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VII. POSTAL REGULATION

In 2005 the Communications Regulation Commission kept active implementation of its functions in order to assure conditions for provision of the universal postal service (UPS) on the territory of the whole country, non-discrimination of the postal operators and effective competition on the postal services market. The activities of the Commission were aiming at creating conditions for further liberalization of the postal services market and protection of the consumers' interests.

For CRC, a priority task in the postal service field was the control over the observance of postal security and quality of service conditions – in relation to the already developed Ordinance on postal security and the approved standards concerning quality and efficacy of the universal postal service.

During the indicated period further work was done with regard to operators' obligations to elaborate and observe in-house documentation concerning postal security. Many comments from the competent authorities and the Ministry of Interior were received with regard to the obligation of the postal operators to create conditions for monitoring and control over the postal services. In the future CRC will keep on conducting analyses of the in-house documentation elaborated by the postal operators and seeing to the provision of the necessary documents by all the active postal operators.

Carrying out its functions concerning the observance of the approved standards, concerning quality and efficacy of the universal postal service (Standards), the Commission entrusted to the Agency for Development of the information and communication technologies (DICT Agency) under the ex-Ministry of Transport and Communications, included in the newly created State Agency for Information Technology and Communications (SAITC) since the beginning of 2006, the implementation of a project with regard to the measurement of the quality of the universal postal service. The project that has started in October 2005 is realized by the College of Telecommunications and Posts and will be completed by the end of May 2006. The measurement is carried out in accordance with BDS EN 13850:2004 standard.

Aiming at being a mediator between operators and consumers, CRC organized a meeting with the postal services operators at which the CRC 2004 annual report in the field of postal services was discussed. Opinions and recommendations were exchanged, as well as comments concerning the information provided by the report and problems arising from the annually sent questionnaire to the operators providing non-universal postal services (NPS).

During the year CRC has organized a workshop dedicated on the conditions for interconnection of the networks of postal operators. The workshop was realized within a TAIEX project. Legal and economical aspects of the network interconnection of postal operators were discussed and the existing practice in some of the European countries was analyzed. The workshop was quite timely and useful to the CRC experts, having in mind the fact that some operators with mutual access to their networks have already emerged.

In November a project of the Commission through the DICT Agency has started – "Research and analysis of the consumer demand of postal services on the internal postal market ".

The basic conclusions and recommendations resulting from the consumer opinion indicate not that faults in the legislative framework, but the need for flexible management decisions by the side of the operators of postal services.

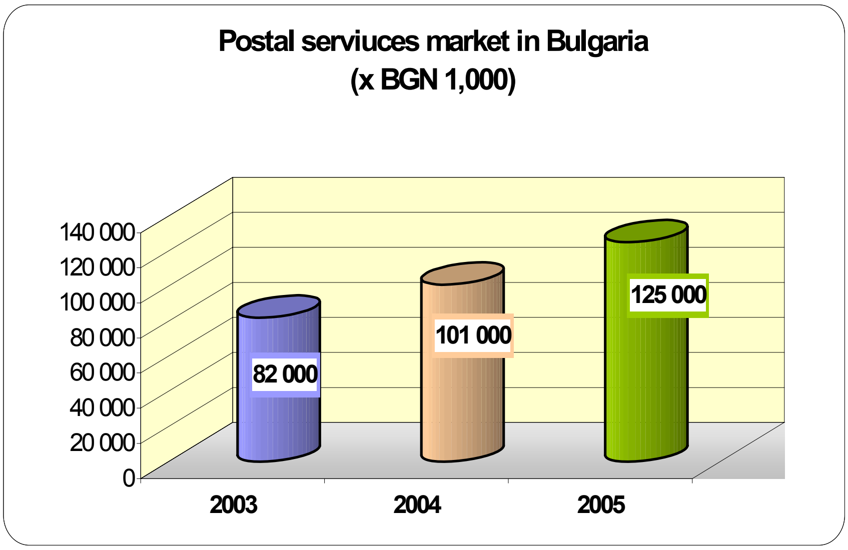
During the last years the market of postal services is strongly influenced by the new information and communications solutions, based on computer and network technologies.

That require some actions to be undertaken for bringing up-to-date of some of the postal services and re-direction of resources towards the introduction of new ones. With regard to this, it should be noted that the consumer needs are related to the application of modern management and servicing instruments, which would enable for:

- Shorter time for receipt of orders and parcels;
- Longer working time for receipt and deliver of parcels and money transfers;
- Receipt and deliver of parcels during the weekends and official holidays;
- Electronization of the postal services procedures;
- Opportunities for online service request, tracking out its accomplishment and control by the side of the consumer;
- Availability of direct connection with the consumer in case of failure of the service request;
- Supply of services meeting specific corporate needs;
- Supply of special services for disabled people, etc.

The state, development and trends in the provision of postal services in Bulgaria are observed and analyzed on an annual basis by the regulatory authority through collection of data on the fulfillment of the conditions of the individual licenses and through questionnaires sent out to the operators registered for NUS provision.

During the year, an analysis of the trends and condition of UPS and NPS market in 2004, as well as the long-term prospective for its development was conducted. The analysis was prepared in the form of an expert assessment based on the submitted data on the activities of the principal postal operator and nearly 94 percent of the registered HPS providers. In 2004, the postal (UPS and NPS) service market was estimated to 101 mln BGN, while in 2005 the market volume increased by 24% and amounted to nearly 125 mln BGN.

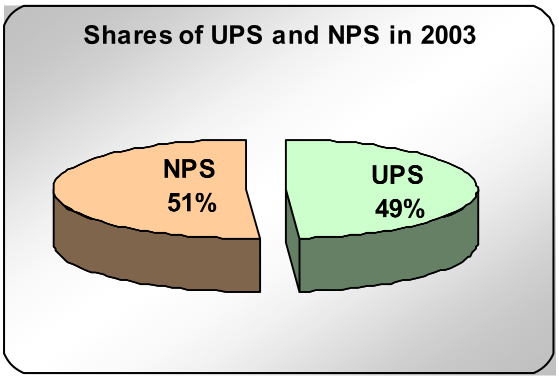


Source: *Data submitted to CRC*

Figure 96

In the recent three years, a tendency of consistent annual growth of about 23% has established on the postal services market. The growth is due to the constant increase of revenues gained from the provision of NPS. Since 2003, the NPS revenue growth outstrips those of UPS. For comparison: in 2003 and 2004 the licensed operator and the registered operators accounted for almost equal shares of the total market, with a slight advantage for

NPS. For the past year 2005, the ratio between NPS and UPS in the total volume is already 1,5 to 1.



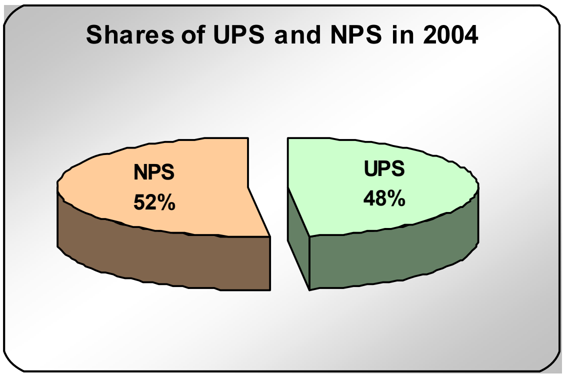


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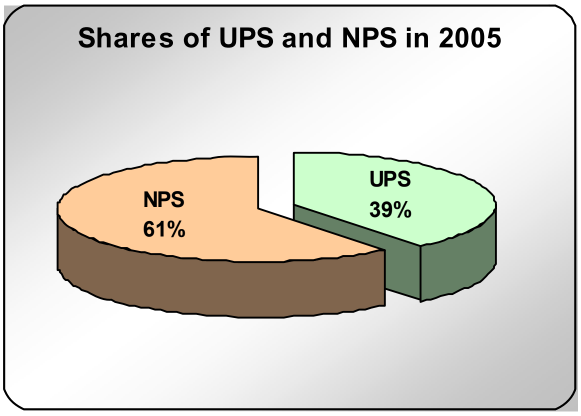
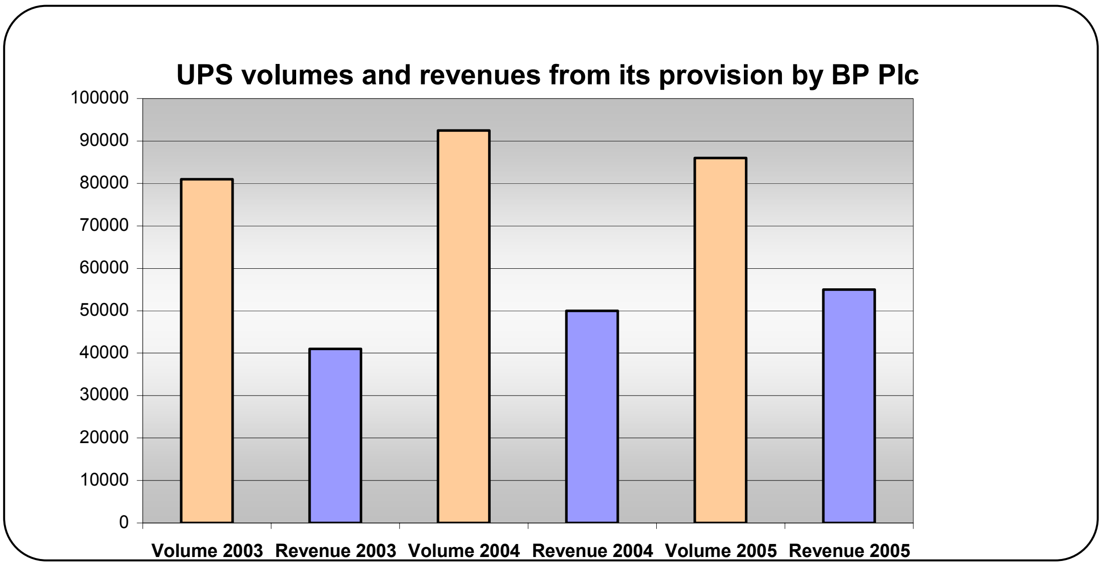
Figure 97 **Figure 98**



Source: *Data submitted to CRC*

Figure 99

The main trends in the internal postal market development during the last three years have had an effect over the market share of the principal postal operator. In 2003 and 2004 BULGARIAN POSTS EAD (BP EAD) managed to keep its share of around 50%, while within the two years the operator has increased its revenues by 23%. During the last 2005 the revenues of the principal postal operator from provision of postal services have grown insignificantly compared to 2004 and as a result of the high growth rate of the revenues on the NPS market, the market share of BP EAD has decreased to 42% of the total market.



Source: *Data submitted to CRC*

Figure 100

During the last year CRC continued to fulfill and apply effective regulatory policy in the area of postal services and at its regular meetings adopted the following important decisions:

- Amended Standards for determination of the density of the localities for access to postal networks of UPS operators;
- Amended Measures for protection of the privacy of correspondence;
- Adopted list of the settlements located in remote areas, part of the BP EAD network;
- Issued two individual licenses for provision of part of the universal postal service – postal money transfers;
- Approved the closedown of 19 and the opening of 2 postal offices, denied to approve the closedown of 12 postal offices of BP EAD;
- Registered 15 operators and issued four authorizations for changes in the identification data of operators providing non-universal postal services;
- Adopted report in the field of postal services;
- Adopted, registered and erased over 1655 postal seals of operators of UPS;
- Approved General conditions of the contract with the consumers of FINANCE ENGINEERING AD;
- Approved the lists of positions of BP EAD and FINANCE ENGINEERING AD subject to obligatory insurance;
- Amended and supplemented the individual license of BP EAD;
- Adopted expert reports on the accounted deficit from provision of the UPS under economically unfavorable conditions for the first, second and fourth trimesters of 2005;
- Approved the amount of the deficit from provision of UPS for 2006 presented by BP AD;
- Defined the value of the correcting index under Art. 7, Para. 2 of the Methodology on determination of the affordability of the UPS;
- Approved the change in the prices of the UPS of the principal postal operator BP EAD.

With regard to the implementation of its control functions, CRC has conducted 41 inspections of the UPS provision by the principal postal operator. One statement was drawn up against BP EAD. Twelve operators authorized for the provision of NPS were inspected for observance of the Postal Services Act provisions and 3 statements of establishment of administrative violations have been drawn up. During the year 8 statements were drawn up according to the violations established under the Administrative Violations and Sanctions Act. 16 complaints with regard to the application of the Postal Services Act were registered.

During the last year CRC experts continued their participation in the activities of the Technical Committee (TC 80) “Electronic exchange of data in the administration, trade and services” of the Bulgarian Standardization Institute (BSI). With regard to the accession of the Bulgaria to the European Union and the need for harmonization of the standards, 4 new standards in the field of postal services were elaborated. CRC participation in the “The role of standardization for the economic growth of united Europe” workshop organized by BSI and supported by TAIEX should be also noted.

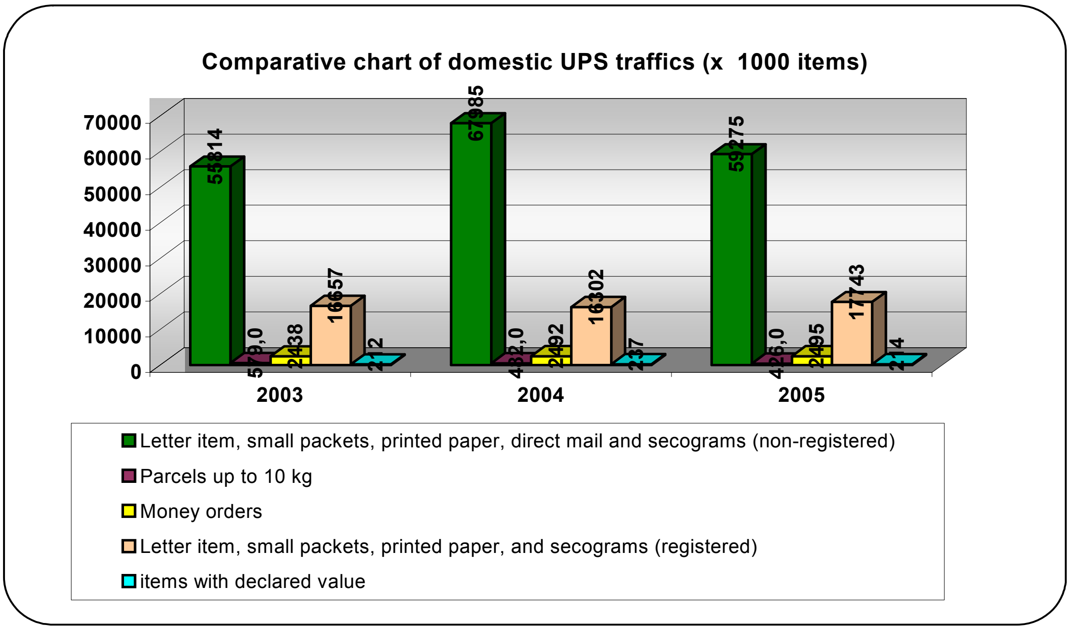
Experts in the postal services regulation took part in the activities of the “Best regulatory practices” Committee and the plenaries of CERP. The information and presentations provided in these forums, the opportunities for discussion and direct informal contact are of great use for the exploration of the best regulatory practices, the exchange of experience in practical solution of problems already occurred in the other countries, as well as in connection with the upcoming accession of Bulgaria to the European Union.

1. Provision of the universal postal service in 2005

In 2005 CRC licensed two new operators for provision of part of the UPS – postal money transfers and the number of licensed operators increased to four. During the analyzed period pat of the operators have not carried out activities and according to the provision of their licenses were building up their networks.

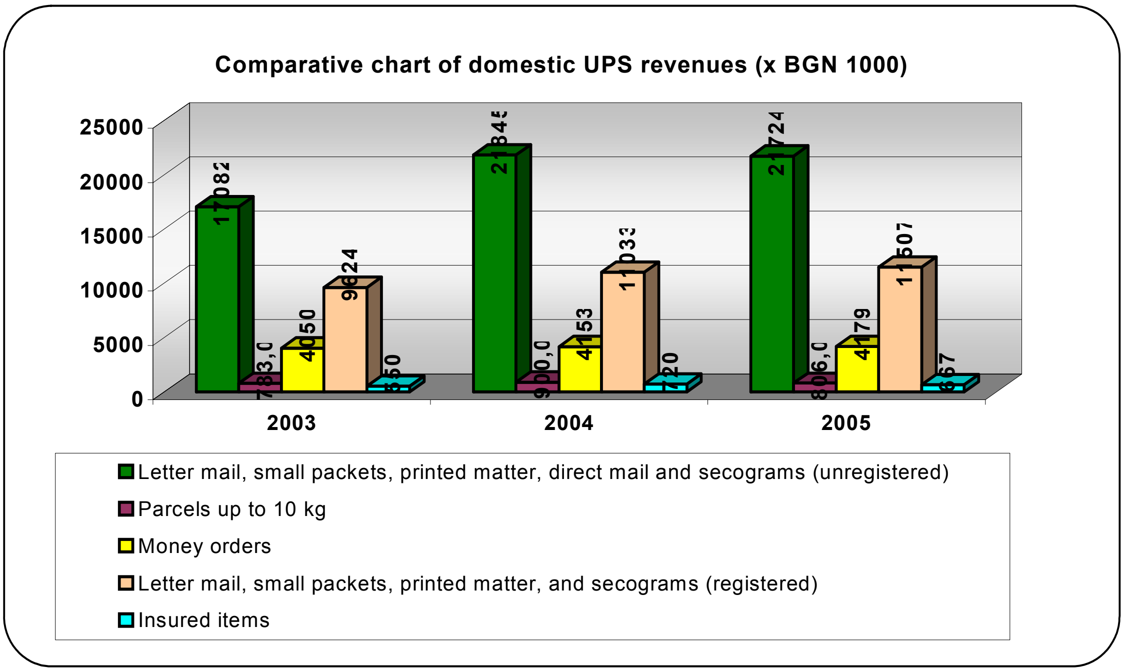
The grown number of licensed operator has lead to increased competition in the provision of the “postal money transfers” service. Only the principal postal operator provides the rest of the services from the range of the UPS.

Pursuant to § 6 Para. 1, item 1 and 2 from the Postal Services Act, by 31st December 2005 over the provision of services from the reserved sector of the UPS state monopoly is granted to BP EAD. Despite of the availability of reserved sector, during the last year slight reduction in the revenues realized from provision of UPS is observed, while the dynamics in the volumes and revenues from the various services from the range of the UPS for the country and abroad is different.



Source: *Data submitted to CRC*

Figure 101



Source: *Data submitted to CRC*

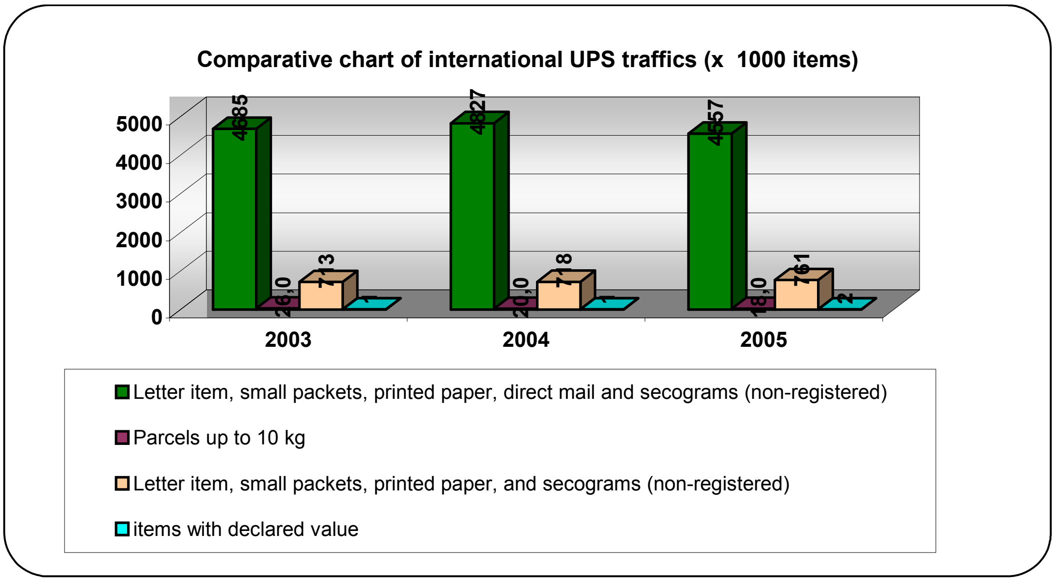
Figure 102

The parcels of the reserved sector (letter mail up to 350 grammes – non-registered and registered) represent 84,2 per cent of the volume and 89,0 percent of the revenues from the group of letter mail, small packets, printed matter and direct mail (non-registered and registered). Compared to 2004 the volumes decrease insignificantly by 0,2 percent, while the growth of the revenues from reserved services is 5,7 per cent.

Unlike 2004, the consumer demand for registered letter mail, printed matter and small packets for the country and abroad has grown. Significant growth in 2004 registers the offered "direct mail" universal service which gradually strengthens its positions on the postal market.

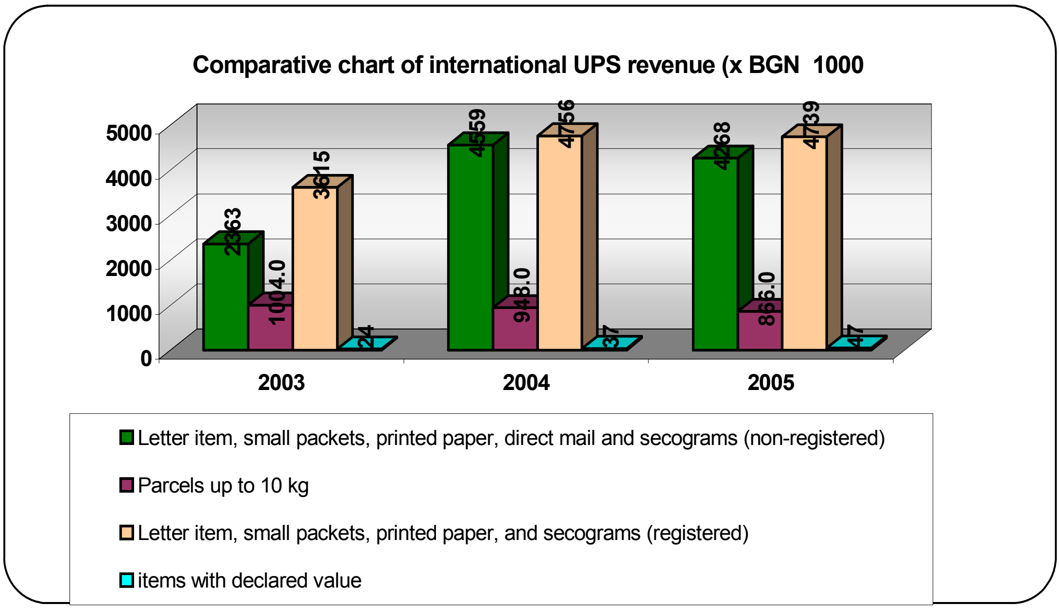
The greatest decrease in volumes – by 12,8% compared to 2004 is observed for the group of the mostly widespread parcels – non-registered letter mail, printed matter, direct mail and small packets for the country. The significant drop is due to the decreased volumes provided by big clients. The revenues from the services included the group register insignificant decrease of 0,6%. The trend towards smaller volumes and less revenues from the parcels persists.

The highlighted trends of fluctuations in the groups of services from the range of the UPS are valid for the provision of UPS for abroad as well: the volumes of non-registered letter mail, printed matter, direct mail and small packets decrease respectively by 5,6% in terms of volumes and by 6,4% in terms of revenues compared to 2004. The consumption of parcels decrease by 10%, while the revenues generated from their provision – by 8,6%.



Source: *Data submitted to CRC*

Figure 103



Source: *Data submitted to CRC*

Figure 104

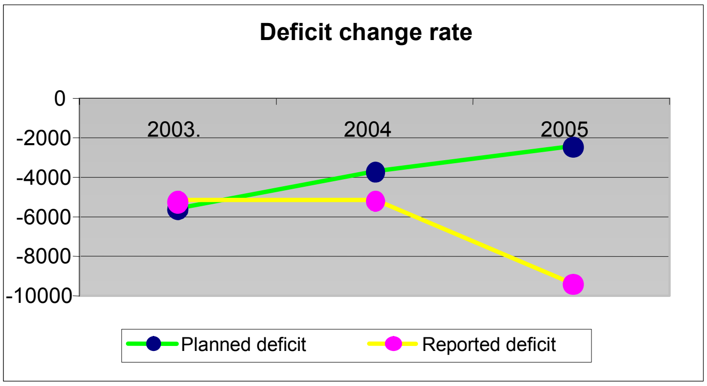
The demand for the “international money transfers” service in the country is kept. Services for outgoing international postal money transfers are not provided on the Bulgarian postal market. The postal operators in most of the EU countries provide this type of services and are able to offer a very competitive price of the “international money transfers” service. The principal postal operator in our country has a significant, not realized by now opportunity to increase its revenues from postal transfers to and from abroad.

In 2005 the “postal money transfers” service in the country is offered by one more licensed operator, while the traffic and the revenues generated by the provision of the services are not changed as a whole and do not register any significant growth.

The share of the revenues from postal money transfers within the total revenues from universal postal service is only 9%.

According to the provisions of the issued individual license, BP EAD is obliged to provide universal postal service through its postal network on the territory of the whole country, including under economically unprofitable conditions, pursuant to the provisions of Art. 23a, Art. 29 and Art. 29a of the Postal Services Act. The operator receives compensation from the state budget for the deficit from the provision of UPS, proved to CRC and approved by it under the above mentioned conditions. CRC approved the prognostic value of the deficit from provision of UPS for 2006, amounting to 5 305 thousands BGN (five million three hundred and five thousands BGN).

In 2003 and 2004 the reported values of the deficit from provision of UPS are almost equal to the prognostic values approved by CRC. In the last 2005 discrepancy is observed in the reported and prognostic deficit values. The operator has foreseen decrease in the value of the deficit for the analyzed period, but the reported value of the deficit from provision of UPS amounts to 9 373 thousand BGN, which is by 82% more compared to 2004.



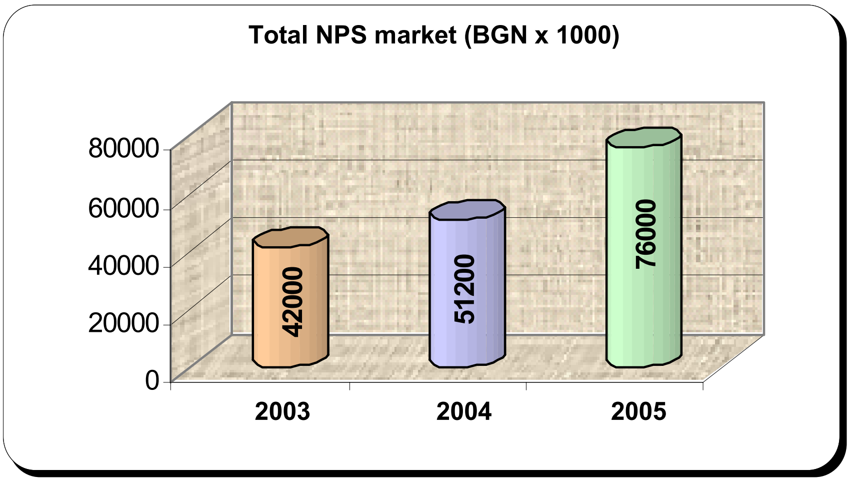
Source: *Data submitted to CRC*

Figure 105

2. Provision of non-universal postal services in 2005

In 2005 the market of NPS continued to grow. The positive trend in the development of this postal sector is due to the increasing number of operators providing NPS and the stable growth in the volumes of processed postal parcels and the revenues generated through its provision. For one year 15 new operators have appeared on the market of NPS and at the end of 2005 their number reached 51. The strong market dynamics push the operators towards constant investment and procedure modernization. The investment of technological importance made in the sector has increased twice more in comparison to 2004.

The NPS market volume for last year, calculated as expert estimation on the basis of data submitted by 94% of the registered operators as of end of last year is approaching 76 million BGN. During the last three years the NPS market shows increasing growth rates on annual basis. For comparison, the NPS market in 2004 compared to 2003 has increased by 22%, and in 2005 compared to 2004 the provision of NPS has grown by 48%.



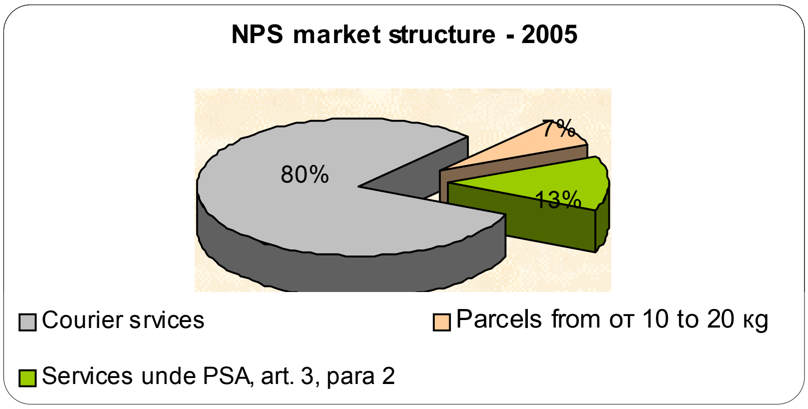
Source: *Data submitted to CRC*

Figure 106

The total number of processed postal parcels of registered operators has also increased during the observed period. Between 2003 and 2004 almost double increase of postal parcels was registered, while during the last year, compared to 2004, their number has grown 7 times.

The NPS market growth is increasing the competition with regard to the most attractive services for the operators. This process pushes the market players towards attacking new market segments and enlargement of the scope of provided services.

In 2005 still the greater part of the registered operators have directed their activities in the filed of courier services but uplift was observed also in the provision of "hybrid post". With regard to this, dynamics in the NPS market structure were observed.



Source: *Data submitted to CRC*

Figure 107

Greatest relative share in the total amount of revenues realized from provision of NPS (like in 2004) keep the courier services, while within the two years the revenues from these services have increased by 42%. Despite of the existing trend of growth, the share of courier services in the total NPS market has decreased from 86% in 2004 to 80% in 2005. This drop to great extent is due to the fast development rates of the "hybrid post" service by now. The revenues generated from services under Art. 3, Para. 2 of the Postal Services Act – "receipt of messages submitted in physical or electronic form by the sender, their transmission though telecommunications means and deliver of these messages to the addressee as postal parcels", to which belong the "hybrid post" service, have increased almost 27 times. The share of these services in the total NPS volume has grown from 1% in 2004 to 13% in 2005. Drop of 20% in the revenues from provision of the service “parcels from 10 kg to 20 kg” is observed during the period, while the share of these services in the total market volume has also decreased from 12% in 2004 to 7% in 2005.

The progressively increasing number of registered operators, the growing NPS market volume, as well as the forecasts of the active operators describe the market in long-term perspective as stable growing and attractive. The fact that over 70% of the active operators providing NPS plan investment of technological importance for 2006 is indicative for the future expectations of the market players. In order to gain new market positions and to respond to the consumer demand, the courier companies plan higher quality of the provided services, enlargement of the geographical coverage and network extension through conclusion of agreements between them or expansion of the range of NPS services provided.