European Union," *The Antitrust Bulletin* 62, no. 2 (2017): 254–93.

73 G. Alexander Fleming et al., "Diabetes Digital App Technology: Benefits, Challenges, and Recommendations. A Consensus Report by the European Association for the Study of Diabetes (EASD) and the American Diabetes Association (ADA) Diabetes Technology Working Group," *Diabetes Care* 43, no. 1 (2020): 250–260.

this question fundamentally involves recognizing that restrictions in the supply chain offer opportunities to eliminate inefficiencies in production or distribution, address externalities, and align incentives between suppliers and retailers. Another way to achieve these goals and internalize objectives is through vertical integration, often realized through vertical mergers, a strategy commonly employed in various countries[74].

On the other hand, these restrictions offer the potential realization of such benefits through contracts to maintain independence with multiple parties. This approach provides greater convenience and opens up opportunities to achieve economies of scale, scope and learning effects at every level of the supply chain. In turn, this contributes to increased social welfare and fosters more dynamic competition [75]. Different vertical agreement practices can sometimes be employed to overcome certain inefficiencies in vertical agreements. In practice, the optimal choice of a particular vertical restriction depends on the details of the situation, perceived risks, and market conditions[76].

Vertical integration may not always be the most efficient option as businesses grow, especially for small businesses with such aspirations. However, expanding into new markets and reaching a broad customer base [77], supported by online distribution platforms, can offer substantial benefits. It often doesn't make economic sense for a small group of suppliers to vertically integrate into distribution and set up their own e-commerce platform. If suppliers are pushed toward vertical integration and ownership of their online distribution channels, then the ability and incentives of independent distributors/retailers to enter or to remain in the market are limited. Furthermore, the ability of small producers to access more efficient or specialized distributors is reduced. These

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[74] Jean-François Houde, "Spatial Differentiation and Vertical Mergers in Retail Markets for Gasoline," *American Economic Review* 102, no. 5 (2012): 2147–2182.

[75] David B Audretsch, William J Baumol, and Andrew E Burke, "Competition Policy in Dynamic Markets," *International Journal of Industrial Organization* 19, no. 5 (2001): 613–34.

[76] Paul L. Joskow, "Vertical Integratio," *The Antitrust Bulletin* 55, no. 3 (2010): 545–586.

[77] Terence Tse and Khaled Soufani, "Business Strategies for Small Firms in the New Economy," *Journal of Small Business and Enterprise Development* 10, no. 3 (2003): 306–320.

businesses may also have to vertically integrate online and sell directly through their own web pages or online marketplaces[78]. However, this often requires very high costs and can be detrimental to consumers.

On the other hand, exclusivity can be reciprocal, where both buyers and sellers are restricted from transacting with other parties. This arrangement is sometimes referred to as quasi-vertical integration[79]. Vertical agreements allow for closer coordination between investment and production plans, align incentives, and so on. When a pure monopolist seeks to expand its monopoly market structure into other markets, the expansion is generally procompetitive. There is usually no reason for a monopolist to expand into upstream or downstream markets unless it is more efficient than its competitors. In short, while exceptions exist and may be disproven by evidence in a given case, agreements between companies operating in a supply chain are not anti-competitive[80].

Considering competition regulations, vertical restraint policies are subject to significantly different antimonopoly policies among the three jurisdictions: Indonesia, the United States, and the European Union. The recent balance in antimonopoly policies towards vertical restrictions is particularly sharp, especially between the United States and the European Union. While the United States' antimonopoly policies on vertical restraints are mostly influenced by economic thinking, it is a mistake to assume that economists have a unified voice. Some economists emphasize the efficiency theory of vertical integration, while vertical restrictions can dampen or hinder price competition as an entry point. Even among policymakers in the United States, there are differences in perspectives[81].

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78 Friso Bostoen, "Online Platforms and Vertical Integration: The Return of Margin Squeeze?," *Journal of Antitrust Enforcement* 6, no. 3 (2018): 355–381.

79 Ilya R Segal and Michael D Whinston, "Naked Exclusion: Comment," *American Economic Review* 90, no. 1 (2000): 296–309.

80 Jochen Glöckner, "Unfair Trading Practices in the Supply Chain and the Co-Ordination of European Contract, Competition and Unfair Competition Law in Their Reaction to Disparities in Bargaining Power," *Journal of Intellectual Property Law & Practice* 12, no. 5 (2017): 416–434.

81 Bruce M. Owen, "Antitrust and Vertical Integration in 'New Economy' Industries with Application to Broadband Access," *Review of Industrial Organization* 38, no. 4 (2011): 363–386.

In the EU, vertical restrictions on distributors are restricted and, in some cases, prohibited by competition law. Recently, the European Commission has introduced rules that take a focused approach to online sales restrictions, signalling concerns that preventing vertical restrictions could harm consumers by hindering the full utilization of distribution channels[82]. Meanwhile, this approach contrasts with the current policy in the United States, which maintains a relatively liberal policy towards vertical restrictions. This policy is generally believed to increase competition between brands, making no distinction between different trade channels[83]. Economics shows that vertical agreements tend to harm societal welfare only if the companies employing them have substantial market power[84]. Therefore, competition agencies should refrain from allocating their limited resources to policing vertical agreements by companies with little market power, and such companies should benefit from lenient treatment, ensuring the legality of their vertical agreements. This is because companies with a small market share are unlikely to enjoy market power or even substantial profits[85].

Based on the discussion, it can be concluded that technology companies often have the potential to violate competition and harm society through vertical integration. This is because technology companies typically fall into the category of large corporations, making it more likely for them to enjoy substantial market power than non-technology companies. Additionally, technology companies tend to dominate the market more than traditional companies, as illustrated above, showing that technology-based companies always find ways to enhance their sales through algorithms and online advertising.

We can be seen from PT Garuda Indonesia, and Grab Indonesia illustrates how vertical integration has led to monopolistic practices in

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82 Bryce Goodman and Seth Flaxman, "European Union Regulations on Algorithmic Decision Making and a 'Right to Explanation,'" *AI Magazine* 38, no. 3 (2017): 50–57.

83 Q. Bu, "Can Suppliers Fix Final Prices? The Contribution of China to the Debate on Resale Price Maintenance," *Journal of European Competition Law & Practice* 6, no. 2 (2015): 110–22.

84 Michael L. Katz, "Chapter 11 Vertical Contractual Relations," H*andbook of Industrial Organization* 1, (1989): 655–721.

85 Stephen A. Rhoades, "Market Share as a Source of Market Power: Implications and Some Evidence," *Journal of Economics and Business* 37, no. 4 (1985): 343–63.

the Indonesian technology sector. We can expand this by incorporating similar examples from the EU and US contexts, such as Amazon's integration practices or Google's search algorithms influencing competition. This will highlight jurisdictional differences in legal responses to vertical integration. It is crucial to emphasise regulatory approaches across regions; integrating viewpoints from stakeholders such as small businesses affected by vertical integration, consumer advocates, and policymakers could deepen the analysis. This could be supplemented by expert interview data or case testimonies from industries influenced by tech mergers.

Then, the authors recommend improving Indonesia's competition law, clarifying Article 14 of Law No. 5/1999. You could further elaborate on actionable reforms that align Indonesia's laws more closely with the US and EU models, possibly by suggesting clearer thresholds for defining market dominance or stricter scrutiny of tech mergers. Needed legal reforms would influence competition, innovation, and consumer welfare in each jurisdiction, which would provide a holistic view. This could involve thoroughly examining how companies like Tokopedia and Gojek, post-merger, impacted pricing structures, market competition, and consumer choice.

Conclusion

From the preceding discussion, several conclusions can be drawn. In Indonesia, the parameters governing vertical integration are defined under KPPU Regulation No. 5/2010, which identifies prohibited forms of vertical integration as follows: (a) vertical integration that restricts access to critical upstream raw materials; (b) vertical integration that limits access to significant downstream buyers; and (c) vertical integration that leads to unfair business competition and/or causes harm to the public, assessed through the Rule of Reason approach. In comparison, the United States evaluates vertical integration based on public harm, emphasizing fairness and the competitive benefits derived from such practices. In the European Union, the primary focus lies on market dominance, with particular attention to the abusive behavior of dominant firms, which can result in significant market harm and a reduction in competition.

In light of these findings, this article recommends that multinational companies develop internal compliance frameworks tailored to the specific vertical integration regulations in Indonesia, the United States, and the European Union. Such frameworks are essential to ensuring adherence to relevant laws and mitigating the risk of regulatory violations. Furthermore, given the diverse criteria applied across jurisdictions, companies should prioritize transparency in their business practices and reporting mechanisms. This includes providing detailed accounts of vertical integration strategies and their implications for access to raw materials, key buyers, and broader market conditions.

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Acknowledgment

We extend our sincere gratitude to the Faculty of Law, Universitas Trisakti Jakarta, for their invaluable support in facilitating this research and providing the necessary funding to ensure its successful completion.

Funding Information

This research was funded by Faculty of Law, Universitas Trisakti

Conflicting Interest Statement

There is no conflict of interest in the publication of this article.

Publishing Ethical and Originality Statement

All authors declared that this work is original and has never been published in any form and in any media, nor is it under consideration for publication in any journal, and all sources cited in this work refer to the basic standards of scientific citation.

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