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ANALYSIS OF THE POSTAL SERVICES MARKET IN 2005

Market Regulation Directorate

Postal Services Regulation Department

CONTENT

Introduction

The principal tasks of the Communications Regulation Commission (CRC) as a sector regulator in the field of postal services are to create conditions for provision of the Universal Postal Service (UPS) on the territory of the whole country and protection of customer interests, on one side, and stimulation of competition and equality of the postal operators on the postal market – on the other.

In the postal services field, the primary focus of CRC was on the control of the observance of postal security and quality of service requirements related to the already developed Postal Security Ordinance and approved Standard quality levels for the universal postal service and service efficiency (Quality standards).

During the specified period, the work with postal operators continued regarding their obligations to develop and comply with company proprietary postal security standards. A number of comments and critical remarks were received on the requirement for postal operators to create conditions for monitoring and control of postal services by competent authorities of the Ministry of Interior. In the future, the Commission will keep analyzing the developed proprietary security standards of postal operators and see that the required documents are consistently submitted by each of them.

In pursuance of its assignments on controlling the compliance with the Quality standards, from October 2005 to May 2006, the CRC implemented a Universal postal service quality measurement project[1]. For conformity with Standards requirements, the measurements were carried out according to BSS EN 13850:2004.

In its endeavour to act as a mediator between operators and customers, CRC held a meeting with postal services operators at which CRC 2004 Annual Report on postal services was discussed. Opinions, recommendations and comments were exchanged on the information contained in the report, as well as on issues related to the questionnaire distributed on an annual basis to non-universal postal services (NPS) providers.

During 2005, CRC carried out a seminar within first phase of the project on the subject: “Conditions for network connection of postal operators”, realized with the assistance of TAIEX. During the seminar, legislation and economic aspects of postal networking were discussed and the existing practice in some European countries was analysed. As there are already contracts for interconnection between postal operators, the seminar was just on time and useful for the Commission experts.

CRC activities were directed both towards creation of conditions for further liberalization of the postal market and protection of customer interests.

The project[2] “Research and analysis of customer demand of postal services on the domestic market” commenced in November 2005 to satisfy the need for analysis of customer demand for different postal services (universal and non-universal) in this country. The project helped to outline the present condition and future prospects of postal services demand, and the possibility to provide advanced postal services, and assessed the level of the competition in the sector. The obtained results will be used for development of adequate policies for regulation and stimulation of the postal services market. This will help to establish mechanisms for stimulating its development, optimisation and prospective liberalisation, as well as for effective customer protection policies.

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[1] Project *„Universal postal service quality measurement”, October 2005 - May 2006, carried out by the College of Post and Telecommunications, ordered by the CRC.*

[2] *Project „ Research and analysis of customer demand of postal services on the domestic market”, November 2005 – April 2006., carried out by the Economic Faculty, Sofia University, ordered by the CRC.*

The key conclusions and recommendations point not as much at deficiencies in the regulatory framework, as at the necessity of flexible managerial decisions by postal service operators.

During the recent years, the market is strongly influenced by new information and communication technologies, based on computing and networking. This calls for actions to be taken for bringing up-to-date of some postal services and allocation of resources for development of new ones. In this connection there should be noted that customers' desires are related to the application of modern management and provision of services which will help to:

- shorten the time for acceptance of orders and postal items;
- extend the opening hours for acceptance and delivery of parcels and money orders;
- accept and deliver mail items during weekends and holidays;
- handle postal service procedures by electronic means;
- allow on-line ordering of a service, and monitoring and control of its provision by the customer;
- provide direct connection to the customer in case of problems with the service ordered by him/her;
- provision of business-specific services;
- provision of specific services to disabled people, etc.

The regulatory body monitors and analyses the condition, development and trends in the provision of postal services in Bulgaria, on an annual basis, by collecting data from reviewing the observance of the terms of licenses and from questionnaires distributed to registered operators of NPS.

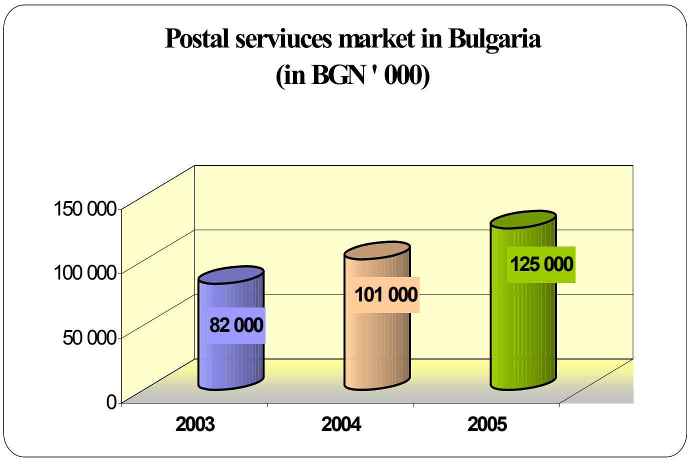
I. Analysis of postal services market.

1.1 Development of postal services market

The regulatory body monitors and analyses the condition, development and trends in the provision of postal services in Bulgaria, on an annual basis, by collecting data from reviewing the observance of the terms of licenses and from questionnaires distributed to registered operators of NPS.

For 2005, the postal services market is estimated to amount to nearly BGN 125 million, calculated as an expert evaluation based on data provided by 92% of the registered and licensed operators operating in 2005. In 2005, the growth in postal services provision was 24 percent growth, compared to 2004.

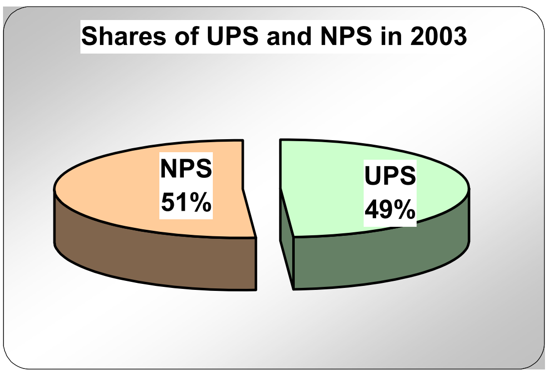
In the last three years, the trend persisted of over 23 percent annual growth of the postal services market.

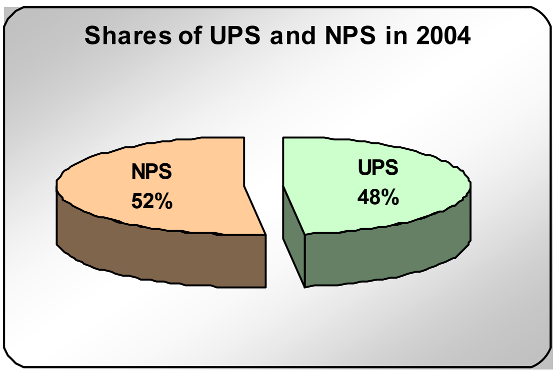


Source: Data submitted to the CRC

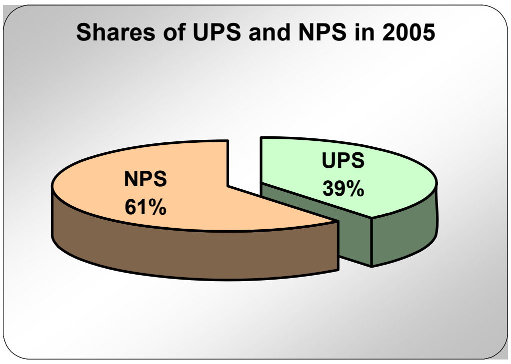
Fig. 1

The market expansion of the market is a result of the sustainable growth of the revenues from provision of NPS.





Source: Data submitted to the CRC *Fig. 2* *Fig. 3*



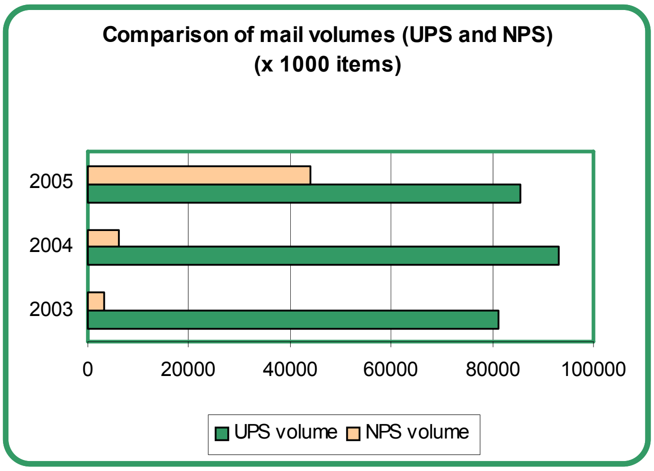
Source: Data submitted to the CRC

Fig.4

Since 2003 the growth rate of NPS revenues overtakes the growth rate of UPS revenues. For comparison: in 2003 and 2004, the licensed operator, Bulgarian Post Plc. (BP Plc.) and the registered operators had almost equal shares of the total market, NPS having only a slight lead. In the last year the ratio of the NPS to UPS shares of the total revenues was already 1,5 to 1.

Major objective laws in the development of national the postal services market in the last three years influence the market share of the principal postal operator. In 2003 and 2004, BP Plc. managed to maintain some 50% market share, increased its revenues from provision of postal by 23% from the first to the next year.

In the last year, the revenues of the principal postal operator from provision of postal services increased insignificantly compared to 2004 and due to the faster growth in NPS revenues its market share dropped to 42%.



Source: Data submitted to the CRC

Fig. 5

The sustainable growth of postal services market is related to the increased number of items handled by postal operators. In 2005 the handled mail items were by 30% more than in 2004.

The traffic flows of licensed and registered operators have different alteration rate. The number of NPS items increased 7 times compared to 2004, while the UPS traffic flow decreased by 8 percent.

To analyze the condition of the Bulgarian postal services market, it could be divided deemed two different – UPS and NPS – markets. They are characterized by different levels of liberalisation and competition.

The NPS market can be defined as liberalised, dynamic and attractive; it is entered by increasingly more players and shows stable growth in the total number of items handled and gained revenues, each year. Within a year, 15 new operators entered the NPS market and by the end of 2005 their number reached 51. In this connection, it can be summarized that NPS are provided in a strongly competitive environment.

The UPS market in its turn undergoes a process of liberalisation with gradual increase of the number of operators licensed to provide a part the Universal Postal Service. This market changes more slowly than the NPS one, with showing decreased traffic compared to 2004, and insignificant change in the total revenues between the two periods. The high costs needed for installation and maintenance of a postal network, and the state monopoly in the reserved area of UPS established by § 6 of the Postal Services Act (PSA), are among the most important factors for the lack of willingness by registered operators or new players to enter this market. The postal money order service solely, which is within the scope of UPS, can be described as attractive. In 2005, CRC granted licenses to two new operators for provision of postal money orders as a part of the UPS, which led to increased competition in the provision of this service.

With the development of the postal services market, the first contracts for interconnection between postal operators emerged. In 2005, such contracts were concluded predominantly between registered NPS operators and the principal postal operator.

The most part of the contracts for networking with the principal postal operator are related to the „transport" and „delivery" phases. The interest for conclusion of such contracts is justified by the well developed network of BP Plc. and its capability to provide access to any customer. The principal postal operator can derive extra revenue from the use of the postal network at each of the phases: collection, processing, sorting, transport and delivery of items. That is why the number of interconnection contracts between the principal operator and other postal operators is expected to increase in the future.

During the reviewed period, the process of network connectivity contracting between NPS operators continued aimed at expanding the territorial coverage of the provided services.

In the future, the CRC will continue to monitor and analyze the interconnection contracts and processes of network transformation and scaling-up which is an indicator for development of competition in the postal sector.

1.2 Level of competition on the postal market

In pursuance of its regulatory obligations to stimulate postal market development by creating conditions for competition and equality of postal operators, on one hand, and protect customers' interests, on the other, the CRC regularly reviews the condition of the sector on an annual basis. The postal services market is growing and, from a regulatory point of view, it is necessary to focus on the relationship between the presence of effective competition and customer satisfaction.

The provision of postal services in competitive market conditions results in reliable, efficient and quality services which are highly valued by customers.

The Commission assesses the level of competition on the postal services market by monitoring the following indicators: market entry and existing barriers; change in the revenues from UPS and NPS; customer expectations and awareness of postal services provision; operators forecasts and assessments of market development.

Entry into the postal market and existing barriers

The principal barriers to market entry according to the information provided by operators can be formally divided into two big groups: legal and financial. Two thirds of the acting operators are in the opinion that the state monopoly over the reserved area of the Universal Postal Service established by PSA, § 6, has substantial impact on market entry. The provision of services included in the scope of UPS (in contrast with NPS) requires bigger costs for the installation and maintenance of a network and carrying out the respective activity. Not last by importance, it should be noted that there are well established players operating on the postal market already which increase their market shares with each year. These courier companies and BP Plc. in its capacity of the principal postal operator are able to take benefit from the well known trade mark and make savings in their activities based on scope and scale, which is a serious challenge facing new player on the market. Here, attention should be paid to the fact that many of the operators mention as barrier to their entry into the postal market the presence of strong unfair competition by companies providing NPS without having registration for the provision of such services. With this respect, the CRC performing its control functions, considers and investigates each complaint lodged by a customer or postal operator.

Changes in the revenues from UPS and NPS

The expansion of NPS market leads to more intense competition in the services that are most attractive to the operators.

In 2005, the strongest competition was observed in the provision of courier mail services. In the recent years, the revenues from such services take the greatest share in the total NPS revenues. With competition development, operators on the market attempt to attack new market segments and in 2005 a serious growth and increasing competition were observed in the provision of "hybrid mail" service, which belongs to the services under PSA, Art. 3, para. 2.

The services within the UPS scope feature slower development pace with gradual strengthening of the competition in the provision of "postal money order" services in the specified period.

When analyzing the competition on the postal services market the fact is interesting that 2/3 of the interviewed companies and nearly 1/3 of the individual customers use the services of courier companies and 84% of the companies and 95% of the customers do not use services of newly licensed operators.

The obtained results confirm to a great extent that courier companies are well known to customers. The competition in these services is strongly developed with the main customer group being business clients. Most of the individual customers still confide in the principal postal operator.

On the other hand, most of the customers still do not know the new licensed operators providing the "postal money order" service. UPS provision is traditionally a priority of BP Plc. and the survey carried out is a step forward to introducing the new UPS market players to customers. Strengthening the positions of newly licensed operators will enhance the competition in the provision of postal money orders, as the other services within the scope of UPS are still provided by BP Plc. only, in its capacity of the sole postal operator licensed for provision of the whole UPS.

During the past year 2005 postal operators providing NPS keep describing their market as offering constantly growing and attractive. Indicative for the participants' expectations for the future is the fact that over 70% of the active NPS operators are planning to make technological investments of technological importance in 2006. In the same time, nearly 40% of the active licensed operators estimate the courier services market as a sector with a very strong competition.

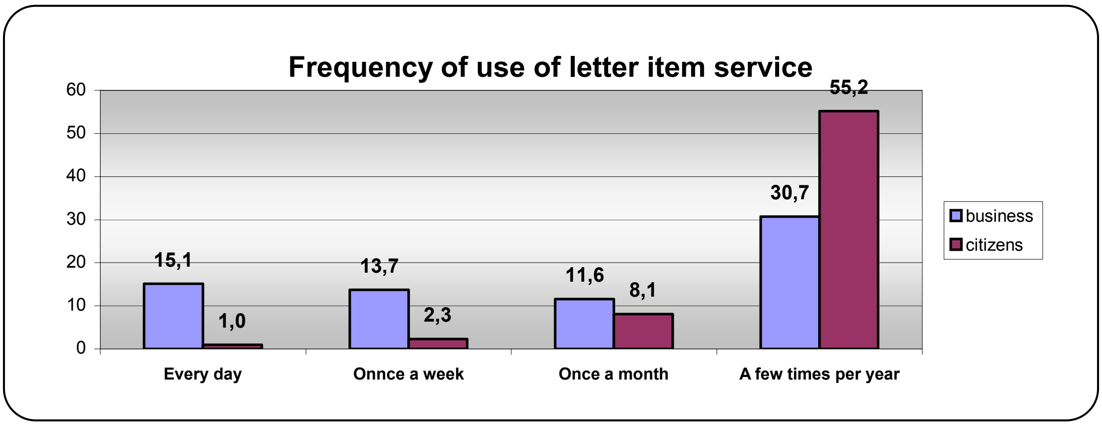
1.3 Research and analysis of customers' demand for postal services

In order to obtain more clear picture of the postal services market condition, the demand for NPS and UPS and the customer opinion of the quality and prices of these services in Bulgaria, the CRC for a first time researched customer demand on the postal services market. The research was carried out in the period November 2005 - March 2006, on the base of a sample of 2,000 businesses and 200 NGO throughout this country.

The research of customer demand for postal services on the domestic postal market allows also outlining the potential need of such services. Important factors for the present condition of this market are customer expectations and awareness.

The research results show that letter item is the most used postal service in this country.

According to research data:



Source: Project "Research and analysis of customer demand for domestic postal services"

Fig.6

Or a total of 71,1% of the businesses and 66,6% of the citizens use this method of correspondence.

After the letter item, postal parcel service is the second to most popular "classical" postal service. According to the research, 0,9% of the businesses send domestic parcels up to 10 kg on a daily basis, and 2,6% – once a week; 0,4% of them send a 10 to 20 kg parcel every day, 1,8% – once a week; 0,5% send over 20 kg (stock shipment) – every day, and 2,5% – once a week.

More and more makes its way the "direct mail" service, as distribution of advertising matter by post is an activity which has a great potential and its development is imminent. Nearly 70% of the businesses do not use direct mail, other 15% use it only several a few timer per year.

Results from the research in business and individuals preferences to different postal services providers

It is evident from the research carried out that 72% of the interviewed companies and nearly 81% of the citizens have expressed preferences to the postal services provided by BP Plc. The reasons for them to prefer with BP Plc. services are their affordable prices, following by other service characteristics, such as correct and reliable service, convenient place and business hours.

A total of 4% of the interviewed companies and 5 % of the citizens have specified other licensed operators. Again they refer to affordable prices as the reason for their preferences, fast delivery, correct and reliable services of these operators.

Table 1

NPS providers	NPS providers preferred by citizens	NPS providers preferred by business clients
Group 1	Speedy; DHL; Econt Express	Speedy (11%); Econt Express (9%); DHL (6%)
Group 2	City Express; In Time; FedEx	TNT (2); In Time (2%); Leo Express (1,4%); City Express (1%)
Group 3	TNT; Cibiter; UPS; Leo Express; PolyPost	UPS (0,9%); Bulpost (0,7%);D&D (0,7%); FedEx (0,7%); Leon Ama (0,7%); Interlogistics (0,5%) and PolyPost (0,4%)

Source: Project "Research and analysis of customer demand for postal services on the domestic postal market"

The three groups are formed based on the following factors: correct, reliable and good quality of service, and fast delivery of items. The general conclusion may be drawn that BP Plc. is preferred mainly for its affordable prices while courier companies and other operators are elected for correct and reliable service and fast delivery.

Services which citizens would gladly use, but which are not offered by local post offices, include delivery after the regular opening hours or during weekends, Internet and e-mail access at the post office, online services and faster deliveries.

The most common recommendations that could be found in the expressed preferences of the surveyed companies and citizens both with respect to quality of service and desired new services and ways of improving domestic postal services, outline several groups of actions to be taken in the following directions:

- improve methods of management of operations and personnel, mainly with respect to training and quality of service;
- optimise the existing services and introduce new ones;
- employ advanced information technologies for access to postal services;
- implement modern marketing approaches;
- amend the regulatory framework, mainly concerning operators' liability, stimulation of competition and protection customers' rights.

The research has revealed also other problems related to quality of postal services, expressed in the free form answers and recommendations of the interviewed. An example is the suggestion of one of the interviewees: „dispense with filling in paper forms”. This was the main cause for the principal postal operator to analyse the design of some mandatory paper forms requested to be filled, such as the parcel declaration, form, which includes an invitation for collecting the parcel, personal identity data of the sender, authorisation, etc. The section for “sender’s identity card data” applies only to individuals and not for organisations though they also are requested to fill in it. On the other hand, the requested data obviously are in conflict with the legislation concerning management and sharing personal data of citizens.

II. Universal postal service

In 2005, the CRC granted licenses for provision of a part of the Universal Postal Service – “money order” service - to two new operators and thus the number of licensed operators increased to four. For the period under review, part of them did not operate while gradually building their networks, in compliance with the license conditions.

The greater number of licensed operators on the postal market strengthens competition in the provision of the money order service. The remaining services within the scope of UPS are still provided only by the principal postal operator.

According to PSA, § 6 para.1, s. 1 and 2, a state monopoly of BP Plc. was established for the provision of services within the reserved area of UPS until 31 December 2005. Despite the existence of such reserved area in 2005, for the last year, a slight decrease in the revenue from the provision of UPS was observed, with different changes in the volumes and revenues for domestic and international services.

By its decision No. 647 of 21.04.2005, the CRC amended and supplemented License No. 1/ 14.06.2001 of BP Plc., the principal postal operator under the PSA assigned with the mandatory provision of universal postal services through its postal network throughout the territory of this country, including economically unprofitable conditions.

The universal postal service is provided permanently within specified hours of business, with a quality conforming to set standards, at affordable prices and availability of the said service to any user within the national territory, irrespective of the geographical location thereof.

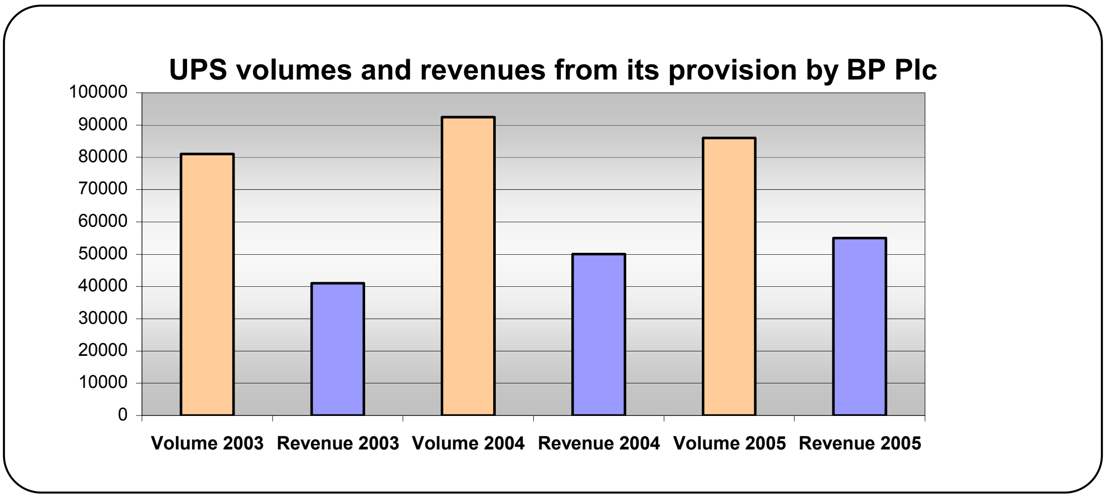
UPS comprises the following services:

1. Acceptance, transport and delivery of domestic and cross-border postal items as follows:
   - letter items weighing up to 2 kg;
   - small packets weighing up to 2 kg;
   - direct mail weighing up to 2 kg;
   - printed papers weighing up to 5 kg;
   - secograms weighing up to 7 kg;
2. Acceptance, transport and delivery of domestic and international postal parcels weighing up to 10 kg;
3. postal money orders;
4. special services “registered mail” and “insured mail”.

In 2005, apart of the principal postal operator, universal postal service was provided also by Finance Engineering AD, a holder of a license for provision of “money order” service.

1. Financial analysis of the provision of Universal Postal Service

The total revenue from the provision of universal postal service by BP Plc. in 2005 is BGN 54,379,000 (total UPS domestic plus incoming and outgoing international items).



Source: Data submitted to the CRC

Fig. 7

The increase of the revenue in 2005 is 9,3 percent compared to 2004.

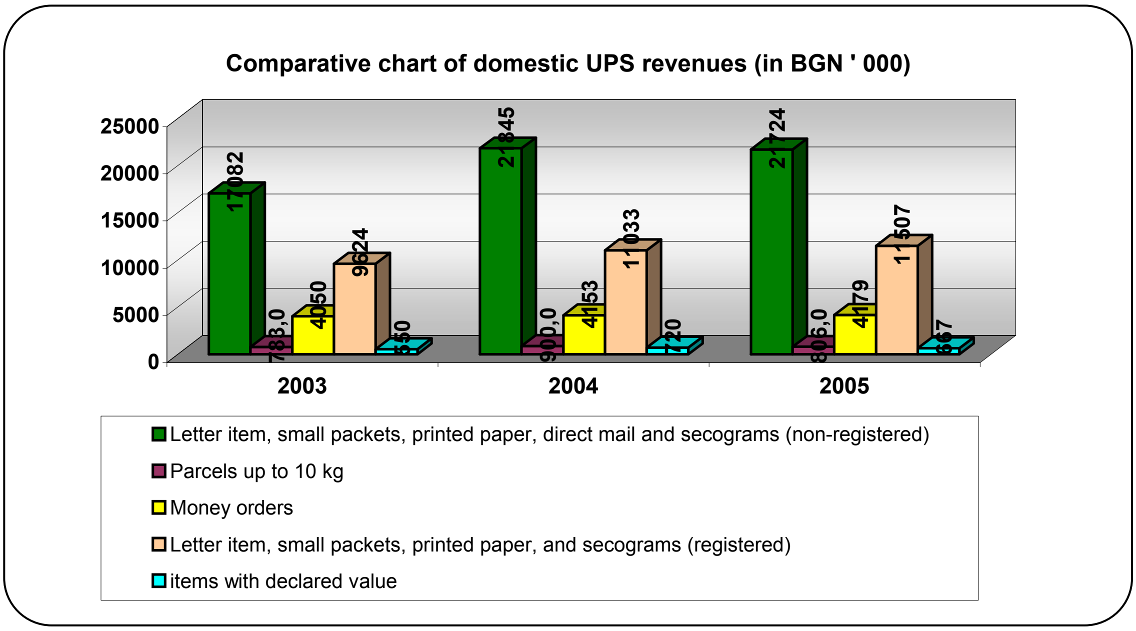
The number of items posted in 2005 decreased by 8%, which is probably due to shrunken demand for such services and withdrawal of big business clients of the company. The shrunken UPS demand on its turn affected the UPS revenues, which showed insignificant growth attributed mainly to the outgoing international items. The comparison of the revenues and item volumes in 2004 and 2003 show that they increased by 20 and 15 percent, respectively. The growth is most probably due to new prices of UPS becoming effective and the then existing contracts with big clients.

The total operation costs of BP Plc. increased by 13,5 % compared to 2004. The share of domestic UPS costs in the totals distribution costs remained unchanged, equal to 52,6 percent. In 2005, compared to the preceding year, the costs for provision of UPS increased by 6 percent and for provision of reserved sector services - by 9 percent.

1.1 Provision of domestic universal postal service

The revenue received from the provision of domestic UPS amounted to BGN 39.000 thousand, showing insignificant growth with respect to 2004. For comparison, between 2003 and 2004 the revenue increased by 20 percent.

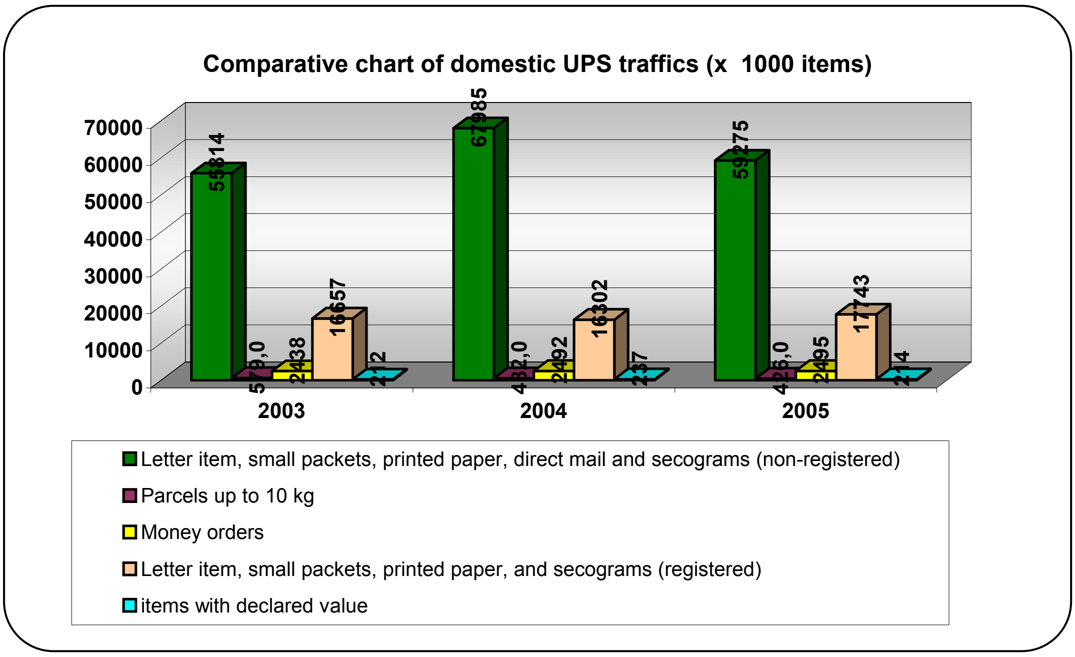
In 2005, domestic UPS revenue formed 72 percent of the total UPS revenue.



Source: Data submitted to the CRC

Fig. 8

Domestic UPS items are 94 % of the total number of posted UPS items. During the last three years, the following trend is observed in domestic UPS demand: in 2004 the demand increased by 16 percent compared to 2003, however, it decreased by 8,4% from 2004 to 2005.



Source: Data submitted to the CRC

Fig. 9

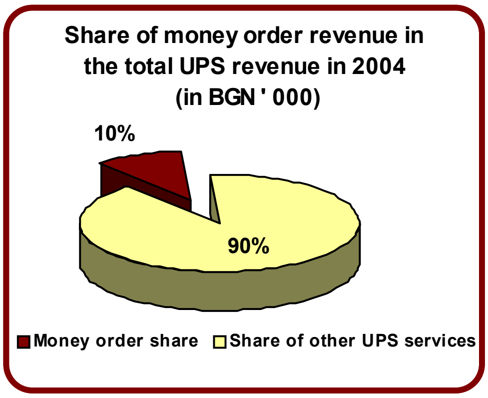
Non-registered letter items, printed paper, direct mail and small packets are 74,0 percent of the volume and 55,9 percent of the revenue from provision of domestic UPS.

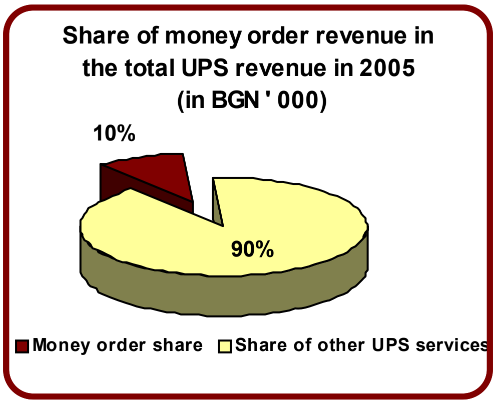
In 2005, the number of such items decreased by 12,8 percent compared to 2004. The revenue from services included in this group show insignificant decrease of 0,6 percent.

As a principal reason for the decrease in the number of these items the principal operator points out the decreased number of items posted by big business clients. For various reasons, in the period under review, some contracts were terminated with big clients, which were the main users of such services, and since February 2005, this resulted a decrease of 14,0 percent, with 11 570 thousands of items less posted .

The new direct mail service introduced since 2004, recorded a marked growth of 88,2 and further development in 2005.

- Registered letter items, printed paper and small packets posted in 2005, formed 22,1 percent of the total number of items and 29,6 percent of the revenue gained from domestic UPS. A trend towards increased demand for the services in this group is observed in the period under review, with a growth of 8,8% compared to 2004. Increased volumes are recorded related to some new contracts with big clients. There is higher demand for “printed paper” and “letter mail” services. Small packets shoved decrease in the reviewed period.
- In 2005, the trend in non-insured parcels up to 10 kg is of decreased customer demand. The decrease is 11,6 percent in the volume and 10,4 percent in the revenue, compared to 2004. The relative share of this service in UPS for 2005 is insignificant: only 0,5 percent of the total number of items and 2,1 percent of the revenue.
- In 2005, increased interest was observed towards “postal money orders”, there were new applicants to provide this universal postal service. The licensed operators continued the installation of their networks and preparation for the provision of the service. During the period under review, it was provided by BP Plc, and by one more licensed provider.





Source: Data submitted to the CRC

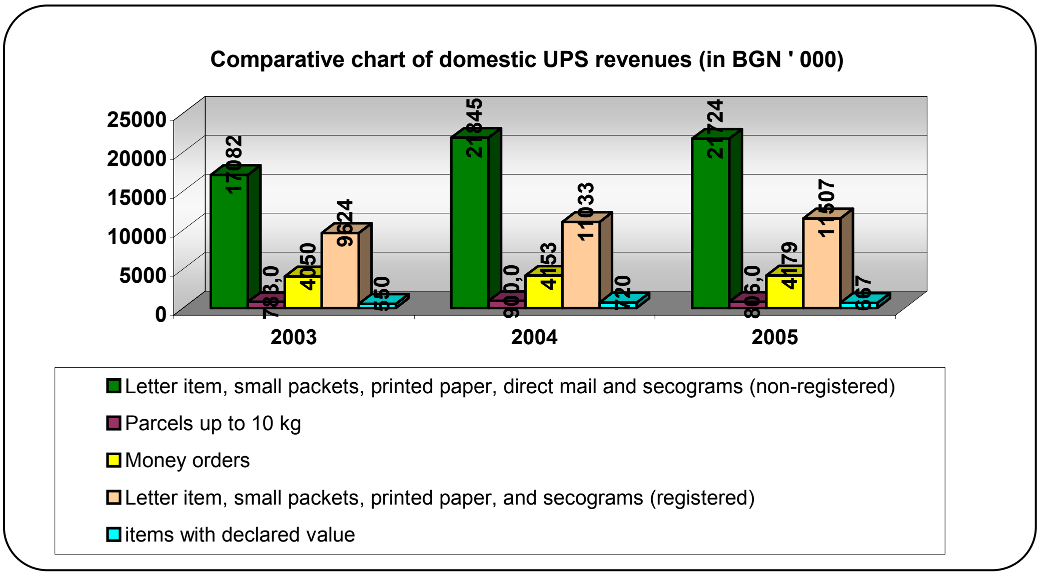
Fig. 10

Fig. 11

The service traffic and the revenue from it did not changed in total, despite the fact that the service was provided by two providers. The share of postal money orders in the total revenue gained from universal postal service was about 10%.

- Items with declared value, of which the main part are parcels, showed a 9,7 percent decrease in the volume and a 7,4 percent decrease in the revenue. These items’ share is hardly 0,3% of domestic UPS traffic and 1,7% of domestic UPS revenue.
- In 2005, the reserved area items (letter items up to 350 grams – registered and non-registered) formed 84,2 percent of the volume and 89,0 percent of the revenue of the group comprising letter items, small packets, printed paper and direct mail (registered and non-registered). In comparison with 2004, the volumes decreased slightly, by 0,2 percent, with a 5,7 percent growth in the revenue from reserved services.

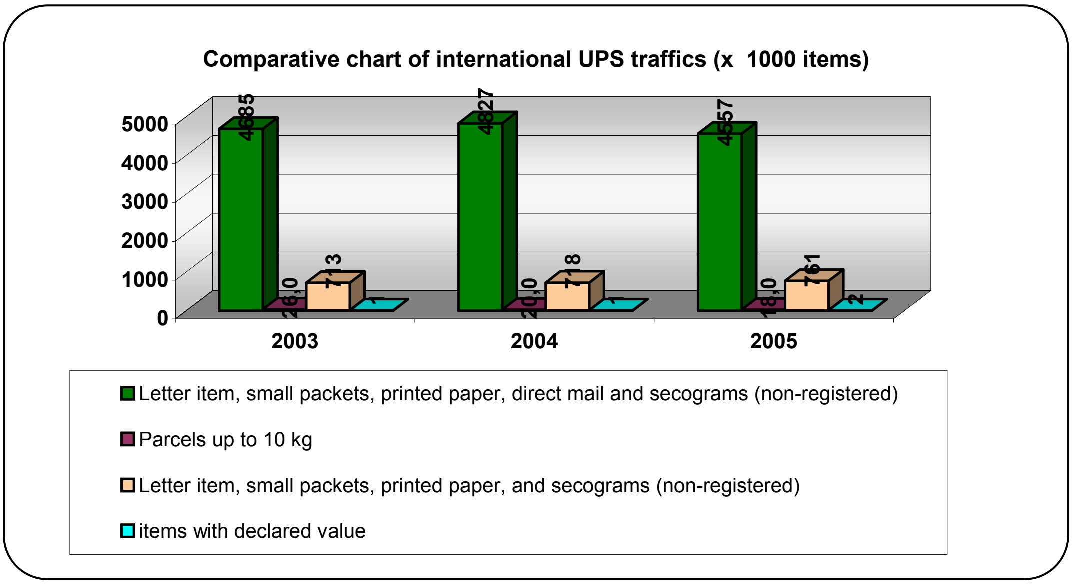
1.2 Provision of international universal postal service



Source: Data submitted to the CRC

Fig. 12

The share of the international outgoing items posted in 2005 is 6,2 percent of the total UPS volume. Compared to 2004 the volume is by 4,1 lower.



Source: Data submitted to the CRC

Fig. 13

The revenue gained from the international outgoing UPS provided in 2005 is BGN 9 920 thousand forming 18,2 percent of the total revenue from universal postal service. Compared to 2004, the revenue decreased by 3,7 percent but increased by 41% with reference to 2003.

- In 2005, the volume and revenues from non-registered letter items also decreased, by 5,6 and 6,4 percent, respectively. For the reviewed period, decrease is also observed in the volumes of letter and printed paper items.
- In 2005, direct mail items increased 4 times in comparison with 2004, however their share is still low, only 0,3 percent. In their group these items are with the highest share in the international items volume and revenue - 85,4 and 43,0 percent respectively.
- Customer demand for ordinary outgoing parcels up to 10 kg showed decrease. Compared to 2004, the number of the posted items decreased by 10,0%, and the revenues from them – by 8,6%. The share of these items in the outgoing mail is 0,3 percent of the volume and 8,7 percent of the revenue.
- The group of registered letter items, printed paper and small packages is the second largest outgoing mail in 2005. Their share in the volume is 14,3 percent and in the revenue - 47,8 percent. Compared to 2004 their volume increased by 6,0 percent with insignificant decrease of 0,4% in the revenue.
- The share in the total volume of outgoing insured value items is under 1,0 percent. Prevailing in this group are insured value parcels whose number in 2005 increased by 70,4 percent and the revenue – by 27,0 percent.
- Reserved sector items (letter items up to 350 grams – non-registered and registered) in 2005 account for 85,5 of the volume and 46,4 of the revenue from outgoing letter items.

1.3. Revenue from incoming international postal services provided by the principal postal operator

They include the amounts paid by foreign postal administrations to the Bulgarian principal postal operator for the incoming international letter items, printed paper, small packets and parcels delivered in this country, as well as the revenue from the settlement for the paid international money orders. According to data provided by the operator, their share in the total revenue from the universal postal service in 2005 is 10,3 percent. Compared to 2004, the revenue growth is 7 times, due to changes in method of accounting. In 2004, the revenue from the incoming international letter and parcel items was accounted for on the balance principle (the difference between outgoing and incoming items), while in 2005 the current accounting method was applied to the revenues (from incoming items) and costs (for outgoing items) related to the provision of international services. The introduced changes are in result of the application of the International Accounting Standards.

The revenues from incoming international money orders decreased in 2005 due to the low competitiveness of the principal postal operator, which do not offer provision of outgoing international money orders and therefore it is not an attractive partner for conclusion of contracts for international money order exchange.

1.4 Big clients of UPS provided by BP Plc.

The average number of registered big clients who have made more than 1,5 percent of the revenue from a universal postal service is 158, out of which 36 are using not only domestic, but international UPS as well.

The number of UPS big clients by type of their activities is as follows:

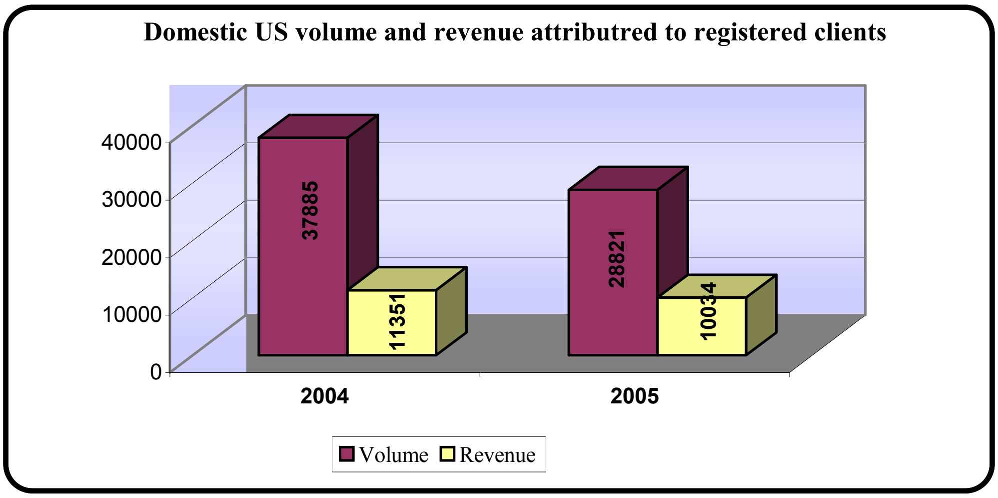
- finance sector, including banks and insurance companies – a total of 28 registered clients;
- catalogue sales sector with 7 registered clients;

- public sector comprising state and municipal administrations, and some companies providing services to citizens. On the average, there are 44 registered clients for the year, by 9 more that in 2004;
- commercial sector with 79 registered clients on the average. All they are various SME. In comparison with 2004, the big clients from this sector are retained.

1.4.1. Registered clients of domestic universal service

Registered big clients using domestic universal postal service formed 57,0 percent of the revenue gained from provision of domestic universal service.

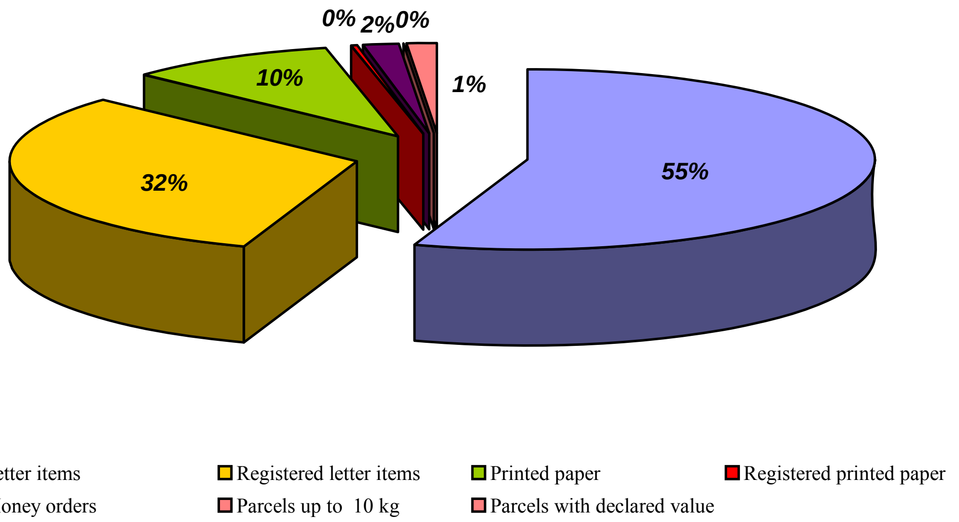
The biggest share in the revenue comes from letter items (registered and non-registered) and non-registered printed paper items. In 2005, the these services formed 36,0 percent of domestic UPS volume and 25,8 percent of domestic UPS revenues. Compared to 2004, the volume has decreased by 23,9%, and the revenue – by 11,6%. The decrease in the revenue is due to the smaller number of items posted by some big clients.



Source: Data submitted to the CRC

Fig 14

Demand for domestic universal postal services by big clients of the principal postal operator in 2005



Source: Report by Bulgarian Post Ltd. on the provision of UPS in 2005

***Fig.* 15**

In 2005 continued the promotion of the direct mail service as a part of the universal postal service. This service is intended for business clients. The revenue gained from the provision of the service amounted BGN 568 958 (BGN 32 thousand in 2004), forming 5,07 percent of the revenue from domestic universal postal services. As direct mail customers in 2005 were registered representatives of big marketing chains, telecommunication operators, etc.

1.4.2. Registered clients of outgoing international universal service

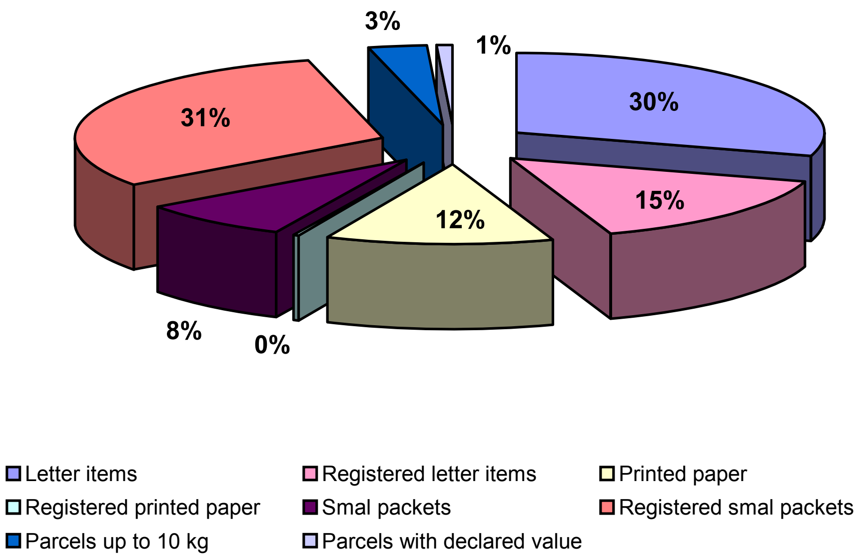
In 2005 there was no change in the average number of registered big clients using outgoing international universal postal services. The revenue received from them amounted to BGN 288 thousand (BGN 195 thousand in 2004), which is 2,06 percent of the revenue from international outgoing UPS (1,9 percent for 2004)

Most of the big clients using outgoing international postal services are in the financial sector - 14 clients. There are 9 such clients in the public sector.

The tendency continues for the clients using outgoing international UPS to be localised in Sofia and Plovdiv.

In 2005, the most used outgoing international UPS were also non-registered and registered letter items and printed paper, and registered small packets.

Demand for outbound internatinal universal postal services by big clients of the principal postal operator in 2005



Source: Report by Bulgarian Post Ltd. on the provision of UPS in 2005

***Fig.* 16**

1.4.3 Changes in the revenue from UPS

No significant changes are observed in the revenue from universal postal services in 2005. The biggest is the share of the revenue from registered and non-registered letter items and non-registered printed paper. Least demanded are registered small packets and –registered printed paper items. The retained level of the total revenue from universal postal service is due to a 3% increase in the revenue from registered mail services provided under contracts with some big clients, which compensated the significant drop in the revenues from ordinary parcels up to 10 kg, non-registered items and items with declared value. The level is retained also due to the greater share of the revenue from posted items under contracts with some registered clients.

The revenue from international money orders in 2005 marked a drop due to the strong competition on this market by companies employing computer systems for electronic exchange of international money orders. The decrease in the number of incoming international money orders is caused by the fact that the foreign postal administrations which have contractual relations with BP Plc. prefer to effect money orders electronically using the Eurogiro transmission network. The lack of the outgoing international money order service prevents the conclusion of bilateral money order exchange contracts. In 2005, the postal operators of Romania and Belarus refused to conclude contracts for unilateral exchange of international money orders with the principal operator.

6 182 international money orders were paid in 2005 in the total amount of BGN 3 340 thousand, in contrast with 7 987 money orders in the total amount of BGN 4 152

thousand in 2004. More are the incoming international money orders from Brazil, Poland, Japan and the Czech Republic.

1.4.4 Changes in the costs for provision of UPS

In its report on the provision of UPS in 2005, BP Plc. reports an increase of 13,5% in the total operational costs. The share of domestic UPS costs in the total distribution costs is preserved the same as in the preceding period, equal to 52,6 percent. The costs for the provision of universal postal service, in 2005, increased by 6 percent compared to the preceding period, which according to the operator is due to the reduced volume of services.

The costs of BP Plc. for the provision of UPS amount to BGN 56 602,0 thousand forming 51,9 percent of the total operation costs of the company.

During the year, the negative balance resulted from the settlement with foreign postal administrations increased with BGN 897,2 thousand. The main cause for this result is the changed proportion between revenues and the costs related to the international universal postal service.

It is evident from the analysis of the financial results by individual services that in 2005 a positive financial result is recorded for the group comprising non-registered letter items, printed paper, direct mail items and secograms (domestic and international). The main reason for this result is the insignificant reduction of revenues – 2,0 percent - and costs maintained at the level of 2004. The volume of these items is 74,7 percent of the total volume of universal postal service items.

For the other groups, the financial result is negative.

The increase of the outgoing and decrease of the incoming international traffic resulted in growth of the negative balance from the international settlement with BGN 897,2 thousand.

1.4.5 Prices of services within the UPS scope

Regulation of the prices of services within the scope of UPS is governed by Art. 5 of the Methodology for determination of the affordability of the UPS (The Methodology) based on the following criteria: cost-oriented prices; identical price of the UPS on the territory of the whole country and interchangeability of UPS with respective alternative services.

UPS prices must be formed and applied according to rules established in the "Ordinance on specification of the rules for the formation and application of the prices of the services included in the universal postal service", and subject to the Methodology, adopted by DCM No.158 of 7 July 2004. When determining the prices of international postal services, BP Plc. must also comply with the decisions underlying the Acts of the Universal Postal Union, ratified by the Republic of Bulgaria.

In November 2005, BP Plc. submitted a proposal to the CRC for changes in the prices of services within the UPS scope. The proposal for entry into force of the new prices was approved by decision No. 2388 of 21.12.2005. The new prices are effective since 02.01.2006.

For the new prices of outgoing letter items, it is expected to switch from content-based prices to prices based on the speed of treatment of the items, i.e. priority and non-priority item prices.

This system is applied by a number of European countries: Switzerland, Hungary, Austria, Italy, Germany, Greece, France, United Kingdom, Belgium, Sweden, Netherlands, Czech Republic, Poland, Belarus, Latvia, Slovakia, etc.

In a new manner, the states are grouped into three price zones: neighbouring, European and non-European states. According to the principal postal operator, the new prices are formed based on the actual costs per kg of mail for each of the three groups of states.

A basis for setting non-priority item prices are the existing surface mail prices.

The new costs of the services are determined in strict observance of the Methodology. The maximal cost increase factor for services included in the users' basket, an integral part of the Methods, is 1,13. For international postal services the price increase takes into account the changes in the costs for the provision of the services in this country.

1.4.6. Deficit from the provision of UPS in 2005 and analysis of the costs efficiency based on the report for compensation of the deficit from the provision of UPS under economically unprofitable conditions

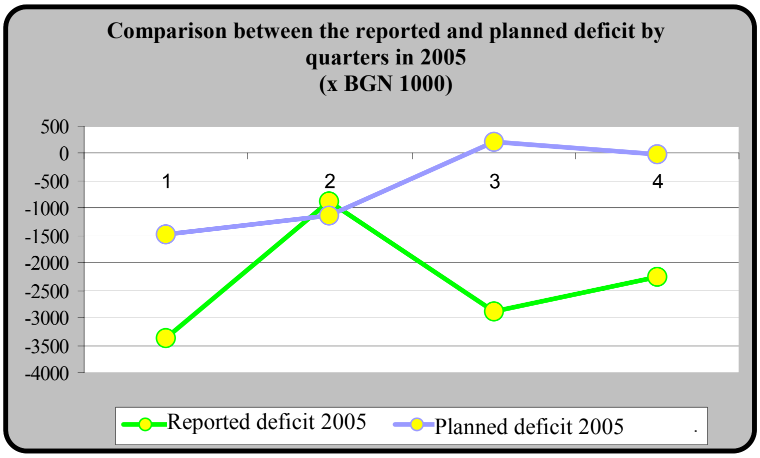
BP Plc., in compliance with the requirements of its individually issued license, is obligated to provide the universal postal service through its postal network throughout the whole country, including in cases of unprofitable economic conditions, and, in compliance with the provisions of PSA article 23a, article 29 and Article 29a. For this purpose the operator receives compensation from the state budget for the deficit in the provision of the universal postal service under the above mentioned conditions, proved to CRC and approved by it. In 2005, CRC approved an estimated deficit from the provision of UPS for 2006 amounting to BGN 5 305 thousand.

In the last year, pursuant to the stipulations of Art 7, para of the Methods of proving the deficit of the universal postal service provision under economically unprofitable conditions, BP Plc. submitted to the CRC data on the reported deficit from the provision of UPS by quarters and for the whole year 2005.

The principal postal operator reported negative financial result from the provision of UPS amounting to BGN 7805,9 thousand, obtained from a revenue of BGN 48 796,1 thousand and costs of BGN 56 602 thousand. The balance from the settlement with foreign postal administrations is negative, amounting to BGN 1 567,2 thousand and in result, the total annual deficit is BGN 9 373,1 thousand.

The financial result from the provision of UPS in 2005, in the reserved area is negative, amounting to BGN 6 763,6 thousand; the balance from the international financial settlement within the reserved area is negative, amounting to BGN 2 440,7 thousand, resulting an annual deficit of BGN 9 204,3 thousand in the reserved area.

The calculated deficit from UPS in 2005 exceeds by 82 percent the deficit for the previous year 2004 and is 4times the estimated deficit for 2005 approved by the CRC.



Source: Data submitted to the CRC

Fig. 17

During each quarter of 2005 discrepancy between the reported and planned deficit from the provision of UPS was observed for the respective period.

In the last year, the deficit from the provision of UPS was formed mainly by the groups "letter items and small packets up to 2kg, printed paper up to 5 kg, secograms up to 7 kg (registered)" and "ordinary parcels up to 10 kg" whose shares in the amount of the annual deficit are 60% and 31%, respectively. Between 2004 and 2005, the greatest was the growth in the deficit related to the provision of postal money orders - it increased by a factor of 7.

After analysing the data submitted by BP Plc. on the deficit resulting from UPS, the effectiveness of revenues and costs related to UPS as a whole and by groups was assessed for 2004 and 2005.

The results from the assessment show that, in 2005, the provision of UPS was less effective than in 2004. The costs per 1 BGN revenue increased from 2004 to 2005 by 6,3% and thus the effectiveness of 1 BGN cost dropped by 5,9%. Compared to 2004, in 2005, the costs for the provision of UPS increase faster than the revenue gained. Analysing the change in the costs for UPS it should be noted that they increased by 6 percent between the two years, within the reported annual inflation rate which reached 6,5% by the end of 2005. Valuating the effectiveness of each service group of UPS show the same results as analyzing the whole UPS. Less effective is the service "ordinary parcels up to 10 kg", where the costs per 1 BGN revenue have increased by 40%.

In 2005 and 2004, the principal postal operator received equal amounts of compensation from the state budget from the provision of UPS under economically unprofitable conditions.

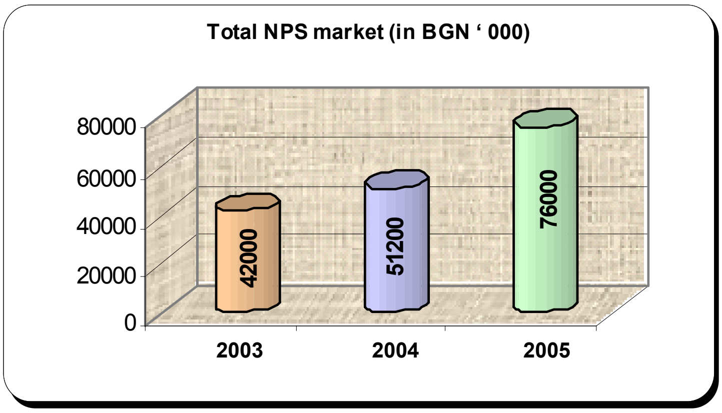
The reported increased deficit and the lowered effectiveness of UPS between 2004 and 2005 show decrease of the effectiveness from the real expenditures reported for compensation of the deficit. In 2005, the ratio of the deficit resulted from the provision of UPS and the compensation received from the sate budget increased to -9,4, while in 2004 it was only - 5,1.

III. Non-universal postal services

1. Analysis, present condition and trends in the provision of NPS

The regulatory body monitors and analyses the development of the domestic NPS market by collecting data through questionnaires annually distributed to registered operators.

In 2005, the total NPS market evaluated as an expert estimation based on data collected from 94% of the registered operators by the end of the last year amounts to nearly BGN 76 million.

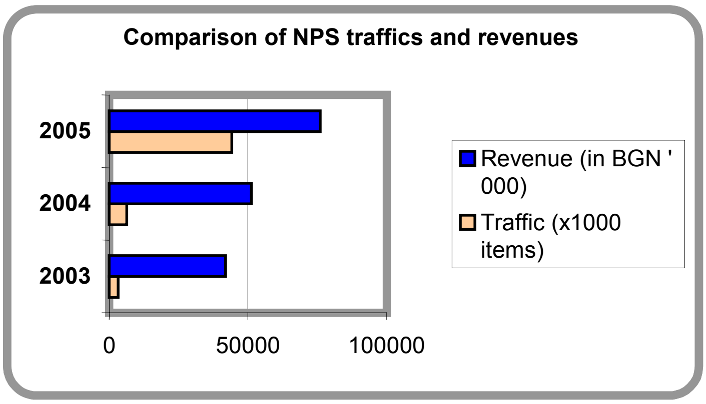


Source: Data submitted to the CRC

Fig.18

For the last three years NPS market annually grows with increasingly greater percent compared to the previous period. For illustration: in 2004 it increased by 22% compared to 2003, while in 2005 NPS sales were by 48% higher than in 2004.

Such dynamic market development forces operators to keep investing and modernizing their processes. For 2005, the capital investments in new technologies have increased two times compared to 2004.



Source: Data submitted to the CRC

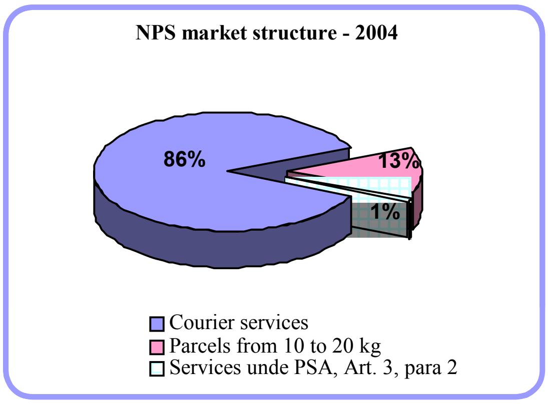
Fig.19

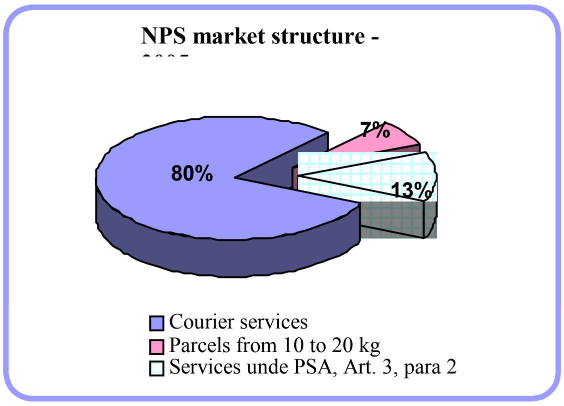
The sharp revenue increase is related to the increased number of postal items handled by registered operators. While from 2003 to 2004 it increased nearly by a factor of two, in 2005, the number of handled items was 7 times more than in 2004.

Market growth leads to increased competition for the services within the NPS scope, which are most attractive to operators. This process causes players to attach new market segments and expand their ranges of provided services.

1.1. NPS market structure

The actions of the operators in result of changes in customer demand, in 2005, led to changes in the market structure.





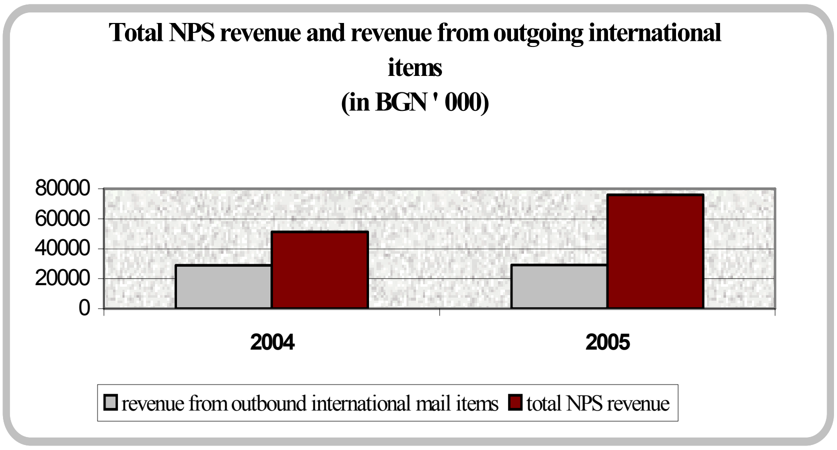
Source: Data submitted to the CRC

Fig. 20 ***Fig. 21***

In 2005 still most of the registered operators oriented their operation towards courier services. In this connection the revenue gained from courier services in 2005 (and in 2004, as well) has the greatest share in the total revenues from NPS. For the last year, these services accounted for revenues of BGN 61 million, by 42% more than in 2004. However, despite the current tendency of growth, their share in the total market decreased from 86% in 2004 to 80% in 2005. The reduction is to a great extent due to the fast pace with which the hybrid mail service was introduced into market in 2005. The revenue generated by services under PSA, Art. 3, para 2, such as "acceptance of messages posted by the sender in electronic or physical form, transmission via telecommunication means and delivery of the messages to the recipient as mail items", including the hybrid mail service, increased nearly 27 times. The share of these services in the total NPS sales increased from 1% in 2004 to 13% in 2005. In connection with the intense customer interest in the hybrid mail service, its share in the total NPS market is expected to keep growing in 2006. During the period 2004 – 2005 a 20 % decrease in the revenues from provision of the service "parcels from 10 to 20 kg" is observed, and its share in the total market also decreased from 12% in 2004 г. to 7% in 2005.

In the last year, the number of outgoing international courier items and parcels from 10 to 20 kg remained almost unchanged. The revenue received from these services was almost the same as in 2004.

For 2005 the provision of international outgoing items has no change compared to 2004. As a result the share of these items in the total NPS revenue decreases for 2005.



Source: Data submitted to the CRC

Fig. 22

The expectations for 2006 are that the courier services will continue to form the main share in the total market. A growth of 21% in the total number of posted NPS items may be expected.

Evaluating the expecting changes in items' volume it should be taken into account that most of the postal operators forecast increasing volumes for the future periods, which is not always confirmed by the follow-up monitoring.

1.2. Development of NPS

In 2005, in NPS demand continued the trend from 2002 of dominance of business clients over individual customers. In the recent year, on the domestic postal market, business clients prefer courier services, while end users still confide in BP Plc. using mainly their UPS services. Despite of the mentioned above tendency in NPS demand, since 2003 there is growing interest in using NPS from individual customers. In a customer demand research project implemented in 2005, nearly 35% of the reviewed citizens expressed their preferences for using courier services. Over 60% of the business clients preferred the services of registered operators, with most NPS used by companies from the manufacturing sector - 71,4%, followed by trade companies - 67,2%, and from the service sector - 62%.

Demand studies carried out by registered operators rank first financial entities, followed by utility companies and companies from the marketing sector, on the third place.

As a result of the hybrid mail service establishing itself on the market it could be expected its users to increase their share in the total consumption of NPS in the next year. As prospective users of hybrid mail services may be considered financial entities, utility sector companies, etc.

The progressively increasing number of registered operators on the expanding NPS market, and the forecasts made by the existing operators characterise this market as steadily growing and attractive in the long-term period. Indicative for the future expectations of the market players is the fact that over 70% of the active NPS operators plan to invest in new technologies in 2006. Aiming at occupying new market positions and meeting customer demand, courier companies plan to improve the quality and expand the geographic coverage of the provided services, enlarge their networks through interconnection contracts or broaden the range of the offered NPS services.

IV. Information on the regulatory and control functions of the CRC

1. Report on the control activity of the CRC

In relation to the implementation of CRC control functions, in 2005, regulator officers carried out 41 audits on the provision of UPS by the principal postal operator. An Act for establishment of administrative offence committed by BP Plc. was issued in one case. Twenty operators registered for provision of non-universal postal services were checked for compliance with the PSA and three Acts for establishment of administrative offence were issued. In 2005, eight reports were issued for administrative offences found, under the Law for the administrative offences and sanctions. Sixteen claims were handled concerning the application of PSA.

2. Information on the compliance with licenses

2.1. Postal networks of operators providing the whole, or part of, UPS

According to PSA, Art. 5, postal services shall be provided through postal networks. A postal network is an entity of organizationally and technologically related units and facilities, including post offices, exchange and sorting centres, transport means and technical facilities, established and used for acceptance, conveyance and delivery of postal items and provision of postal money orders.

In 2005, BP Plc. opened 2 and closed up 19 post offices in its network, observing the license requirements for coordination of such actions with the CRC and ensuring servicing of the closed offices areas in different form. Closing up of post offices is governed by CRC Decision No.1614/25.08.2005 for amendment in the Standards for determining the density of the access points to the postal network intended to provide UPS, so as to correspond in number and density to the needs of the users.

By 31.12.2005, the total number of post offices in this country was 2990, 633 of which in urban and 2357 – in rural areas. On average over the country, one post office is servicing 2596 inhabitants and 36.9 km^2 area.

The comparative table below shows also other country-average data, characterising the changes in the postal network:

Table 2

	2003	2004	2005
1. Total number of post offices	3 018	3 008	2990
In urban areas	641	639	633
In rural areas	2377	2369	2357
2. Average number of inhabitants serviced by one post office	2 630	2 633	2596
In urban areas	8 502	8 612	8581
In rural areas	1 041	1 021	988

3. Average area serviced by one post office, km^2	36.50	36.7	36,9
4. Number of postal agencies	152	143	146
5. Number of letter boxes for posting letter items	5 454	5 347	5306
In urban areas	2 061	2 034	2014
In rural areas	3 393	3 313	3292

Source: BP Plc. report on the provision of UPS in 2005

By its Decision No. 647 of 21.04.2005 the CRC amended and issued under No. 1-001-01/21.04.2005 the license of BP Plc. for provision of universal postal services. In this connection, the lists of the settlements within difficult-to-access regions were updated. The total number of such settlements is 1895.

The opening hours for servicing customers in post offices are in compliance with the Standards on the access points density. According to the Standards, in a settlement with up to 3000 inhabitants the opening time for servicing customers shall be at least two hours. Actually, in settlements with up to 3000 inhabitants, the greatest – 882 - is the number of post offices with 8-hours opening time, 675 post offices are opened 6 hours per day, 256 post offices are opened 4 hours per day. The remaining post offices operate 7 or 5 hours per day. The opening and closing times of all post offices are set as to comply with the time schedules for exchange of mail along the respective intra-regional routes.

For settlements with more than 3000 inhabitants, the opening time for servicing customers shall be at least four hours. 452 urban post offices have regular daily opening hours, and 181 have extended (regular and shift) opening hours.

By the end of 2005, 5306 letter boxes were in use for posting of non-registered items of correspondence. On average over the country, one letter box is servicing 1432 inhabitants, with the standard requiring one letter box per 2000 inhabitants.

The sorting, exchange and transport network of BP Plc. is the main factor related to the processing and conveyance of postal items. It consists of 11 sorting and exchange centres and 17 mail processing hubs at the territorial divisions. The international letter items are processed in the International office of exchange Sofia Inter; the international postal parcels – in the International office of exchange Sofia Douane, and courier mail – in the International office of exchange Sofia EMS-service.

During the past year the total length of daily routes travelled by postal vans intended for technological needs was 65 404 km, and by trucks with postal compartment -1 986 km.

In 2005 significant changes were introduced in the network of post offices of Finance Engineering AD, an operator licensed to provide a part of the universal postal service – postal money orders. 25 post offices were opened in Sofia, Varna, Burgas, Blagoevgrad, Dupnitsa, Pleven, Plovdiv, Stara Zagora, Sapareva Banya, Kozloduy, Rila, Montana. An agreement was signed with the National Union of Worker Producers' Cooperatives, uniting 296 cooperatives, for their use as representative offices of Finance Engineering AD.

The rest of the operators licensed for provision of postal money orders as a part of UPS - Factor I.N. AD, EasyPay AD, and Cash Express Service Ltd. – have not started operation yet. They are gradually establishing their networks, pursuant to the license conditions.

3. UPS quality level in 2005

The main postal operator, BP Plc., assesses the quality level of the universal postal service in 2005 by monitoring real mail items, using test panellists and control cards attached to postal items. The data showed below are taken from the annual report of BP Plc. for 2005. The attained quality levels compared to the Standard quality levels for the universal postal service and service efficiency (SG. 71/13.08.2004), as well as to the level reached in 2004 are as follows:

3.1 Transit time for domestic items of correspondence

End-to-end transit time	Quality target	Results 2004	Results 2005
D+1	not less than 78% of the items of correspondence	86%	87,78%
D+2	not less than 90% of the items of correspondence	98%	98,09%
D+3	not less than 95% of the items of correspondence	99%	99,66%

3.2 Transit time for domestic postal parcels

End-to-end transit time	Quality target	Results 2004	Results 2005
D+1	not less than 60% of the postal parcels	87%	80,68%
D+2	not less than 75% of the postal parcels	98%	98,26%
D+3	not less than 95% of the postal parcels	99%	99,22%

3.3 Transit time for domestic money orders

End-to-end transit time	Quality target	Results 2004	Results 2005
D+1	not less than 78% of the postal money orders	87%	88,45%
D+2	not less than 90% of the postal money orders	98%	98,72%
D+3	not less than 95% of the postal money orders	99%	99,79%

3.4. Transit time for international items of correspondence

3.4.1 Items of correspondence from geographic zones within Europe, transported by air

End-to-end transit time	Quality target	Results 2004	Results 2005
D+4	not less than 60% of the items of correspondence	53%	59,25%
D+5	not less than 78% of the items of correspondence	79%	83,08%
D+6	not less than 90% of the items of correspondence	93%	95,56%

3.4.2 Items of correspondence from geographic zones outside Europe, transported by air

End-to-end transit time	Quality target	Results 2004	Results 2005
D+6	not less than 55% of the items of correspondence	49%	57,84%
D+7	not less than 70% of the items of correspondence	74%	80,71%
D+8	not less than 85% of the items of correspondence	90%	93,01%

3.4.3. Items of correspondence from geographic zones within Europe, transported by surface

End-to-end transit time	Quality target	Results 2004	Results 2005
D+4	not less than 55% of the items of correspondence	52%	53,31%
D+6	not less than 80% of the items of correspondence	81%	79,27%

3.4.4 Items of correspondence from geographic zones outside Europe, transported by surface

End-to-end transit time	Quality target	Results 2004	Results 2005
D+10	not less than 50% of the items of correspondence	64%	63,35%
D+14	not less than 75% of the items of correspondence	88%	87,29%

3.5 Regularity of collection of postal items and postal money orders – number of collections from letter boxes and post offices

Settlement	*Week days*	*Number of collections per day*	*Quality target*	*Results 2004*	*Results 2005*
Sofia	*Monday to Friday* *Saturday and Sunday*	*2* *1*	*93%*	*99%*	*99,87%*
With ESC	*Monday to Saturday*	*1*			
Without ESC	*Monday to Friday*	*1*			

3.6 Regularity of delivery of postal items and postal money orders – number of deliveries

Settlement	*Week days*	*Number of deliveries per day*	**Quality target**	**Results 2004**	**Results 2005**
Sofia	*Monday to Saturday*	*2*	*90%*	*99%*	*99,52%*
With ESC	*Monday to Saturday*	*1*			
Without ESC	*Monday to Friday*	*1*			

3.7 Terms of handling claims
3.7.1 Claims concerning domestic postal services

Standard term for handling claims	**Quality target**	**Results 2004**	**Results 2005**
30 days	not less than 90% of the claims	93%	93%

3.7.2 Claims concerning international postal services

Standard term for handling claims	**Quality target**	**Results 2004**	**Results 2005**
90 days	not less than 85% of the claims	94%	94%

To monitor the quality levels of international non-registered letter items, BP Plc. participates in continuous testing organised by the International Bureau of UPU with Turkey, Macedonia, Switzerland, Russia and Romania. On a weekly basis, test letters are sent by test panellists on the territory of this country to each one of the monitored destinations. The data on posting and delivery are entered weekly on a web page of the UPU.

From the submitted data, two essential conclusions may be drawn:

1. The quality targets are met, excluding two of them: D+4 transit time for letter items from geographic zones within Europe transported by air and by surface;

2. As a whole, in 2005, enhanced compliance with the quality standards is reported compared to 2004, except for the following targets:

- D+1 transit time for domestic parcels, the result still being higher than the set target;
- D+6 transit time for letter items form geographic zones within Europe transported by surface, with the result not only being lower than in 2004, but not meeting the target as well;
- Transit time for letter items originating from geographic zones outside Europe and transported by surface, where the results show insignificant reduction (less than 1%) but still meet the targets.

With respect to the priority of UPS quality, in April 2005, using its limited human and financial resources, the CRC carried out its own survey of the compliance with the standards. Due to the small-scale character of the survey (600 test letter items monitored, exchanged between panellistes throughout this country), it can not be considered as a representative sample, but still gives a picture of the compliance with the quality standards. The data have been processed in conformity with the requirements of BSS EN 13850:2004. The obtained results summarized in the table below, though lower than those specified in the report of BP Plc. on the provision of UPS in 2005, show that the attained levels meet the quality of service targets.

Table 3

End-to-end transit time	Quality targets	Measured service level
D+1	Not less than 78% of the items of correspondence	81,63%
D+2	Not less than 90% of the items of correspondence	94,93%
D+3	Not less than 95% of the items of correspondence	97,82%

Source: *CRC survey data*

However, alarming is the fact that nearly 2% of the posted items did not reach the recipients. BP Plc. was informed promptly of the survey results and prescriptions were given to the operator to correct the established deficiencies.

The attached table contains information on the quality of service targets and performance in some European countries, in 2005[3].

[3] The information was collected in May 2006 by Postcomm and represents the responses received from some CERP member countries.

Country	Quality target (D+1)	Result 2005
Austria	95,8%	95%
England	92,5%	90,1%
Bulgaria	78%	87,8%
Germany	80%	96%
Greece	82%	62,9%
Denmark	93%	93,9%
Ireland	94%	71%
Italy	88%	99%
Latvia	80%	62,4%
Lithuania	72,8%	85%
Lichtenstein	97%	97%
Luxemburg	95%	97,8%
Norway	85%	86,7%
Poland	82%	93,3%
Slovakia	96%	94,3%
Hungary	85%	89,7%
Finland	85%	94,8%
France	80%	79,1%
Netherlands	95%	96,1%
Czech Republic	90%	96%
Sweden	85%	95,7%

It is worth noting that, in 7 (or 1/3) of the countries which gave the above information, the operators assigned for the provision of universal postal services failed to meet the set quality of service targets.

The chart below presents the percentage of quality of service performance result in each of the respective countries.

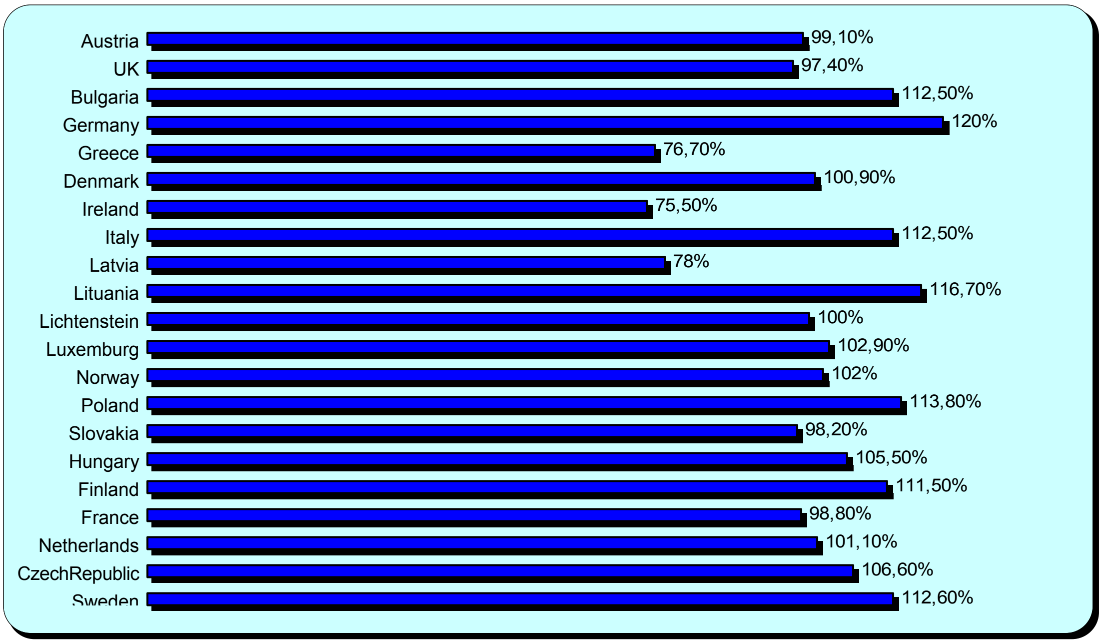


Fig. 23

In implementation of its control functions on the observance of standard quality levels and the requirement of Directive 97/67/EC for independent control by an external entity having no links with the universal postal service providers, in October 2005 the CRC started the project "Universal Postal Service Quality Measurement". The actual quality measurement took place in the period March – April 2006. The data will be presented in the CRC report on its activities in the postal service sector in 2006.

3.8 Quality of postal money order services

In 2005, BP Plc. continued t optimise the organisation and control of the work employing software products for automated processing of postal money orders at the counter and the Money Operations Control unit - for money orders accepted by non-automated post offices.

The introduction into operation of updated versions of the software products for acceptance and payment of postal money orders allows for higher efficiency of the control over issued and paid money orders, especially at the post offices of one and the same territorial division. In the same time, this enables cash flow management, considerably reduces the time needed for technological control and allows to further limit technological omissions.

In 2005, SP KIP issued 469 instructions based on 6 391 671 postal money orders checked, compared to 627 instructions in 2004 from 6 407 537 checked postal money orders. The average quality indicator in 2005 is one instruction per 13 628 operations, compared to one instruction per 10 219 operations in 2004, which is an improvement of quality by nearly 33%. In the recent years, a trend of decrease in the number of instructions, which implies a higher quality level of the postal money order service and proves the effect of the introduction of updated software products for acceptance and payment of postal money orders.

The process technology and organisation of the work of the other, already acting operator, Finance Engineering AD, licensed for provision of a part of the universal postal service – postal money orders – permit entirely automated acceptance, transmission and payment of money orders and their processing and control at the Central customer service office. Through the established network and technology employed, postal money orders are delivered directly within 2 to 12 hours.

3.9 Claims regarding UPS

In 2005, 552 claims were lodged at BP Plc., of which 100 were admissible. They are distributed as follows:

1. Regarding items of correspondence – 76, including for:
   - non-registered items - 21: 16 domestic and 5 international;
   - registered items - 43: 28 domestic and 15 international;
   - items with advice of delivery - 12: 10 domestic and 2 international.
2. Regarding postal parcels up to 10 kg: 11 admissible claims of which 7 claims related to domestic and 4 – to international parcel items.
3. Regarding money orders - 13 admissible claims were lodged, all related to domestic postal money orders.

The reasons for justified claims made in 2005, include mis-delivery, substantially delay, sorting errors, packing not intact, damaged by transport content, breaches of technology instructions, etc.

In 2005, a uniform claim form was developed and introduced to enable automated processing of claims.

3.10 Claims regarding NPS

With respect to data submitted on customer claims, the non-universal postal service operators are distributed nearly evenly into three groups: the first includes operators which did not provide claim data at all; the operators in the second group specified that there were no claims made to them; the third, most populated group, included operators which expressed quantitatively the reasonable dissatisfaction of their customers. The total number of declared justified claims in 2005 was 1385. Concerning almost a half of them there were no reasons specified. Most often the specified reason (if any) for making a claim was delayed delivery, damaged items, undelivered items, lost items.

4. Measures taken to ensure observance of postal security requirements

Postal security is indispensable for the provision of high quality and reliable service. It is achieved through a complex of measures and actions aimed at safeguarding and protection of life and health of postal employees, customers, mail items, cash money, property, confidentiality of correspondence, and assistance in investigation of offences against or through the postal network.

4.1 Main directions and activities of BP Plc. for guaranteeing security in the provision of UPS

All security enhancing measures taken by BP Plc. are based on an analysis of crime in any area and form of manifestation. They conform to the requirements of Art. 90, 91, 92 and 93 of the Postal Services Act, Ministry of Interior Act, Private Security Act, Ordinance № 6 on postal security, and Ordinance № I-121 on the procedure for organisation of safeguarding during transportation of valuable items and goods, as well as the General Conditions of the contracts with the users of postal services provided by BP Plc., and the National Strategy for Counteracting Crime, approved by Decision № 726 of 07.11.2002 of the Council of Ministers.

The Security Strategy 2003 – 2006, developed and adopted by the Director Board of BP Plc. outlines the goals, objectives, and priority work directions in the security area.

4.1.1. Security and protection of (letter and parcel) postal items in accepting, transit and exchange phases, through:

- using the existing technical means for control of the process in facilities of BP Plc. divisions;
- introducing new technologies – GPS-based tracing system, “MARIA-2001” system for control of air mail traffic;
- checks for strict observance of the technological process;
- sealing of routing vehicles;
- analysing the information, received from the territorial divisions and specialized units of BP Plc. concerning thefts and breaches of items integrity;
- CCTV for technical control in counteracting encroachment on postal traffic, monitoring conflict points and determining countermeasures.

4.1.2 Security and protection of employees, customers, information and postal operator property:

- the employees and workers are insured, occupying job positions specified in a list approved by the CRC;

- instructions and rules are developed pursuant to the requirements of Ordinance № 6 on postal security;
- X-ray monitors are installed (pursuant to PSA, Art.20, para 1, s. 5);
- a system is developed identifying the signs to invoke suspicion of prohibited articles or substances inserted in mail items;
- instructions for employees actions and behaviour in case of anonymous threat for explosive device put in a postal facility or item;
- ensured part of the needed personal protection means against biological contamination.

The protection measures taken are aimed at good coordination and interaction with the dedicated units of the Ministry of Interior, Ministry of Defence, Institute of Hygiene and Epidemiology and Civil Defence Service for clarification of occurred incidents.

4.1.3 Prevention of acceptance, conveyance and delivery of items with postage stamps, subject to fraudulent use or out of circulation, through:

- analysis of information received from the territorial divisions and specialized units of BP Plc. of postage stamps, subject to fraudulent use or out of circulation detected in the postal network;
- sudden inspections in the regions of distribution conducted with the assistance of the Regional Directorates of the Ministry of Interior.

4.1.4 Installation of physical protection systems with the purpose to:

- reduce safeguarding (hours) of property;
- reduce financial losses from thefts of letter mail and postal parcels;
- upgrade of physical protection systems to comply with the regulatory framework.

4.1.5 Optimisation of the conditions and procedure of organising the security measures during transportation of valuable items and goods, pursuant to Ordinance No. I-121, Art. 9.

4.1.6 Arrangement of task-oriented training for the employees engaged in ensuring the security of universal postal service.

4.2 Major directions and activities performed by Finance Engineering AD to guarantee the security in the provision of UPS

Software has been developed and put into operation that, beside implementing the activities for accepting, transmission and payment of postal money orders, keeps records (both operating and accounting) of any operation performed allowing reports to be output at specified times.

The operated software excludes subjective financial abuses, and the computer configuration, the network and storage media are redundant. The software is tested and certified for international money transfers. Its essential feature is security.

The operator has developed independently:

- proprietary documents specifying the structure and statute of postal security units;
- proprietary documents determining the rights and obligations of postal security officers;
- proprietary instructions on the security and protection of cash money;
- rules of internal order and security of buildings and premises;

- rules for control and prevention of money laundering;
- internal standardisation documents for transformation of the network from peace-time to war-time condition and liquidation of crisis consequences.

In compliance with the provisions of PSA, Art 20, para. 2, employees of Finance Engineering AD are insured, according to a list approved by the CRC.

4.3 Major directions and activities performed by NPS operators to guarantee the postal security and protect confidentiality of correspondence

In accordance with Ordinance № 6 on postal security requirements and the Measures to secure confidentiality of correspondence, during the reviewed period the operators continued submitting the proprietary standards they created to the CRC.

Part of the documents concern the security and protection of operators' business documentation and property, as well as the lives and health of their employees, other are related directly to customer interests – protection of confidentiality of correspondence, security and protection of mail items. Some operators offer to the attention of their customers special guidelines for transportation of specific articles.

Furthermore, they develop internal rules for control and counteracting of money laundering, preventing accepting, conveyance and delivery of prohibited articles and substances, and actions in case of non-war crisis, martial law, state of war or emergency conditions.

A number of postal operators express their reserves concerning the applicability of Art. 18 of the Ordinance on postal security requirements, as it involves significant costs which are considered – particularly by smaller companies – unreasonable and unaffordable as well.