# A N N U A L   R E P O R T

## OF

## THE COMMUNICATIONS REGULATION COMMISSION FOR 2012

## *ANALYSIS OF THE POSTAL SERVICES MARKET FOR 2012*

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## I. State of the Bulgarian postal market

The last decade witnessed a rapid growth of electronic communications favoured by the mass penetration of Internet and mobile telephony. An increasing number of individual users, firms and organizations are using electronic mail and the growing in popularity social networks. The high speed and easy access to electronic communications, as well as their decreasing rate, make them a preferred means of communication from a distance for a growing number of the population. Meanwhile, the classical sector in the sphere of communications, such as postal services, remains aside from the universal trend and registers a decline in its activity. In Bulgaria, the overall reduced consumer demand and, respectively, the poor economic growth (0.8% growth of the GDP for 2012) also has an effect. This is why one of the main objectives of Directive 2008/6/EC[1] is through the establishment of the single internal market of Community postal services and its liberalization, to facilitate the appearance of new players who will increase its volume and revive the sector by intensifying the competition, thus leading to the offer of new and innovative services. In this way, the postal services market must meet the new challenges and the changed client needs. In Bulgaria, the liberalization has been a fact for 2 years already.

### 1. Scope of the postal market and market players

The postal services market comprises two main categories of services - the universal postal service (UPS) and the non-universal postal services (NPS),

In accordance with Art. 34, Para 1 of the Postal Services Act (PSA), UPS include:

- acceptance, transport and delivery of domestic and international postal items, as follows: items of correspondence up to 2 kg; small packets up to 2 kg; printed matters up to 7 kg, and secogrammes up to 7 kg.
- acceptance, transport and delivery of domestic and international postal parcels - up to 20 kg;
- additional services “registered” and “declared value”.

In accordance with Art. 38 of PSA, NPS include:

- acceptance, transport and delivery of direct mail;
- acceptance of messages submitted in a physical or electronic form by the sender, processing and transmitting them by electronic means, and delivery of these messages to the addressee as postal items - the so called "hybrid mail";
- courier services;
- postal money orders.

In accordance with the degree of regulation they are subject to, postal services are provided based on licensing and notification regimes. In accordance with Art. 39 of PSA, three types of individual licenses are issued, namely: for performing UPS on the entire territory of the Republic of Bulgaria by an operator assigned with the obligation to perform this service; for performing services included in the scope of UPS; for performing the “postal money orders” service. The “hybrid mail”, direct mail

[1] Directive 2008/6 of the European Parliament and the Council of 20 February 2008 amending directive 96/97/EC with regard to the full accomplishment of the internal market of Community postal services

and courier services may be provided after the respective operator submits a notification to the Communications Regulation Commission.

All operators performing postal services are entered with special public registers after obtaining the relevant license or after submitting a notification.

In 2012, the number of postal operators was 118, as it grew by approximately 16%. As a whole, it is clear that it is most easy to access and leave the market for services provided in a notification regime, due to the relatively low expenses on starting the business and the absence of a license fee.

Observed also is a trend where passenger transportation companies submit notifications to CRC and, respectively, register as courier service operators. This is related with the increased control over bus operators concerning the unregulated carriage of items.

In 2012, CRC issued one individual license for provision of the “postal money orders” service. At the end of the year, 13 companies operate on the postal services market in the conditions of a licensing regime. These are as follows:

- “Bulgarian Posts” EAD, in the capacity of operator assigned by PSA with the obligation to perform UPS on the entire territory of the country;
- “Econt Express” OOD, “Tip Top Courier” AD, “M&BM Express” OOD, “Star Post” OOD, and “Terra Post Services” EOOD - for performing services within the scope of UPS;
- “Bulgarian Posts” EAD, “Econt Express” OOD, “Cash Office” AD, “Tip Top Courier” AD, “Factor I. N.” AD, “Finance Engineering” AD, “Cash Express Service” EOOD, “Terra Post Service” EOOD, “Toyota Tixim” EOOD, “EasyPay” AD, “M&BM Express” OOD, "Speedy" AD and “Telepaid Bulgaria” OOD – for performing the “postal money orders” service.

## 2. Volume and structure of the Bulgarian postal market

### 2.1 Volume of the postal market

In 2012, the volume of the Bulgarian postal market was estimated on the basis of data submitted by 81% of all licensed and registered operators in Bulgaria as of 31.12.2012. The development trends in the Bulgarian postal market volume measured by the number of postal items and services are displayed on Figure 1.

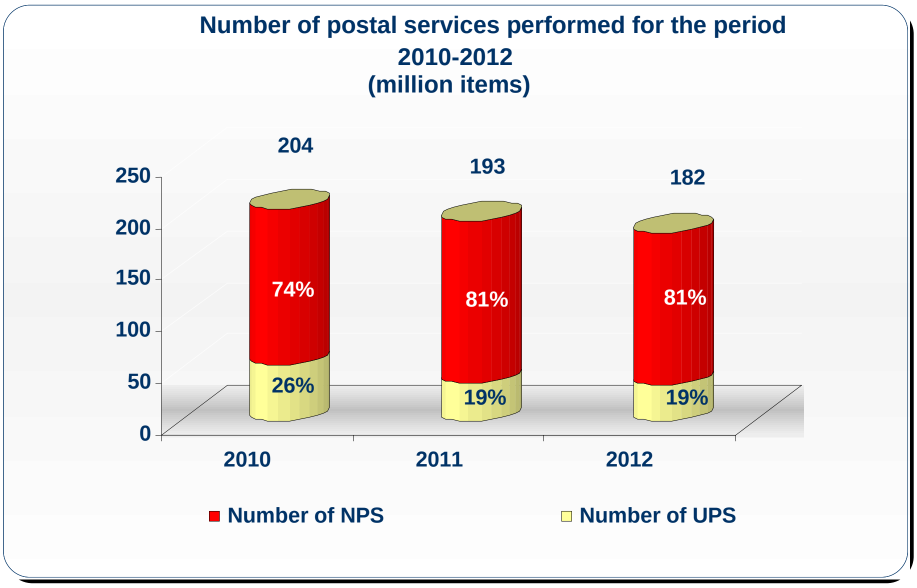



*Figure 1 Source: Data submitted to CRC*

The chart shows that there is a trend towards decrease of the number of postal items and services. In 2012, there is a decrease of approximately 6%, as compared to 2011. At the same time, the share of NPS in the total market volume remains unchanged - 81%.

An interesting trend is observed on Figure 2 which displays the postal market volume in Bulgaria in 2012, measured by the revenue generated from all postal services.

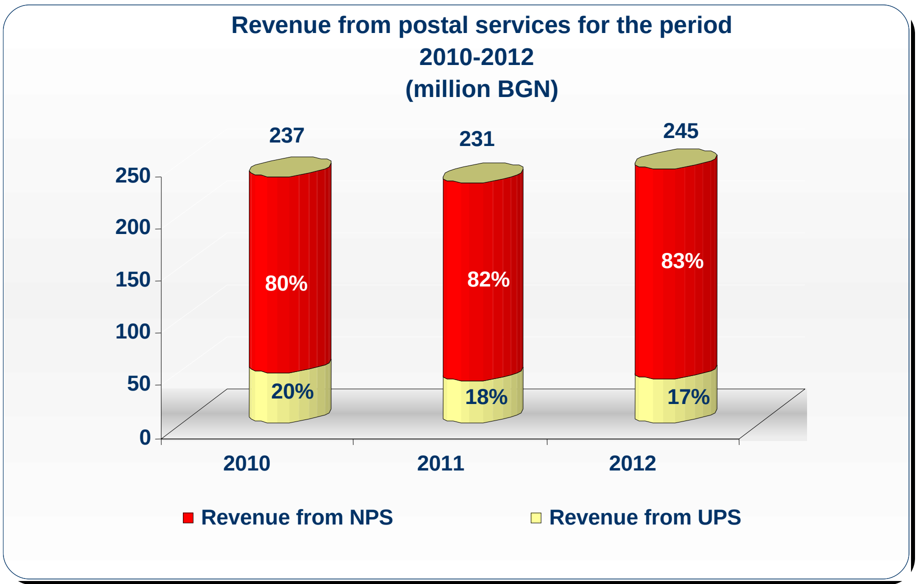



*Figure 2 Source: Data submitted to CRC*

The total amount of revenue generated from the provision of postal services in 2012 reached BGN 245 million which shows an increase of 6% since 2011. This growth is mostly due to the increased revenue from NPS. This is why a growth of one percentage point is also registered in their relative share of the total volume of revenue.

## 2.2. Structure of the postal market

Figure 3 displays data regarding the structure of revenue from postal services for the period 2010-2012.

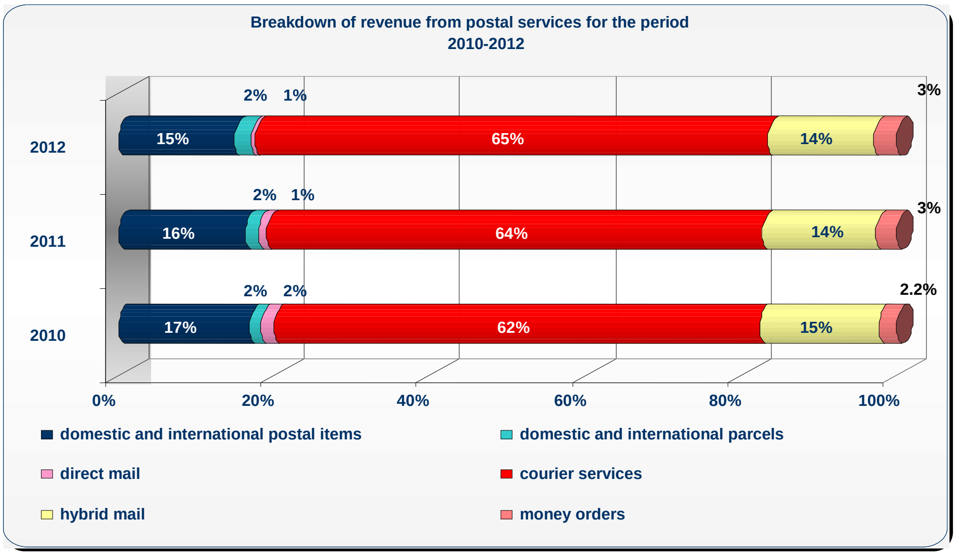



***Figure 3 Source: Data submitted to CRC***

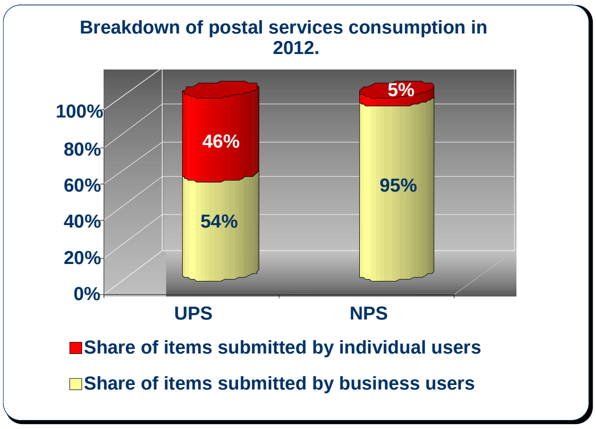
It is clear that the relative shares of the different types of services remain almost unchanged for a three-year period. Courier services formed over 60% of the total amount of revenue from postal services on an annual basis. In 2012, the share of revenue from these services formed 65% of the total volume, which represents a growth of 1 percentage point, as compared to 2011. Courier services show a decline in the number of items, yet they register a growth in revenue earned.

The "Postal items" segment lost one percentage point of its relative share in the total volume of revenue in the sector. In 2012, compared to 2011, revenue in this segment decreased by 2.4%, and the number of submitted items dropped by 8%, which is a manifestation of the global trend towards a continuing decline in the segment.

The relative share in the total volume of revenue remains unchanged for the remaining types of postal services, namely:

- revenue from the “hybrid mail” services remained at 14%, as they registered a drop for another consecutive year in both the number (-1,7%) and the revenue generated from the service (-6%);
- the "postal money order" service preserved its relative share of 3%;
- the share of parcels up to 20 kg remained at 2%;
- the smallest share of 1% of revenue on the market was still held by the direct mail.

Figure 4 and Figure 5 display the breakdown of postal services consumption in 2012 as compared to 2011.



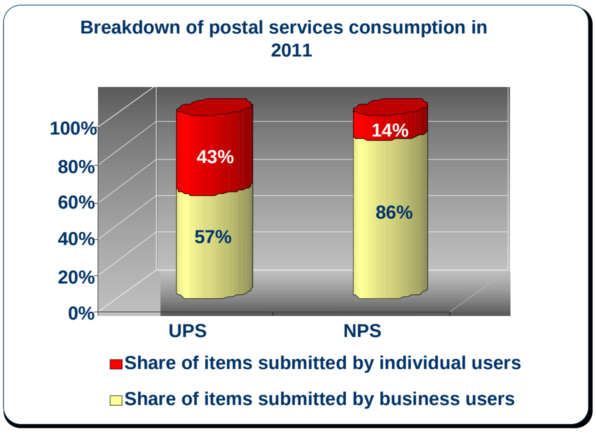
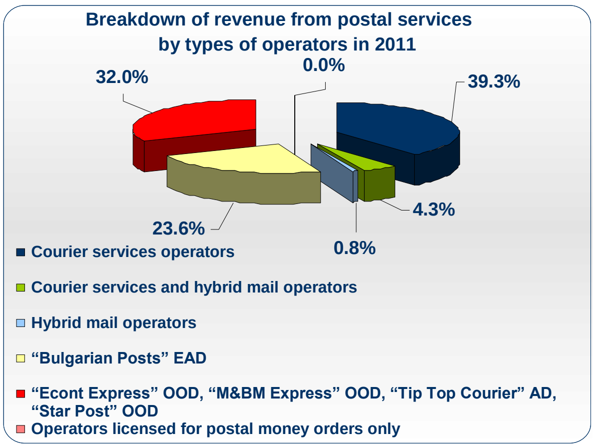




***Figure 4 and Figure 5 Source: Data submitted to CRC***

It should be noted that according to the data submitted by operators, courier services, which hold the largest share in NPS, are exclusively used by business users, as in 2012 the share of the latter grew to 95%. One of the main reasons for this big share is the increase of on-line commerce. The number of items submitted by individual and business users is distributed almost evenly as a relative share of UPS, as the share of business in 2012 dropped by three percentage points for a one-year period.

Figure 6 and Figure 7 display the breakdown of revenue from postal services in 2011 and 2012.



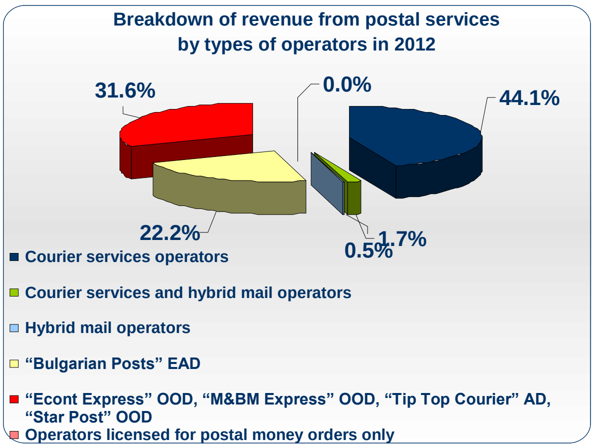




***Figure 6 and Figure 7 Source: Data submitted to CRC***

In 2012, compared to 2011, no significant changes are observed in the relative shares of revenue by the different types of postal operators.

The greatest change was reported in operators providing courier services only, as their relative share reached 44% following the decline registered the year before.

The share of operators "Econt Express" OOD, "M&BM Express" OOD, "Tip Top Courier" AD and "Star Post' OOD licensed to perform services within the scope of UPS, yet they also provide NPS, dropped by nearly half percentage point, even though the revenue of the group grew in an absolute value. As a whole, the standard earnings of the above operators are around 13%.

The share of "Bulgarian Posts" EAD also shrinks by approximately one percentage point. Operators providing both courier and "hybrid mail" services lose 2.6 percentage points due to the decrease in revenue from "hybrid mail".

Figure 8 and Figure 9 present the breakdown of revenue of postal operators by types of postal services.

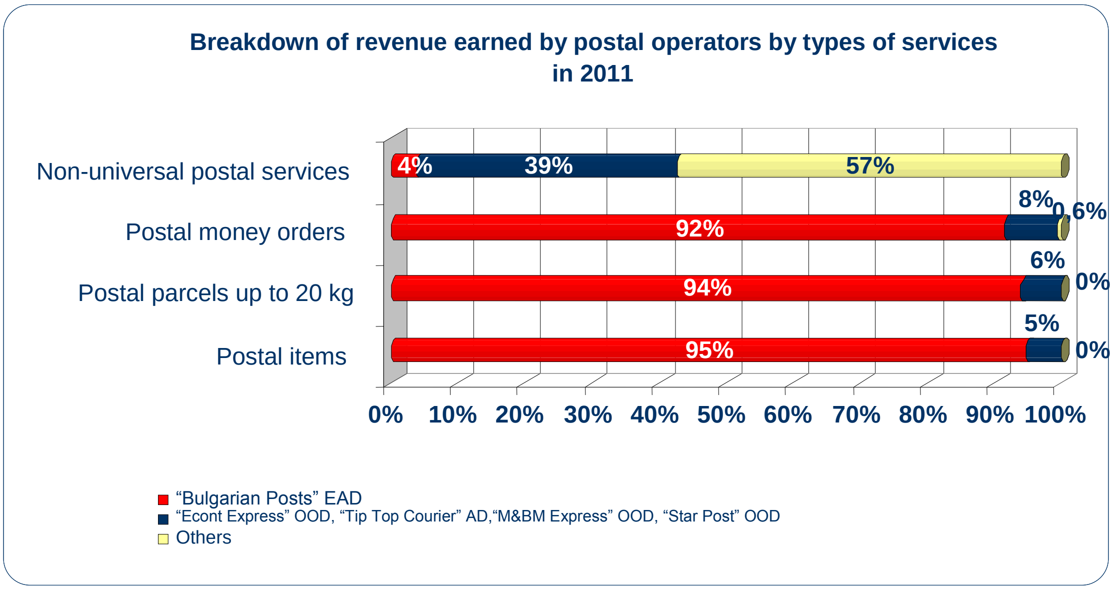



*Figure 8 Source: Data submitted to CRC*

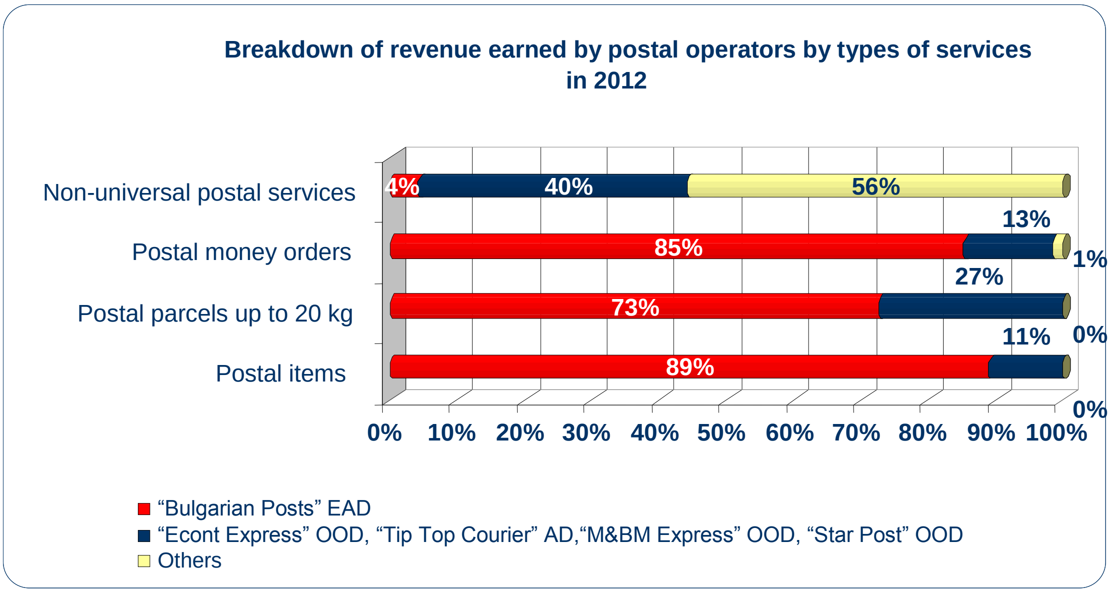



*Figure 9 Source: Data submitted to CRC*

Unlike 2011, which was the first year of UPS market liberalization, the more active work of operators licensed to provide services within the scope of UPS was clearly noted in 2012. "Bulgarian Posts" EAD retained its leading position, yet it lost a serious share in the segment of postal parcels up to 20 kg with a drop of 21 percentage points. The decrease in the postal items was by 6 percentage points. The main operator of the non-universal postal service "postal money order" also loses positions. Still, the company continued to be the main player in these three types of services and holds the largest share of revenue earned.

In NPS, the proportion of shares remains almost unchanged, as "Bulgarian Posts" EAD continued to receive 4% of the revenue on the market. The four big operators licensed to provide UPS - "Econt Express" OOD, "Tip Top Courier" AD, "M&BM Express" OOD and "Star Post OOD" hold a share of 40%.

The picture on the postal services market in 2012 reflects the global trend towards a gradual reduction of the UPS role at the expense of the continuing development of NPS. As a whole, the postal sector is intensively influenced by the development of new technology and Internet, and will have to find its niche in the fast changing reality.

## II. Provision of the universal postal service

### 1. Performance of UPS

According to data submitted to CRC in 2012, apart from “Bulgarian Posts” EAD (operator obligated to perform UPS), services within the scope of UPS were also performed by the postal operators “M&BM Express” OOD, “Econt Express” OOD, “Tip Top Courier” AD and “Star Post” OOD. In the past year, the total number of domestic and international items and services within the scope of UPS was approximately 34 million, and generated revenue – BGN 42 million, as 89% of the revenue was formed by "Bulgarian Posts" EAD.

The trend formed in the previous years towards decrease in the number of items and services within the scope of UPS was preserved in this reporting period as well. Compared to 2011, the reported number of items and services in 2012 was down by 7%. The trend towards decrease of UPS is observed not only on the Bulgarian postal market, but also at a global scale, since the demand for traditional postal services continues to decline at the expense of penetration of services based on Internet technology. Services within the scope of UPS made up 19% of the total number of items and 17% of the total revenue from the entire postal market. The operator obligated to perform UPS formed 86% of the number of items and 89% of the revenue generated from UPS.

Postal items are classified in terms of speed of delivery of items (“priority/non-priority” items) and on the basis of their contents: items of correspondence, small packets and printed matters. In addition to some types of items and parcels, “registered” and “declared value” services are also offered as additional services. Postal parcels may be ordinary or with “declared value”.

For analysis purposes, the services included in the scope of UPS pursuant to Art. 34 of PSA are provisionally divided in two groups - postal items (items of correspondence up to 2 kg, small packets up to 2 kg, and printed matters up to 5 kg) and postal parcels up to 20 kg.

### 1.1. Domestic postal items

In the past year 2012, the total number of domestic postal items was around 30 million items, and revenue generated from them was approximately BGN 24 million. When compared to 2011, a decrease of 9% was registered in the number of items, and 8% in earned revenue.

Figure 10 displays data regarding revenue from domestic postal items, for the period 2010 - 2012.

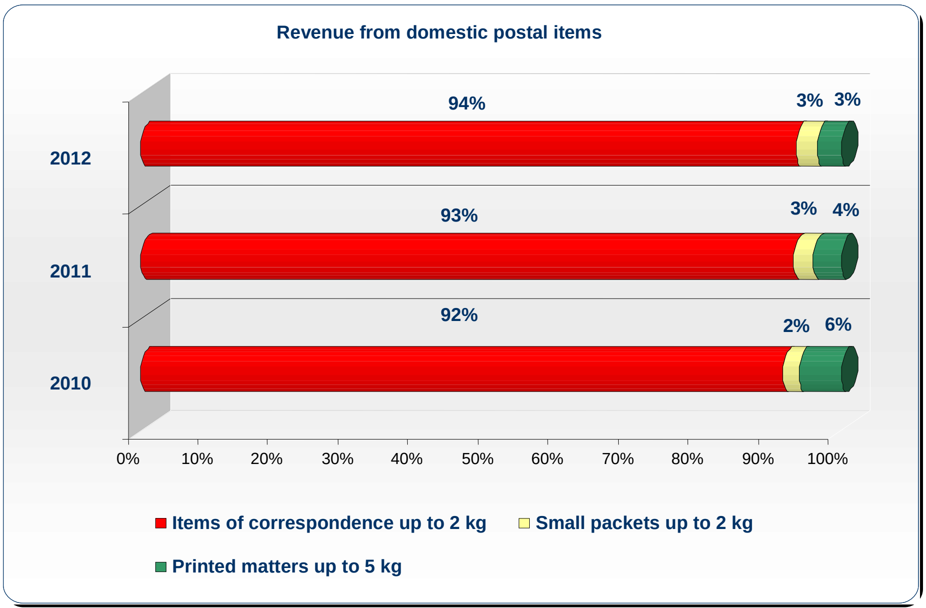



***Figure 10 Source: Data submitted to CRC***

The data in the chart reveal that revenue from postal items is mainly formed from the provision of the "items of correspondence up to 2 kg" service ("priority/non-priority"). These items make up over 90% of revenue from domestic postal items on an annual basis. In 2012, when compared to 2011, the share of revenue from items of correspondence up to 2 kg grew by 1 percentage point. In 2012, it was mainly generated from submitted registered non-priority items of correspondence. Revenue from printed matters up to 5 kg and small packets up to 2 kg occupied the remaining percentage.

The incumbent postal operator reported an overall reduction in the revenue from the provision of postal items in 2012 against 2011 - by approximately 12% from items of correspondence up to 2 kg, 22% from printed matters, 5% and 28% from small packets up to 2 kg, respectively. The observed reduction in revenue of "Bulgarian Posts" EAD is mainly due to the UPS market redistribution. As a result, "Econt Express" OOD and "Tip Top Courier" AD reported doubled revenue from items of correspondence up to 2 kg, as compared to the previous reporting period. An increase of approximately 50% in the revenue from such items was reported by "M&BM Express" OOD. "Star Post" OOD retained its last-year level of reported revenue from the provision of items of correspondence up to 2 kg.

In 2012, the revenue of "Econt Express" OOD earned from small packets up to 2 kg was three times more than that of 2011. Nearly the same increase in revenue from this service was reported by "M&BM Express" OOD. In 2012, "Tip Top Courier" AD generated seven times more revenue from sale of small packets up to 2 kg. In terms of printed matters up to 5 kg, "M&BM Express" OOD and "Tip Top Courier" AD reported a growth in revenue of 1.2 times. In 2012, "Econt Express" OOD earned 6% less revenue from printed matters up to 5 kg, compared to the previous reporting period.

Figure 11 below displays the breakdown of revenue from domestic postal items by the speed of acceptance, transport and delivery of items ("priority/non-priority" items).

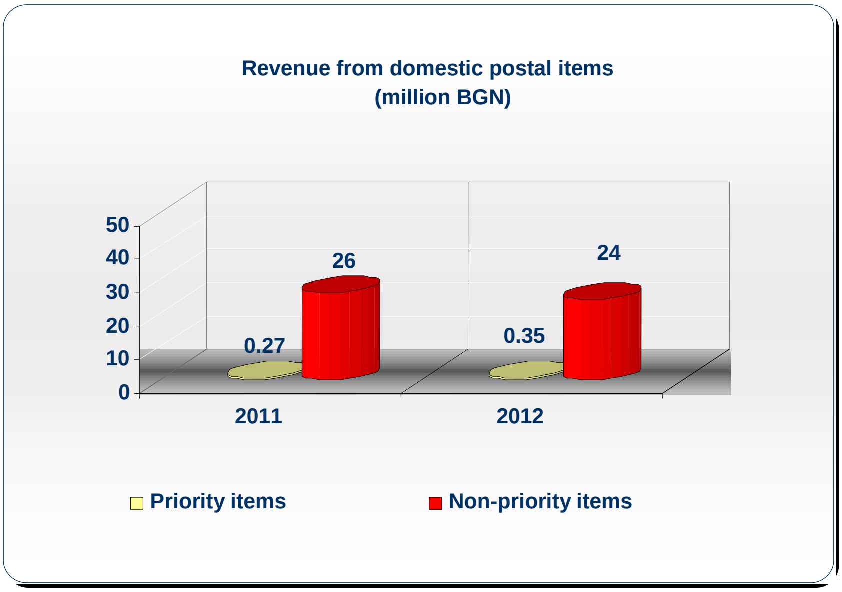



*Figure 11 Source: Data submitted to CRC*

The data on the figure show that, as compared to 2011, a growth of 30% is observed in the reported revenue from priority items in this reporting period, whereas revenue from non-priority items was down by 8%. The increased revenue from priority items is mostly due to the increased revenue from priority items of correspondence up to 2 kg (up by 33%) and priority printed matters up to 5 kg (up by 21%). The priority small packets register a drop of 27%.

## 1.2. International postal items

In the past year 2012, the total number of outgoing priority/non-priority international items was around 3.8 million items, and revenue generated from them was BGN 12 million. Outgoing international items made up 11% of the total number and 29% of the total revenue from UPS. These are mainly items and revenue reported by the incumbent postal operator “Bulgarian Posts” EAD. The remaining operators, “M&BM Express” OOD and “Tip Top Courier” AD provided international services, yet the revenue they reported was only around 2% of the entire revenue for abroad.

Figure 12 displays data regarding revenue from international postal items, for the period 2011 - 2012.

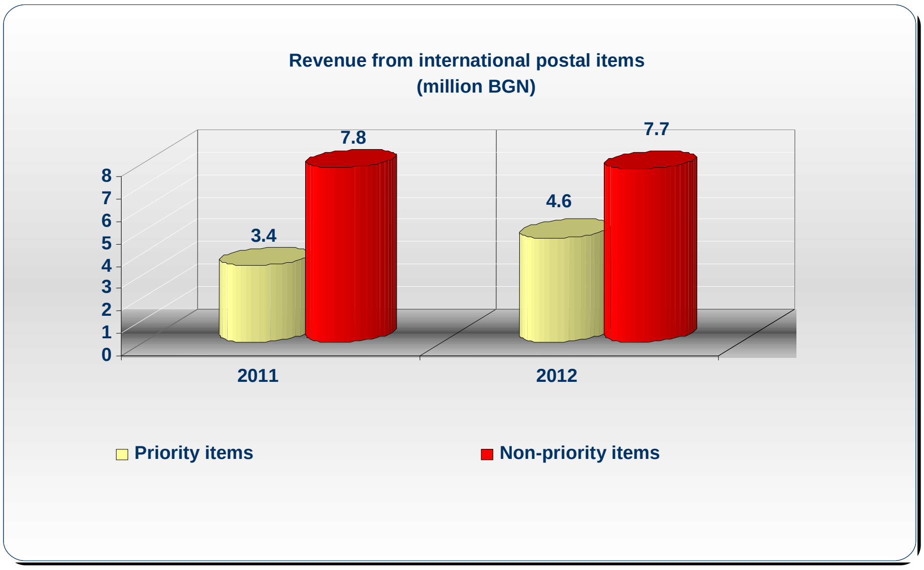



***Figure 12 Source: Data submitted to CRC***

The chart shows that in the past year, compared to 2011, revenue from international priority items was up by approximately 36%, while that from non-priority items remained almost unchanged.

## 1.3. Domestic postal parcels

In 2012, the reported revenue from postal parcels up to 20 kg for the country registered a growth of approximately 48% since the year before.

"Bulgarian Posts" EAD reported a decrease in both the number and revenue from postal parcels up to 20 kg without declared value of 15% and 17%, respectively. The decline in this type of items, reported by the incumbent postal operator, is mainly compensated by the increased revenue of "Econt Express" OOD which grew nearly six times.

Figure 13 displays the breakdown of revenue from postal parcels for the country "with/without declared value".

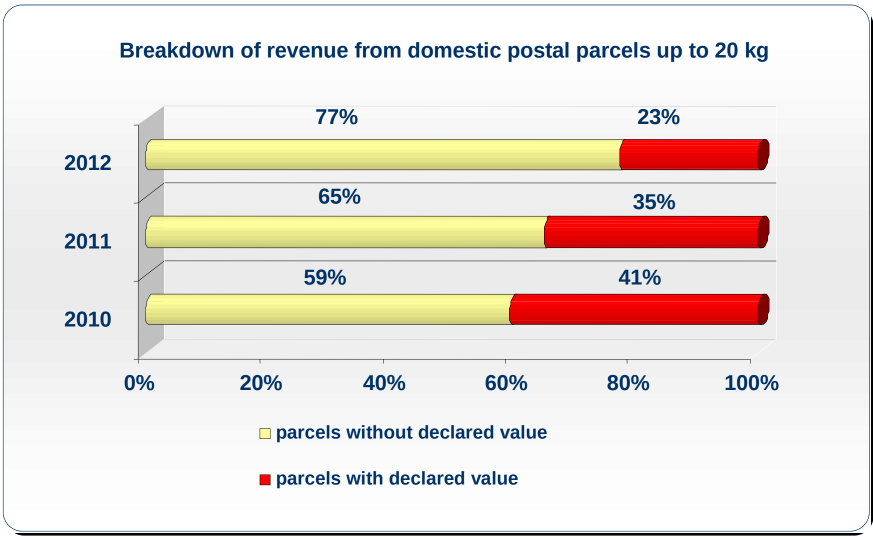



***Figure 13 Source: Data submitted to CRC***

As the data clearly show, parcels without declared value formed the greater part of the annual revenue from this service. Their relative share increased, as in 2012, compared to 2011, it was up by 12 percentage points. In the past year, compared to 2011, revenue from postal parcels without declared value grew by approximately 75%, while revenue from parcels with declared value were down by 4%.

## 1.4. International postal parcels

The reported international postal parcels are submitted mainly by "Bulgarian Posts" EAD. "Tip Top Courier" AD was the only one to report revenue from this service, but their share was below 1%. When compared to 2011, revenue from international postal parcels grew by 16% in 2012.

Figure 14 below displays data regarding the breakdown of revenue from international postal parcels up to 31.5 kg, for the period 2010 - 2012.

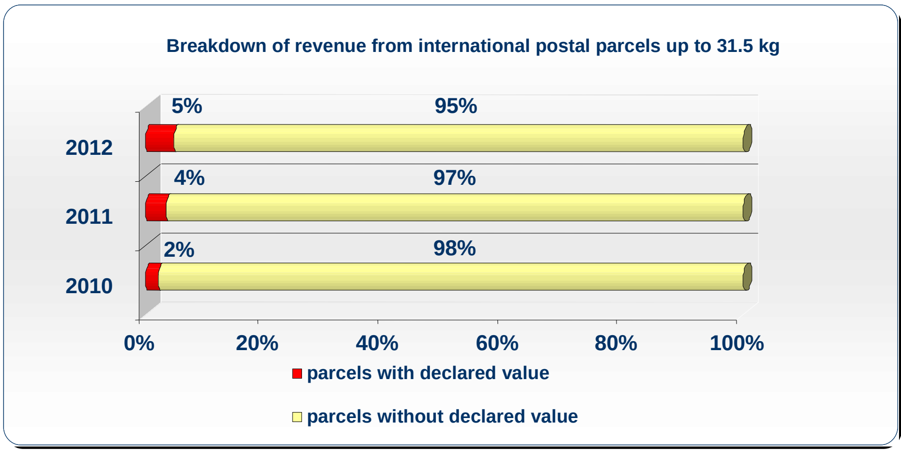



***Figure 14 Source: Data submitted to CRC***

As the chart clearly shows, parcels without declared value formed over 95% of the annual revenue from this service. Their relative share in 2012, compared to 2011, decreased by 2 percentage points. Compared to 2011, revenue from postal parcels without declared value grew by 15%, and revenue from parcels with declared value was up by 59%.

## 2. Users of services included in the scope of UPS

According to data submitted by "Bulgarian Posts" EAD, in 2012, the amount of postal items submitted by business users were almost equal to the amount submitted by individual clients of the company. Compared to the preceding year 2011, this ratio changed towards a decrease in the share of business users at the expense of individual ones. “M&BM Express” OOD reported almost 100% consumption by business clients.

The chart below displays the consumption of UPS for the country and abroad by business clients of “Bulgarian Posts” EAD in 2012.

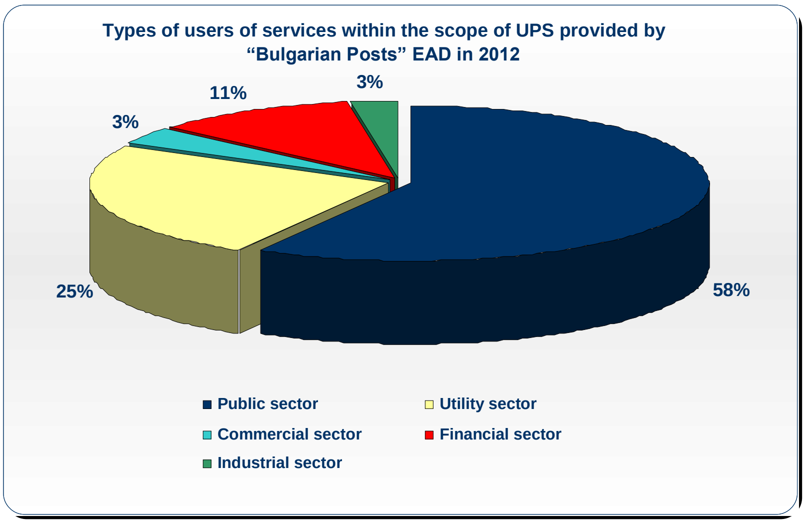



***Figure 15 Source: Data submitted to CRC***

Users are provisionally grouped in sectors according to the clients' line of business. As the chart clearly shows, with highest consumption of postal items and parcels is the public sector - 58%. This sector includes ministries, municipalities, insurance companies, agencies, etc. Second in terms of share with 25% come clients providing utility services - utility sector, such as water supply and sewerage, electric power and telecommunication companies, etc. Users from the financial sector, banks and other financial institutions occupy a share of 11% of the total number of postal items and parcels sent. The remaining 6% are equally divided between clients of industrial and commercial sector.

### 3. Unfair financial burden for the UPS provider

Pursuant to the provision of Art. 29 of PSA, the incumbent postal operator is compensated from the state budget when the obligation to perform UPS incurs net costs and represents an unfair financial burden for it. The volume of the unfair burden is determined based on net costs for performing UPS which are calculated as per the Method for calculation of net costs from performing UPS adopted by the Council of Ministers by Decree No. 199/11.07.2011.

In accordance with the Method, net costs for the obligation to perform UPS are calculated as the difference between net costs of the incumbent operator incurred during its work with obligation to perform UPS and during its work without obligation to perform UPS. The net costs for the obligation to perform UPS include each expense related to and necessary for the activities concerning its performance, while taking into account all other relative elements. The relative elements taken into account by the incumbent operator when calculating the net costs are the intangible benefits accumulated for this operator and the promotion of cost efficiency.

In compliance with the requirements of Art. 29a of PSA, the incumbent operator submits to CRC an application to be compensated for the unfair financial burden from performing UPS in the preceding year, along with the necessary proofs, up to 31 May of the current year. The application contains the amount of requested compensation for the unfair financial burden, as determined in accordance with the Method for calculation of net costs from performing UPS. The documents pertaining to calculation of net costs are inspected by an auditor appointed by CRC.

In 2012, "Bulgarian Posts" EAD, in its capacity of incumbent operator, filed an application for compensation of the unfair financial burden from performing UPS in 2011. The requested compensation was in the amount of BGN 22.750 million.

In this regard, CRC organized a procedure for assigning public procurement for: "Audit of the submitted documents related to the calculation of net costs from the provision of the universal postal service for 2011", and "Deloitte Audit" OOD was selected as contractor. The audit was carried out in two phases:

- Verification of the cost allocation system by types of services in 2011;
- Verification and assessment of the conformity between the calculated net costs from performing UPS in 2011 and the Method.

- After the audit, "Deloitte Audit" OOD confirmed that the "net costs from performing the universal postal service in the amount of BGN 28.068 million, adjusted with the cash equivalents of intangible benefits in the amount of BGN 2.887 million, and the efficiency incentives in the amount of BGN 2.431 million, respectively, the requested compensation for the incurred unfair financial burden in the amount of BGN 22.750 million, have been properly determined."

On its part, CRC carried out an analysis of the financial and economic state of the operator, and based on the data, it was established as follows:

- The share of the unfair financial burden represents 48% of the total amount of revenue earned by "Bulgarian Posts" EAD from performing UPS in 2011;
- The balance from financial estimates with foreign administrations (payments with foreign postal administrations) was down by 36% for the period 2009 - 2011. In 2009 and 2010, when taking into account the positive balance, the result of "Bulgarian Posts" EAD from UPS was positive. In 2011, "Bulgarian

Posts" EAD reported a loss from UPS after deducting the balance from payments with foreign postal administrations.

- The market share of "Bulgarian Posts" EAD in the UPS market remains unchanged - 95% for the period 2009 - 2011.

Regardless of the retained market share of the undertaking at an exceptionally high level, the amount of net costs, compared to the total revenue of the company and the financial result of the company, suggest presence of unfair financial burden for the operator in 2011.

Based on the analysis of submitted documents and findings of the independent auditor, with its Decision No. 2224 of 19.12.2012, CRC determined a compensation payable to "Bulgarian Posts" EAD for the provision of UPS in 2011, in the amount of BGN 22.75 million.

In 2012, "Bulgarian Posts" EAD reported a loss from performing UPS in the amount of BGN 17.76 million.

The negative result is formed from BGN 37.14 million revenue, BGN 55.2 million expenses, adjusted with the positive balance from financial estimates with foreign postal administrations in the amount of BGN 0.300 million.

In 2012, as compared to 2011, the operator generated 5% less revenue, and the costs for performing UPS were down by 4% for the same period.

Compared to 2011, the loss of the operator in 2012 increased by 7%. According to data of the operator, the deteriorated financial result in 2012, compared to 2011, is due to:

- a considerable decrease of the balance from international estimates with foreign administrations, as their size in the reporting period was nearly 6 times lower than the one in the preceding year.
- the reduced consumption of postal services as a result of the unstable economic situation;
- the falling-off of volumes of items submitted by big clients of the operator.

In compliance with Art. 12, Para 1 of the Method, the incumbent operator filed an application to be compensated for the unfair financial burden from performing UPS in 2012.

## III. Provision of the non-universal postal services

### 1. Scope of the NPS market

Te following services are included in the scope of NPS:

- courier services;
- acceptance of messages submitted in a physical or electronic form by the sender, transmitting them by electronic communications means, and delivery of these messages to the addressee as postal items (the so called *hybrid mail*);
- direct mail;
- postal money orders.

Courier services "hybrid mail" and "direct mail" are provided based on notification regime, while "postal money orders" are provided based on licensing regime.

In this regard, the development of the "postal money orders" service, although it is within the scope of NPS, is reviewed separately in this report and is not included in the calculation of the total amount of revenue and items from performing NPS.

In 2012, the number of registered postal operators providing courier services, "hybrid mail" and "direct mail" services reached 112, and CRC registered 19 new operators and deleted seven from the Register of operators providing NPS. The number of operators who declared that they have not been active during the past year, was 36, whereby the number of operators who actually performed NPS for 2012 was 56.

### 1.1. Volume and structure of the NPS market

The total number of processed postal items for 2012 was 142 million items, as it has dropped by 8% since 2011.

Courier services made up 15%, hybrid mail - 80%, and direct mail - 5% of the total amount of revenue generated from processed items.

In the past year, revenue from the performance of the three services reached BGN 196 million. Respectively, courier services made up 82%, hybrid mail - 17%, and direct mail - 1% of the total amount of revenue generated from the three services.

Figure 16 displays data regarding the total amount of revenue from performing courier services, "hybrid mail" and "direct mail" service for the period 2010-2012.

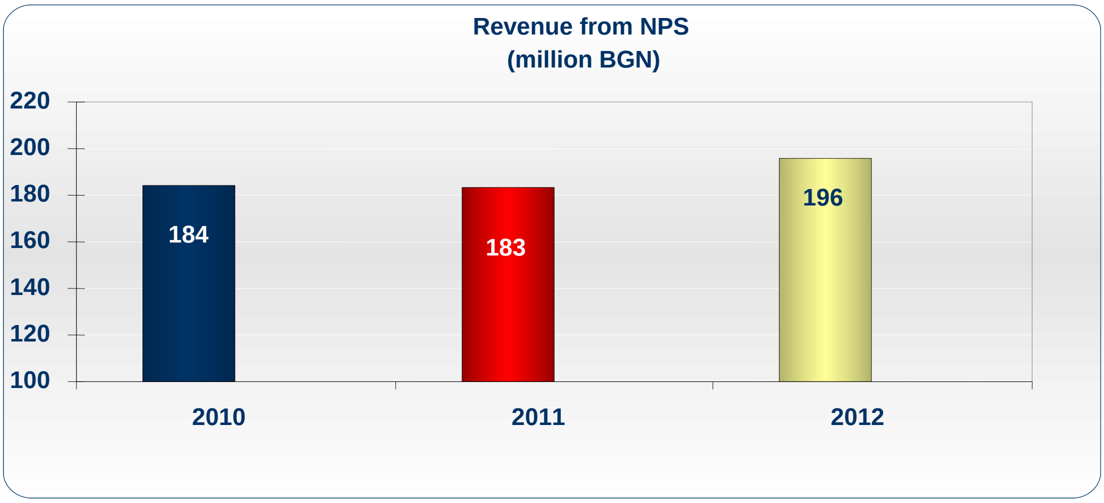



***Figure 16 Source: Data submitted to CRC***

The above data show that the revenue from performing the three services amounts to BGN 196 million, which represents an increase of approximately 7%, compared with 2011.

The increased revenue, compared to the reduced volume, can be explained with the increased consumption of courier services for abroad (15%) and the growing in popularity online shopping in our country. According to a research carried out by

Allegrogroup.Aukro.bg, as of November 2012, around 52% of the users have used the cash on delivery method as a way of payment when shopping online.

### 1.1.1. Breakdown of revenue from performing services within the scope of NPS

According to data submitted to CRC, the first 5 operators with the greatest market shares[2] in providing services within the scope of NPS, are:

- “DHL Bulgaria” EOOD;
- “Econt Express” OOD;
- “In Time” OOD;
- “M&BM Express” OOD;
- “Speedy” AD.

In 2012, these operators formed 67% of the NPS market.

## 2. State of the courier services

In the past year, the total number of accepted, transported and delivered courier items was 21 million. In 2012, as compared to 2011, the total number of courier items dropped by 9%.

Revenue from courier services amounted to BGN 161 million, as it increased by approximately 10% for a one-year period.

Figure 17 displays data regarding the breakdown of revenue from performing courier services for the period 2010-2012.

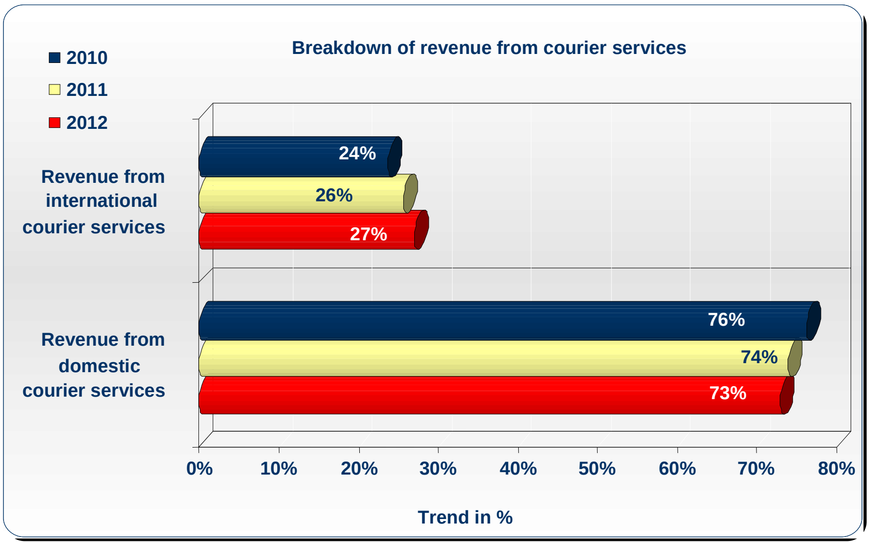



***Figure 17 Source: Data submitted to CRC***

In 2012, revenue from domestic courier services made up 73% of the total amount of revenue from courier services. Their relative share of the total amount of revenue for courier services was down by 1 percentage point against 2011. On the other hand, an increase was observed in the relative share of international outgoing courier services by 1 percentage point for a one-year period.

[2] The operators are listed in alphabetical order, and not by the size of their market share.

## 3. State of the “hybrid mail” and “direct mail” services

In the past year, the “hybrid mail” service was provided by 6 postal operators, as revenue generated from it amounted to BGN 33 million, which is by 2% less than revenue earned in 2011.

Figure 18 displays data regarding revenue and number of items from performing the “hybrid mail” service for the period 2010-2012.

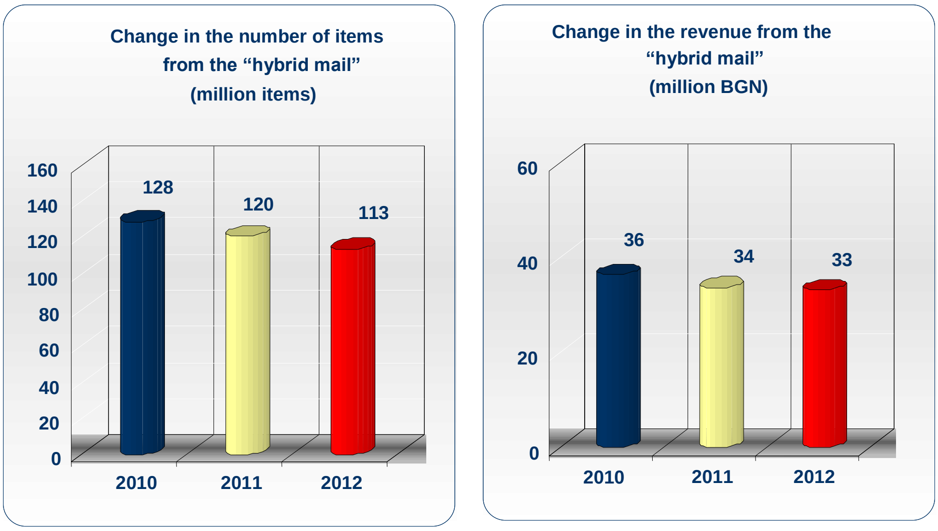



***Figure 18 Source: Data submitted to CRC***

Hybrid mail is a service well known to consumers due to its lower costs for the provision of services, time saving and convenience for clients. Operators specialized in providing the "hybrid mail" service render this service mainly to big companies with regard to:

- their letter correspondence;
- printing and distribution of utility services bills;
- notification letters;
- account statements;
- newsletters, etc.

The strive to win stronger positions on this market has lead to an enhanced quality of service in preparing the correspondence, terms of delivery, and applying innovative and individual solutions for each client. Some operators offer their clients a report for items delivered (date and time of delivery, date and time of end of delivery, number of received items for delivery, as well as number of non-delivered items). A compulsory part of the report is also a descriptive file of non-delivered items for each separate case and the reasons for this.

**Direct mail** represents a postal item which only comprises advertising or marketing materials and contains identical messages, except for the name, address and ID number of the recipient.

Operators who performed the “direct mail” service in 2012 were “Bulgarian Posts” EAD, "Polipost - Post and Logistics" EAD, “M&BM Express” OOD, and "Econt

Express" OOD. In 2012, "Polipost - Post and Logistics" EAD and "Econt Express" OOD performed the "direct mail" service for the first time.

In the past year, the number of items from the “acceptance, transport and delivery of direct mail” service was down by 30%, compared to 2011, and reached 7 million items, while revenue from this service amounted to BGN 1 million.

Globally, the service is deemed as one of the most prospective postal services and in the following years it is expected to develop in our country as well.

A part of postal advertising is the so called "unaddressed delivery", as this type of advertising has no particular addressee. Unaddressed delivery is mainly intended for households in the form of advertisements, flyers and newsletters.

## 4. State of the “postal money orders” service

In 2012, "Speedy" AD obtained a license and started the provision of the “postal money orders” service. With it, the number of operators licensed to perform the "postal money orders" service reached thirteen. Of them, in 2012, activity was reported by: “Bulgarian Posts” EAD, “Econt Express” OOD, “Cash Office” AD, "Speedy" AD, “Tip Top Courier” AD, “Factor I. N.” AD, “Finance Engineering” AD.

In 2012, the total number of postal money orders was around 3.7 million items, and revenue generated from them was approximately BGN 7.2 million. When comparing this data to the previous reporting period, a growth of 3% is registered in the number of money orders and 2.7% in the revenue from this service.

"Bulgarian Posts" EAD registered a drop of 21% in the number and a decrease of 5% in revenue from performing "postal money orders", as compared to 2011. Some of the remaining operators, such as "Econt Express" OOD, reported an increase in the number of performed postal money orders by 4 times, and three times more revenue. "Cash Office" AD reported an increase in revenue from postal money orders by nearly three times, compared to 2011.

Figure 19 displays data regarding the revenue from performing the postal money orders service for the country.

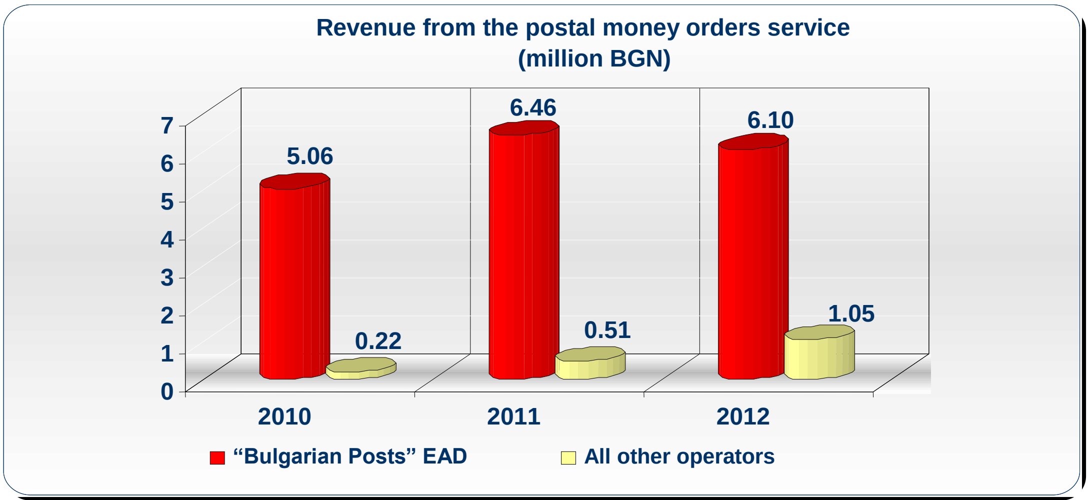



***Figure 19 Source: Data submitted to CRC***

The above figure reveals that in 2012, compared to 2011, the share of "Bulgarian Posts" EAD in revenue earned from postal money orders decreased at the expense of the remaining postal operators.

Depending on the terms for provision of the money orders, the same are classified as ordinary and express postal money orders. In 2012, "Bulgarian Posts" EAD reported the following ratio of ordinary and express money orders: 69% to 31% (ordinary vs. express). This ratio remains almost unchanged compared to the previous two years. The postal operator provided 266 international outgoing postal money orders.

“Econt Express” OOD, “Cash Office” AD and “Tip Top Courier” AD performed 100% ordinary money orders.

## IV. State of the competition in the Bulgarian postal market

### 1. Indicators for assessment of the state of competition in the Bulgarian postal market

Pursuant to the provisions of Art. 17, Para 1, item 4 of PSA, CRC carries out annual analyses of the state of competition in providing the different postal services.

Pursuant to the principles of competition law, the concentration degree is measured by the Herfindahl-Hirschman Index (HHI), and the concentration ratio (CR). The HHI value is calculated based on the sum of the squared market share of the market players, while the CR value shows the shares of the largest players. According to the values of both indices, the market may be defined as: normal competitive market with low level of concentration, relatively competitive market with average level of concentration, and less competitive market with higher level of concentration.

#### 1.1. State of competition in the services included in the scope of UPS

After the “reserved sector” advantage was removed, the market share of "Bulgarian Posts" EAD in the total volume of revenue from services within the scope of UPS was reduced even more tangibly in 2012. In 2012, compared to 2011, the share of "Bulgarian Posts" EAD in the UPS market was down from 95% to 89%. As a result, the market share of the remaining postal operators who performed services within the scope of UPS grew by 6 percentage points since 2011. Each of the operators "M&BM Express" OOD and "Econt Express" OOD already occupies a market share of 5% of the UPS market.

Regardless of the reported movement in competition on the UPS market, the share of revenue of "Bulgarian Posts" EAD by types of services within the scope of UPS remained high in 2012, as follows: 91% in items of correspondence up to 2 kg, 66% in small packets up to 2 kg, 93% in printed matters up to 5 kg, and 73% in postal parcels.

The calculated value of the HHI index and the CR4 ratio in services within the scope of UPS remains almost unchanged, compared to 2011. In this regard, the market of the UPS is still defined as less competitive with a higher level of concentration.

### 1.2. State of competition in NPS

For the last five years, from 2008 until 2012, the number of registered operators to perform courier services and hybrid mail grew from 77 to 112. In 2012, this market segment remained cost-effective, relatively competitive, with an average to moderate concentration. The concentration was measured by the HHI index, as its value in 2012 is 1,128 calculated on the basis of data provided by 80% of registered postal operators at the end of 2012. The CR5 value which is 67% also proves a relatively average level of concentration in a relatively competitive market. In 2012, the five operators with the largest revenue from performing courier services and “hybrid mail” service formed market shares between 6% and 21%.

### 1.3. State of competition in the “postal money orders” service

In the reporting period under review, “Bulgarian Posts” EAD made up 84% of the total volume of revenue from performing the "postal money orders" service. Compared to 2011, the share of the incumbent operator declined by 8 percentage points. The second in size market share of 14% belongs to "Econt Express" OOD; a share of 2% is occupied by "Cash Office" AD.

To calculate the CR4 value, the market shares of the first four players holding the greatest shares of revenue from this service were used: “Bulgarian Posts” EAD, “Econt Express” OOD, “Cash Office” AD, and “Tip Top Courier” AD.

The CR4 values and the HHI index define the “postal money orders” market as less competitive with a higher level of concentration.

## V. Information related to CRC’s regulatory and monitoring functions

### 1. Development of sublegislative regulations

For the past year, CRC focused its activity on completing the development of adequate sublegislative regulations for the regulatory framework which will be harmonized with the requirements of Directive 2008/6/EC of the European Parliament and the Council of 20 February 2008 amending Directive 97/67/EC on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

In the new conditions of a liberalized postal market as of 01.01.2011, the regulator is with enhanced powers with regard to the operator obligated to perform UPS, as the greatest part of the sublegislative regulations pertain to this operator.

In compliance with its statutory obligations under Art. 29b, Para 5, and Art. 29a, Para 3 of PSA, CRC conducted procedures for assigning public procurements, as follows:

- “Inspection for applying the system of cost allocation by the postal operator obligated to perform the universal postal service”, and
- "Audit of the submitted documents related to the calculation of net costs from the provision of the universal postal service for 2011".

As a result of the execution of contracts concluded for performance of public procurements, compulsory guidelines were prepared to amend the cost allocation system of the incumbent operator, adopted by CRC Decision No. 1003 of 03.05.2012, and the presence of unfair financial burden for the postal operator obligated to perform UPS was confirmed, as the amount of compensation was determined by CRC Decision No. 2224 of 19.12.2012.

Following a public discussion, CRC adopted an amendment to the Measures for preserving the secrecy of correspondence.

One individual license for performing postal money orders and 21 certificates for performing non-universal postal services were issued.

With Decree of the Council of Ministers were adopted the Standards for determining the density of access points to the postal network of the operator obligated to perform the UPS, developed by CRC, so as to meet the consumer needs in terms of number and density.

CRC experts took part in the interdepartmental working group which prepared a draft amendment to the Method for calculation of net costs from performing the universal postal service.

In the sphere of postal services, many standards are used – Bulgarian and international. With the purpose of harmonizing the Bulgarian standards with the European ones, as well as their successful implementation, CRC took part in the work of Technical Committee (TC) 80 “Electronic data exchange in the administration, trade and services” to the Bulgarian Institute of Standardization. In the past year, 2 European standards in the sphere of postal services were translated, and 5 Bulgarian standards were repealed as being morally outdated and unsuitable for the present conditions.

At an international level, the most significant event for the postal sector is undoubtedly the 25th Congress of the Universal Postal Union (UPU). One of the most important decisions taken at the Congress was the adoption of the Doha Postal Strategy, which will guide the work of the governments of the 192 UPU member countries, postal operators and regional postal organizations in the next four years (2013-2016). The Doha Strategy consists of the following main goals: improve the interoperability of the international postal networks, provide technical knowledge and expertise related to the postal sector, promote innovative products and services (developing the 3-D network), and foster sustainable development of the postal sector. These goals will be achieved by means of 18 working programs to stimulate the lasting development of an efficient and accessible universal postal service of quality.

CRC took part in the plenary sessions of the European Committee of Postal Regulation (CERP) and the European Regulators Group for Post (ERGP), in a meeting with experts from the European Commission and in a meeting of the Postal Directive Committee, in a conference "Last Mile toward the Liberalization of the Postal Services Market" in Greece. CRC experts also participated actively in the work of the created working groups to ERGP. The twinning project “Support for the Croatian Post and Electronic Communications Agency (HAKOM) in the area of accounting separation in postal services” was finalized, as CRC took part in it as a partner of the Ministry of Transport and Public Works in Spain.

## 2. Information related to the performance of individual licenses

### 2.1. Postal network

Pursuant to Art. 5 of PSA, postal services are provided via postal networks. A postal network is an entity of organizationally and technologically interlinked units and means, including fixed and/or mobile post offices, postal agencies and desks, exchange and sorting centres and offices, vehicles and technical equipment, constructed and used to accept, transport and deliver postal items and perform postal money orders.

#### 2.1.1. Postal network of the operator obligated to perform UPS

In 2012, the postal operator obligated to perform UPS “Bulgarian Posts” EAD did not extend neither proposals nor notifications to change the number and location of access points to its postal network. Thus, at the end of 2012, the number of fixed post offices remained unchanged – 2979, of which 637 are located in towns, and 2342 – in villages. Out of the post offices in villages, 204 are located in settlements with population of less than 150 residents, and 1334 – in settlements with population of over 150 and below 800 residents.

For the country, the average population serviced by 1 post office is 2458 people.

In addition to post offices, postal services are also provided by 80 postal agencies and 29 postal desks - mainly in big commercial chains, universities and other strategically located places in the cities.

There are 4904 letterboxes for collection of unregistered items of correspondence in use.

At post offices, users have at their disposal 42084 subscription mailboxes.

#### 2.1.2. Postal networks of operators licensed to perform services included in the scope of UPS and operators licensed to perform “postal money orders” services

Following the removal of the requirement for compulsory territorial coverage of the entire country by operators licensed to perform services within the scope of UPS and operators licensed to perform postal money orders with the amendment to PSA as of 3.11.2009, they continued to develop their networks by increasing the access points, whether their own or access points under contracts concluded pursuant to Art. 22 of PSA.

"M&BM Express" OOD provides services within the scope of UPS via 57 fixed post offices, 13 post agencies and 52 letterboxes. "Econt Express" OOD has 350 fixed post offices, of which 295 are commercial agencies and 1322 letterboxes. This is the only postal operator which has mobile post offices - 11 in number. "Tip Top Courier" AD has 4 own post offices and 65 of subcontractors, in addition to 5 letterboxes and 30 subscription mailboxes.

Operators licensed to perform postal money orders usually maintain a minimum number of own offices at the expense of a growing number of offices under contracts pursuant to Art. 22 of PSA. Typical examples are "EasyPay" AD which has 221 own offices and 2030 under contract, "Factor I.N." AD has only 1 own office and 139 offices under contract, "Tip Top Courier" AD has 3 own and 73 under contract, "Econt Express" OOD - 56 own and 294 offices under contract. "Cash Office" AD provides the service in 86 own and 63 offices under contract, and "Finance

Engineering" AD - in 12 own and 9 offices under contract. Unlike the above operators, "Speedy" AD relies on own offices only - 91 in number. A dynamic development is observed in the networks of operators of “postal money orders” services, as this development is expressed not only in the growing number of access points, but also in a change of their location. Usually, the number of own offices is preserved, while the number and location of access points under contracts undergo a dynamic change. This is a flexible solution which allows operators to respond quickly to the changing economic conditions and infrastructure, and saves costs.

## 3. Quality of UPS in 2012

### 3.1. Time for conveyance of domestic unregistered priority postal items

With reference to the amendments of PSA in force as of 30.12.2010 concerning the quality target of UPS and the efficiency of service (Quality target)[3], requiring CRC to ensure, at its expense, measurement of the compliance with the quality target by an independent organization, CRC opened a procedure for awarding a public procurement in accordance with the Law on Public Procurements. The public procurement with subject “Measurement of the “end-to-end” transit time of single domestic priority postal items in the network of the operator obligated to perform the universal postal service, according to the requirements of Standard BDS 13850:2002+A1:2007” was awarded to PricewaterhouseCoopers Business Solutions S.A. (PwC). The measurement took place during the entire year of 2012. After the measurement was completed, the contractor presented an official report containing summarized results, in addition to findings and interpretation of the results.

With quality target for the time for conveyance of domestic unregistered priority postal items for **D+1** - not less than **80%** of items and **D+2** - not less than **95%** of postal items, at an annual basis (2012), the result from the measurement is

| End-to-end transit time | Quality target | Results |
|---|---|---|
| D+1 | Not less than **80%** of the postal items | **47.9%** |
| D+2 | Not less than **95%** of the postal items | **72.8%** |

The quarterly and monthly results are given in the table and chart below, respectively:

| Period | D + 1 | D + 2 | D + 3 | D + 5 | D + 10 |
|---|---|---|---|---|---|
| **Q1** | 50.5% | 76.4% | 86.7% | 95.7% | 98.4% |
| **Q2** | 48.9% | 70.6% | 82.9% | 93.0% | 97.6% |
| **Q3** | 49.3% | 74.2% | 84.3% | 93.8% | 98.3% |
| **Q4** | 42.6% | 70.5% | 84.4% | 94.0% | 98.1% |

[3] These refer to the operator obligated to perform the universal postal service “Bulgarian Posts” EAD

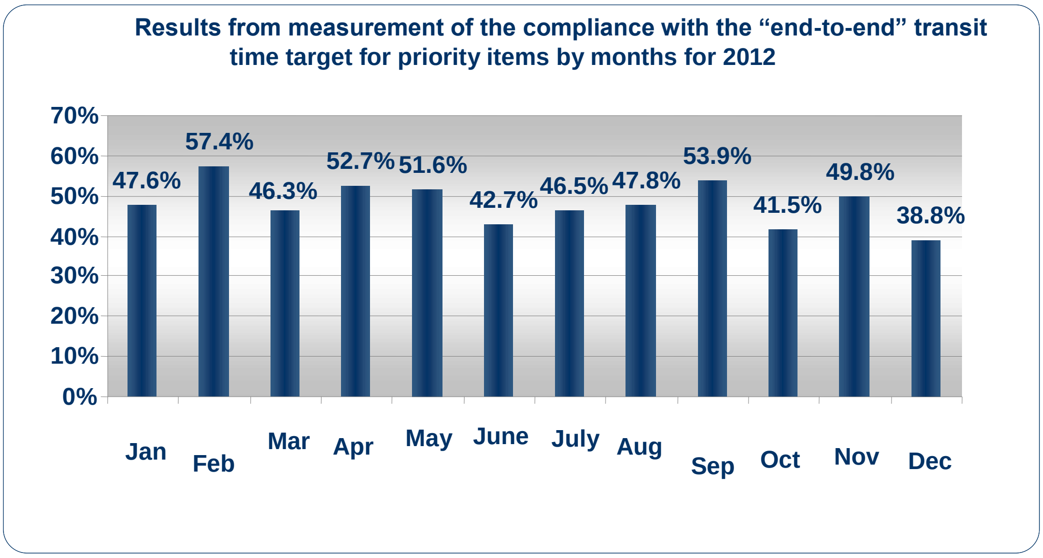



***Figure 20 Source: Data submitted to CRC***

In its report, the Contractor has given recommendations for improving the quality of service provided by the incumbent operator, namely:

- Carrying out a parallel measurement of the quality of service with a focus placed on problematic routes;
- Using a RFID system for improvement and diagnostics in sorting centres and/or delivery branches where huge volumes of items are processed. This approach would ensure a correct and reliable information (through RFID sensors), presented in an understandable way, by using different analytical tools and methods.

With reference to the unsatisfactory results from the measurement, and on the grounds of the provisions of Art. 105b of PSA, CRC took administrative-punitive measures against the operator obligated to perform UPS.

In 2013, the execution of public procurement for measurement of the time for conveyance started with a scope greater than the preceding year - "Measurement of the "end-to-end" transit time of single domestic non-priority and priority postal items in the network of the operator obligated to perform the universal postal service, according to the requirements of standards BDS EN14508:2003+A1:2007 and BDS EN 13850:2002+A1:2007". The public procurement was again awarded to PricewaterhouseCoopers Business Solutions S.A.

On its part, the incumbent operator performs quarterly reporting of the UPS quality by completing an internal form with summarized information as per the existing "Instructions for applying the quality target of the universal postal service". The results obtained at regional units level are summarized in the Head Office. The reporting method is based on date stamps on the items of correspondence and provides no objective results.

### 3.2. Time for conveyance of domestic unregistered non-priority postal items

| End-to-end transit time | Quality target | Results 2010 | Results 2011 | Results 2012 |
|---|---|---|---|---|
| D+2 | Not less than **80%** of the items of correspondence | 92.4% | 91.7% | 93.3% |
| D+3 | Not less than **95%** of the items of correspondence | 98.9% | 99% | 99.3% |

### 3.3. Time for conveyance of domestic postal parcels

| End-to-end transit time | Quality target | Results 2010 | Results 2011 | Results 2012 |
|---|---|---|---|---|
| D+1 | Not less than **80%** of the postal parcels | 85.8% | 90.3% | 90.7% |
| D+2 | Not less than **95%** of the postal parcels | 98.1% | 99.3% | 99.6% |

Results for the time for conveyance of domestic unregistered non-priority postal items and domestic postal parcels are obtained from measurements carried out by the incumbent operator. As it is clear from the above two tables, targets are met.

### 3.4 Time for conveyance of international postal items

The “end-to-end” transit time for international priority postal items is measured using the UNEX system, introduced to “Bulgarian Posts” EAD since the start of 2008. As of 2011, the system covers postal operators obligated to perform UPS from the 27 EU member states, such as Iceland, Norway, Switzerland, Bosnia and Herzegovina (part), Croatia, Macedonia, Turkey and Serbia. It is organized according to the requirement for independent measurement of the “end-to-end” transit time of Directive 97/67EC and measurements are carried out in line with the requirements of Standard EN 13850 acting in the given period. The so obtained results are official for all operators and serve as a basis for estimates between them.

#### 3.4.1 International unregistered priority postal items from geographical zones within Europe

| End-to-end transit time | Quality target | Results 2010 | Results 2011 | Results 2012 |
|---|---|---|---|---|
| D+3 | Not less than **85%** of the postal items | 63.8% | 59.1% | 56.3% |
| D+5 | Not less than **97%** of the postal items | 92.4% | 89.7% | 89.3% |

The comparison of results for a three-year period shows not only failure to meet the target, but also a systematic decline in indices, in particular the speed target D+3. The following external factors are usually pointed out as having negative influence on results: contracts concluded by most key aircraft carriers with another road operator whose requirements do not allow shipment of mail using early flights, cancellation of a great number of flights of some airlines from Sofia Airport, the replacement of summer with winter flight schedules when many possible flights are cancelled due to the early departure time, etc.

### 3.4.2 International unregistered non-priority postal items from geographical zones within Europe

| End-to-end transit time | Quality target | Results 2010 | Results 2011 | Results 2012 |
|---|---|---|---|---|
| D+5 | Not less than **80%** of the postal items | 69.6% | 72.7% | 75.8% |
| D+7 | Not less than **95%** of the postal items | 92.2% | 91.3% | 94% |

Despite the upward trend, the results in the above table still show a certain non-compliance with objectives.

With regard to regularity of collection and delivery of postal items, there is a steady trend towards compliance with objectives, and results achieved are sustained.

## 3.5 Time limits for handling complaints

| Standard term for handling complaints | Quality target | Results 2010 | Results 2011 | Results 2012 |
|---|---|---|---|---|
| 30 days for domestic postal services | Not less than **90%** of the complaints | 93.44% | 98.39% | 95.2% |
| 90 days for international postal services | Not less than **90%** of the complaints | 94.45% | 93.16% | 94.5% |

The results displayed in the table above show that targets are met.

## 3.6. Complaints regarding services within the scope of UPS

In 2012, according to data from the annual questionnaires for the operator obligated to perform UPS and for operators providing services within the scope of UPS, a total number of 6739 complaints were submitted, of which 861 justified, classified as follows:

| Written complaints submitted in 2012 | Number | |
|---|---|---|
| | domestic | international |
| **Complaints (in total)** | **773** | **5966** |
| **Justified** complaints | **403** | **458** |
| ***Breakdown of complaints according to their cause:*** | | |
| 1. lost item | 103 | 439 |
| 2. delayed item | 145 | 5 |
| 3. damaged or with missing content (fully or partially) item | 27 | 4 |
| 4. misdelivered item | 13 | |
| 5. returned postal parcel without reason for non-delivery | | |
| 6. general complaint (complaint based on a general dissatisfaction with the operator's services) | 93 | 19 |
| 7. concerning the behaviour and competence of postal employees | 40 | |
| 8. concerning complaint processing | | |
| **Complaints resulted in payment of compensation** | **number** | **BGN** |
| | **502** | **40323** |

After the reported decline in the number of complaints in 2011, the total number of complaints submitted in 2012, as well as the number of justified complaints comprising almost 13% of the total number of submitted complaints, registered a significant increase - 2.7 times. The number of complaints that were settled by payment of compensation increased drastically - 3.7 times, and the amount of paid compensations was up 4.5 times. Lost items continued to hold the biggest share of justified complaints in 2012 – they make up 63% of the total number of justified complaints, of which 81% are complaints for lost international items. As compared to the previous year 2011, the share of complaints for lost items grew 3.5 times. The chart below shows that the number of this kind of complaints remains the highest in the reviewed 3-year period. The share of complaints for delayed items and the general complaints based on a general dissatisfaction with the services of a certain operator, doubled. The number of complaints concerning the behaviour and competence of postal employees grew sharply - almost 7 times.

The chart below presents the dynamics of changes in the number of justified complaints according to the reasons for making them for a three-year period.

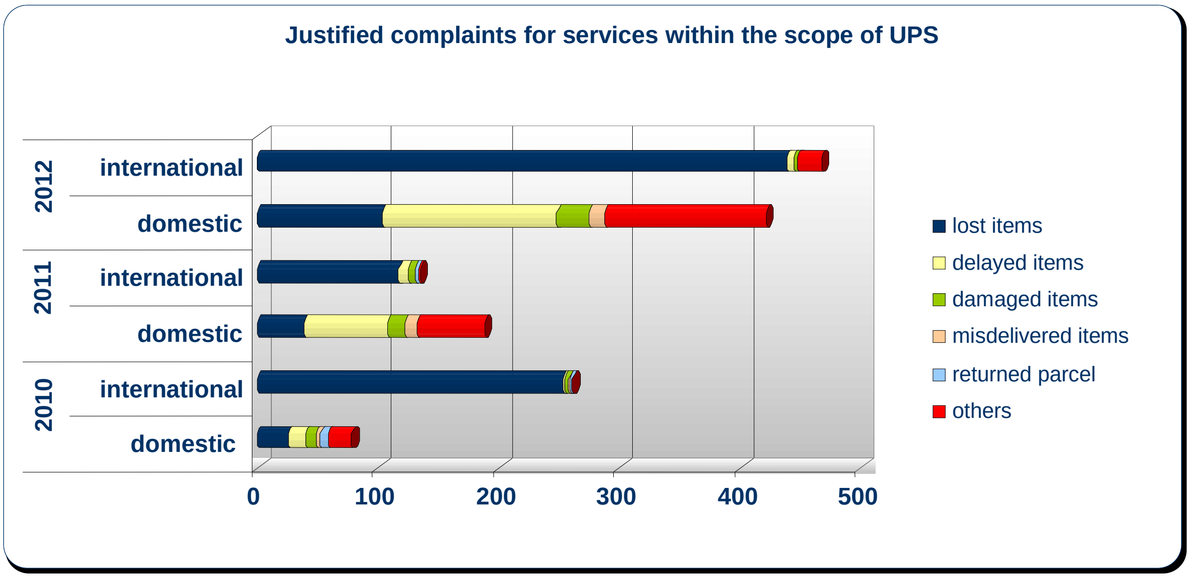



*Figure 21 Source: Data submitted to CRC*

### 3.7 Complaints regarding NPS

Complaints regarding NPS in 2012 are distributed by number and cause as follows[4]:

| | | |
|---|---|---|
| **Complaints (in total)** | **10073** | |
| including **justified** complaints | **5967** | |
| ***Breakdown of complaints according to their cause:*** | | |
| 1. damaged item (the integrity of the item is violated) | 2101 | |
| 2. lost item (the item is not delivered to the user) | 897 | |
| 3. rifled item(item with wholly or partially missing content) | 273 | |
| 4. destroyed item (the item is damaged in a way making its intended use impossible) | 258 | |
| 5. item delivered with delay of the deadline for delivery | 1894 | |
| 6. others | 534 | |
| 7. complaints regarding postal money orders (PMO) | 10 | |
| **Complaints resulted in payment of compensation** | **number** | **BGN** |
| | **3047** | **407,840** |

[4] The data are from annual questionnaires for operators providing NPS

As compared with 2011, the total number of submitted complaints increased by 14.8%, while the number of justified complaints was down by 3.3%. Meanwhile, the number of complaints settled by payment of compensation increased by 27%, and the amount of paid compensations was up by 36%. A considerable reduction was registered in the number of complaints for delayed items - by 39%. Conversely, the number of complaints for damaged items grew by 52%, and the number of complaints for lost items also registered a drastic increase - 2.6 times.

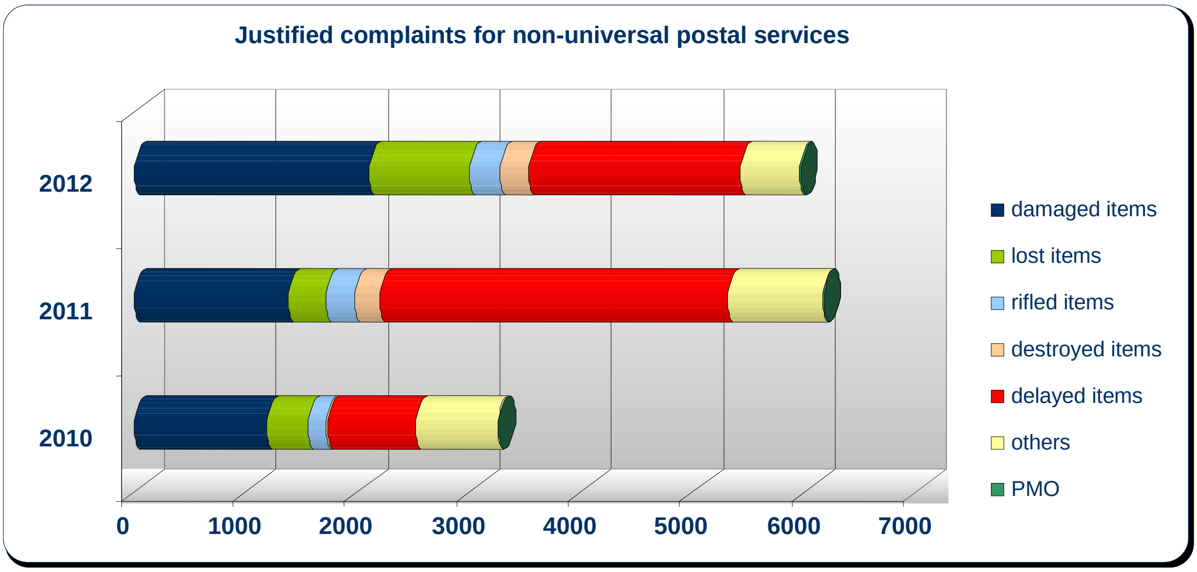



*Figure 22 Source: Data submitted to CRC*

Figure 22, presenting the change in the number of justified complaints according to the reasons for making them for a three-year period, shows that the greatest share for the three years was held by complaints for damaged items and late delivery.

## 4. Analysis of the postal security measures

Postal security is a combination of measures and actions related to the security and protection of postal items, money and valuables, the property of the postal operators, the life and health of postal employees and the users of postal services, keeping the confidentiality of correspondence, ensuring the inviolability of postal items, protection of personal data and prevention of money laundering through the postal network. The postal security also aims at protecting the postal traffic and not allowing any forbidden objects and substances into the postal network. Acceptance, transfer, and delivery must not be allowed for postal items that have been prepaid by forged or out-of-use postage stamps, or by invalid postage prints. The area of postal security is legislatively settled by Ordinance No. 6 for the postal security requirements (the Ordinance), Measures for keeping the confidentiality of correspondence and Postal Services Act (PSA). These provisions are valid for all operators performing postal services on the territory of the Republic of Bulgaria, as every operator is obliged to build a security structure in its organizational form in order to comply with the above requirements.

Another obligation is to take precautions not to allow items containing forbidden objects and substances into the postal network. If, when accepting an item, it is doubted to contain any forbidden objects or substances, its sender is required to grant his consent to open it, and if consent is not granted, the item is not accepted. When there are sufficient grounds to believe that an already accepted item contains forbidden objects or substances, it is retained and its sender or recipient is required to grant his written consent to open it. In case of refusal or lack of reply, the respective competent authorities are notified and the latter undertake subsequent actions. The aim is to guarantee a high level of security regarding the contents of items, while not violating the users' right to correspondence confidentiality.

The revised Ordinance was amended in 2011, thus removing a part of the administrative burden on operators while addressing the new security challenges. The monitoring of the security and protection of money and valuables, prevention of money laundering through the postal network, protection of the postal traffic and not allowing acceptance, transfer, and delivery of forbidden objects and substances via the postal network is no longer among the powers of CRC which releases it from performing activities that are not typical of it.

In general, the Ordinance requires that the following instructions and rules shall be developed and introduced by operators:

- internal instructions for security and protection of money and valuables – coordinated with the competent bodies;
- internal rules for control and prevention of money laundering on the grounds of Art. 16, Para 1 of the Law on Measures against Money Laundering – approved by the head of State Agency "National Security";
- rules for the internal order and security of post offices - coordinated with the competent state authorities;
- internal rules for actions to be taken by the employees in case of any doubt that the postal items might contain weapons, ammunition, pyrotechnic articles, explosive, flammable or any other dangerous substances and objects – coordinated with the competent bodies of the Ministry of Interior and State Agency "National Security";
- internal rules for actions to be taken by the employees in case of any doubt that there are postal items for which the price of service has been prepaid by forged or out-of-use postage stamps, or by invalid postage prints, as well as for any forged postal products – coordinated with the competent state authorities.

Based on the information collected from the annual questionnaires, as a positive trend could be noted that a great number of operators develop their respective internal rules and coordinate them with the bodies of the Ministry of Interior and the State Agency "National Security".

## 5. CRC's monitoring activity

In 2012, in performance of the legal obligation to monitor the compliance with regulations related to postal services, the requirements for performance of UPS, the conditions for implementation of the issued individual licenses and obligations of operators performing NPS, authorized CRC officials carried out scheduled inspections and inspections based on received letters and signals.

The postal operator obligated to perform the universal postal service “Bulgarian Posts” EAD and four other operators licensed to perform services within the scope of UPS were subject to 5 inspections with regard to: compliance with the requirements for postal security; price lists and offered discounts of prices in contracts with big clients; inspection of contracts concluded under Art. 22 of PSA; compliance with the requirements of Art. 77, Para 2 of PSA concerning the use of postage prints, etc.

Operators licensed to perform the “postal money orders” service were subject to 5 inspections.

Operators of non-universal postal services were subject to 14 inspections due to non-provision of information on their activity in 2011, required by CRC.

As for protection of the consumers’ interests, CRC uses two instruments – coordination of the General Conditions of the contract with users of postal services (General Conditions) and the right of users to file complaints and signals with the Commission. In the past 2012, the Commission coordinated the General Conditions of 13 postal operators. 104 complaints/signals filed by postal services users against postal operators were considered, whereupon 38 inspections were conducted. In one case there were grounds for CRC to interfere, i.e. complaints contained data for violation of the regulations in the sphere of postal services, and the postal operator was sanctioned. In the remaining cases, considering the nature of complaints, there was no legal ground for intervention by CRC.

In 2012, 8 punitive decrees for violations in the area of postal services were issued.

## VI. Conclusion

### 1. Prospects for development of the universal postal service

In the last years, the UPS market in Bulgaria has been defined as less competitive. A prospect for increase of the UPS market share could be the franchising implemented through companies joining existing postal networks. This model is easily applicable to the postal branch, with low initial investment and monthly fees, and great prospects for development.

On the Bulgarian market, there are two well positioned and distinguishable brands that offer franchising: "Tip Top Courier" AD and "Econt Express" OOD. Being a part of the postal network as a franchiser, entrepreneurs are able to sell the full range of services for which the franchiser is licensed. The franchisee benefits from taking advantage from the popularity of a certain product without having to invest its own funds in developing its own product range and trademark.

This model could be the prospect for development of UPS in our country in the following years - with the lower initial investments for starting a business, ready know-how, and developed business model.

Another prospect for development of UPS is the gaining popularity in the past years e-commerce, and in particular, the cross-border e-commerce of postal parcels within and outside Europe. It is broadly agreed that e-commerce is a main factor for economic growth and increased employment in the entire European Union, therefore its trouble-free development is very important. On the other hand, deliveries are a key factor for the development of electronic commerce, and here comes the role of postal operators performing the universal postal service. There are also problems related to the good development of cross-border e-commerce, the worries of consumers that their items may not be delivered, or that return of purchased goods may be hindered.

Consumers give great significance to the delivery of expected items, without necessarily having any information on the type of operator engaged with this delivery. It is important for them to know who to turn to if they have any questions regarding the delivery, and who can give them a timely response and correct information. This refers mainly to cross-border purchases where delivery includes several operators.

In this regard, the EC is about to initiate the creation of rules to regulate and settle any matters related to the delivery of goods within the scope of the cross-border e-commerce.[5]

## 2. Prospects for development of the non-universal postal services

The prospects for development of the courier market in our country and at a global scale are not much different. According to MER "Mail & Express Review" (20 September 2012), two lines of business – e-commerce and marketing - could be the new niches for development of postal operators. In addition to the specific services provided by each courier company that make them distinguishable on the NPS market (such as quality and fast services, specialized transport, wide network of access points, attractive prices, non-cash payment), new prospects for development are revealed before postal operators.

The increased consumption of goods from e-commerce websites and the better partnership between operators and marketing companies through the "direct mail" service are two spheres that have future potential.

Globally, e-commerce is one of the main driving tools of the contemporary economy, and turnover of cash in this type of commerce is growing at fast pace each year. Even in the conditions of crisis, this process is expected to intensify due to the fact that each Internet shop "costs" less money and time to keep active and working.

In Bulgaria, in 2011 and 2012, the number of online shops grew several times, and this trend is expected to persist in the following years.

According to a research, around 60% of the Internet users in our country shop online on a regular basis.[6]

The advantages of e-commerce (access to a considerably larger audience, compared to the traditional commercial outlets, lower costs for maintenance and staff, more options for interactive marketing) are already visible for all traditional players, and stimulate a greater number of companies to start their activity using this kind of trade only.

According to the Bulgarian Association for E-Commerce, in the past year 2012, the average growth of turnover of online shops in our country was over 10%, but the peak was reached immediately before the holidays at the end of the past year. The forecasts for development of this business in our country in the following years are quite optimistic.[7]

The development of e-commerce in our country is a potential market for courier companies that participate in the delivery of products to end users. Another

[5] EC Green Paper – An integrated parcel delivery market for the growth of e-commerce (Brussels 29.11.2012 COM 2012,698 final)

[6] How e-commerce develops in our country? /Dimitko Ster.com

[7] Interview with Mr. Petar Vanev of the Bulgarian Association for E-Commerce http://profit.bg/news/Nad-10-rust-v -oborotite

aspect which contributes to the development of the courier market is the choice of consumers to pay for the goods purchased by way of cash on delivery. Courier business in our country has taken into account the opportunities to cooperate with the online shopping websites a long time ago, but some obstacles are already detected in Europe, mainly for smaller operators.

Courier services are more frequently facing the e-commerce requirements to introduce new and more flexible services for clients, low prices and fast delivery, which in turn calls for a quick adaptation of the operators' logistic centres.

The vitality and success of the e-business depend to a great extent to the ability of the logistic centre to deliver the items at low prices for a short period of time. In particular, smaller operators are the ones who cannot resist the pressure exerted by e-traders for yet greater discounts in the price of delivery, and they don't have the capacity to invest in their own logistic network.

In an environment where economies of scale represent an important factor, such a condition may pose a threat to their competitiveness.[8]

Another service with a positive prospect for global development is the "direct mail" service. According to MER “Mail& Express Review” (20.09.2012), items of correspondence and "direct mail" are the main services that generate volume and revenue at a global scale. Posts around the world usually identify themselves as being distributors of the so called "advertising mail", and their success as postal operators is measured by the provision of traditional postal services of high quality and efficiency.

Regardless of this widespread concept of the service among postal operators, the statistical data of the Universal Postal Union (UPU) show that direct mail is likely to become a profitable sphere, with around 38% of the global volume of postal items. Studies carried out by UPU reveal that this service has all the prerequisites to grow and develop in the following years, yet we should not ignore the choice of many marketing companies to use digital services for sending their advertising messages. In the last decade, an increased interest was observed in the use of new technologies and sending these advertising messages electronically, but this interest is not constant. Studies of marketing companies show that advertising messages are perceived much more easily and have a much greater effect on consumers when sent by post on paper[9].

In Bulgaria, the "direct mail" service is not yet well developed, but following the European trends, it can be deemed as having a positive prospect for development in the years to come.

Taking into account the forecasts of postal operators and the trends towards a global development of postal services, the trends outlined for the past year are preserved in 2013, namely:

- ✓ The development of the postal market will depend to a great extent on the change in revenue earned from courier services;
- ✓ The number of postal operators registered to perform NPS will increase;
- ✓ Revenue from performance of NPS will grow;
- ✓ The consumption of services within the scope of UPS, including the most often used service “items of correspondence up to 2 kg”, will decrease, compared with 2012;

[8] EC Green Paper – An integrated parcel delivery market for the growth of e-commerce (Brussels 29.11.2012 COM 2012,698 final)

[9] MER “Mail&Express Review (issue 20 sept.2012)

- ✓ Operators performing services within the scope of UPS will increase their revenue from providing the service "acceptance, transport and delivery of postal parcels up to 20 kg";
- ✓ Competition in services within the scope of UPS will gradually grow;
- ✓ In the long run, electronic commerce will influence the postal market development even more significantly.