

### 3 Negotiations in network markets

Case studies are needed to mirror the theory, but only a few parts of reality can be tested. In the following chapter the cases will be analysed with the help of the positive theory set up in chapter 2, so as to enable the drawing of normative conclusions in chapter 4. The goal is to obtain a broad understanding of the underlying mechanisms of negotiations in markets with asymmetrical power distribution. To be able to do so, both the international literature and actual (European) cases are evaluated in order to get and give an overview of negotiations in network markets. In order to be able to even ‘read between the lines’ when looking at the (technically, legally and economically) complex cases, interviews were conducted with a few of the actors.<sup>1</sup> Neither the interviews with the individuals nor the naming of specific companies in certain countries should belie the fact that here coherences on a macroeconomic level are being searched for. The seemingly individual details are inserted to authenticate the analysis and the resultant findings.

In the following, firstly, in order to gain a better understanding of the telecommunications and the rail transport markets, these will be described in more detail. Secondly, the Power-Matrix is ‘applied’ and tested on these two network markets by identifying both the sources and the dynamics of power and discussing the following questions: what role does regulation play and how can one gain access to the different levels of influence in a negotiation? Is this market characterised by a situation of ‘big’ vs. ‘small’ actors based on essential facilities where power is only an illusion? Which strategic instruments are available and what result do they have on the co-operation of the actors? Thirdly, the relevance of these findings for negotiations in other (network) markets will be discussed.

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<sup>1</sup> See Werner, 2002; Neuhoﬀ, 2003 and 2005; Hirschfeld, 2003; Rochlitz, 2003; Scheurle, 2003; Heinrichs, 2004; Wünschmann, 2005.

### 3.1 Network characteristics in telecoms and rail

Network markets are special. To allow for a focused approach there will follow a discussion of what is so special about network markets – here especially the telecoms and the rail transport sectors – and why they represent typical negotiation situations with an asymmetrical power distribution.<sup>2</sup> In both the telecommunications and the rail transport market negotiations take place in a regulated environment, where one large incumbent has a major market share and many smaller companies try to access a fraction of the rest of the market. The question posed in the following chapter will be whether power exists in these markets and whether it influences the negotiations in the three power-dimensions of framework, cost and strategy. Do negotiations take place because of or in spite of the existence of market failures? What role do asymmetries between the actors play in the course of negotiations? Altogether it will be necessary to show where ‘power’ can be found in those negotiation situations and what conclusions for the improvement of negotiations can be drawn from this.

In this chapter of the study the telecommunication and rail transport markets will first be analysed separately. An outline of the history and a classification of the actors to describe the framework will be followed by an overview of the cost and technical issues of each market. To enable one to judge the strategic instruments of the actors, the competitive situation will then be presented. Finally, the need for negotiations in network markets will be summarised.

#### 3.1.1 Telecommunication – a dynamic market

What is special about the telecommunications market in respect to negotiations?

##### **Framework – regulation to liberalise the telecommunications market.**

Historically, the main driving forces of change in the telecommunications market were technical innovations, namely the switch from analogue to digital equipment.<sup>3</sup> This in turn incited politicians to push ahead with liberalisation in the respective national markets.<sup>4</sup> National administrations had no choice but to implement the liberalisation – if (only) incremen-

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<sup>2</sup> See WIK, 2005; Newbery, 2000, discusses also more network markets.

<sup>3</sup> See Kahn, 1988, p. 127.

<sup>4</sup> See Bundesministerium für Wirtschaft und Arbeit, 2003, for an international overview on the status of the liberalisation in the telecommunication markets.