ANNUAL REPORT ON COMPETITION DEVELOPMENTS IN BULGARIA

-- 2012 --

30-31 October 2013

This report is submitted by Bulgaria to the Competition Committee FOR INFORMATION at its forthcoming meeting to be held on 30-31 October 2013.
# TABLE OF CONTENTS

Executive Summary ........................................................................................................................................ 3

1. Changes to competition laws and policies, proposed or adopted ............................................................. 3

2. Enforcement of competition laws and policies ............................................................................................ 4
   2.1. Action against prohibited agreements between undertakings .............................................................. 4
   2.2. Action against abuse of monopoly and dominant position ................................................................. 6
   2.3. Mergers and acquisitions .................................................................................................................... 7

3. CPC competition advocacy cases ................................................................................................................ 8
   3.1. Case Studies ........................................................................................................................................ 9

4. Sector inquiries, conducted by the CPC ...................................................................................................... 12
   4.1. Sunflower and sunflower oil markets .................................................................................................... 12
   4.2. Wheat, flour and bread markets .......................................................................................................... 12
   4.3. Distribution of new motor vehicles, spare parts and repair services market ....................................... 13

5. Resources of competition authorities ........................................................................................................ 14
   5.1. Annual budget (in your currency and USD): ......................................................................................... 14
   5.2. Number of employees: ....................................................................................................................... 14
   5.3. Human resources applied to: ............................................................................................................. 14
   5.4. Period covered by the above information: .......................................................................................... 14
Executive Summary

1. Bulgarian Commission on Protection on Competition (the Commission, the CPC) is an independent specialized state body whose main goal is to ensure the protection and create conditions for competition and free economic initiative, including by exercising control on the lawful spending of public resources through public procurement and concession awarding procedures. The CPC is empowered to enforce the provisions of the Law on Protection of Competition (LPC), the Public Procurement Act (PPA) and the Concessions Act (CA).

2. Besides its enforcement activities, further detailed below, in 2012 the CPC and UNCTAD initiated and launched the Sofia Competition Forum (SCF) as a permanent platform for cooperation between the antitrust authorities in the Balkan region. The forum is designed to respond to the needs of the competition authorities of the Western Balkans, which have the status of candidate countries and potential candidate countries for EU membership – namely Albania, Bosnia and Herzegovina, Kosovo, the Republic of Macedonia, Serbia, Croatia and Montenegro, in the process of improving the competition legislation, liberalization of regulated markets, institutional development and the efficient functioning of the competition authorities, the negotiation process for EU membership.

3. On 12 November 2012, during the Inaugural event of the forum, CPC, UNCTAD and the heads of the competition authorities of the Western Balkans signed the Sofia Statement, with which they pledged to deepen their cooperation as part of SCF activities.

1. Changes to competition laws and policies, proposed or adopted

4. In 2012, the Commission on Protection of Competition adopted two opinion decisions on proposals for amendments of the Law on Protection of Competition, submitted by the Ministry of Economy, Energy and Tourism and by a group of members of the National Assembly. Both proposals for amendments of the LPC envisage the introduction of the “significant market power” concept into the Bulgarian competition law. In its opinion decisions the CPC took the view that the EU competition acquis, namely Art. 3 (2) of Regulation (EC) No 1/2003 of the Council of 16 December 2002, contain the legal possibility for EU Member States to adopt and apply “on their territory stricter national laws [compared with Art. 102 TFEU] which prohibit or sanction unilateral conduct engaged in by undertakings”. At the same time the CPC pointed out to the observations stated in p. 21 and p. 22 of the EC Report on the functioning of Regulation 1/2003 that “The convergence rule contained in paragraph 2 of Article 3 seeks to create a level playing field by providing for a single standard of assessment for agreements, concerted practices and decisions by associations of undertakings. […] The divergence of standards regarding unilateral conduct was commented on critically by the business and legal communities which consider that the diverging standards fragment business strategies that are typically formulated on a pan-European or global basis. This is a matter which should be further examined, both in terms of evaluating the extent of the problems caused and assessing the need for action at European level.”

5. Still, no draft amendments to the LPC have been put to discussion in the National Assembly of the Republic of Bulgaria.

6. In 2012 the CPC adopted Guidelines on Corporate Programs for Compliance with Competition Rules (Decision № 1553/20.12.2012) and Guidelines for Implementing Competition Advocacy (Decision № 1554/20.12.2012). In drafting those guidelines the CPC took into account the best practices in this area of the EU Member States, the OECD and the International Competition Network (ICN).

7. The Guidelines on corporate programs for compliance with competition rules aim at helping the business understand better the benefits of drafting corporate programs as well as to encourage the
companies’ management to develop and adopt them. Corporate compliance programs express the will of the management of companies to comply with the competition rules; they are targeted at all organizational levels and all members of staff. As part of the internal company policy and procedures, they impose certain obligations on the managers and employees.

8. The *Guidelines for Implementing Competition Advocacy* are to be used by the CPC staff in its work so as to better promote observance of the competition rules and to maximize the impact of the Commission’s enforcement record and other activities.

2. Enforcement of competition laws and policies

2.1 *Action against prohibited agreements between undertakings*

9. In 2012, the Commission initiated 9 proceedings for possible infringement of Art.15 of the LPC and/or Art.101 of the TFEU. The CPC conducted 3 on-site inspections as a procedural step in the proceedings to investigate alleged antitrust violations. During the inspections the CPC seized evidence on paper and forensic evidence which was further analyzed at the Forensic IT laboratory. The Commission adopted 9 decisions on the application of Art. 15 of the LPC and/or Art. 101 TFEU. In 4 cases, the CPC established an infringement and determined the type and amount of the sanctions, and in 2 cases the Commission approved proposals by the defendants to undertake commitments.

10. For established violations of Art.15 of the LPC and/or Art.101 TFEU in 2012, the Commission imposed fines amounting to a total of 20 407 324 BGN (~10 438 530 Euro).

**Figure 1. Proceedings and decisions of the CPC in the area of prohibited agreements between undertakings for the period 2008-2012**
2.1.1. Cash registers cartel


12. As part of the proceeding, the Commission analyzed the pricing policy of the companies and found that in the period from early 2005 to the first quarter of 2010 the companies under investigation made several changes to their pricing policy. During the analyzed five-year period specific dates stood out, on which or following which the defendants coordinately raised the prices of their CRs and FPs. The Commission found that the defendant companies had participated in meetings in the office of one of the undertakings concerned immediately before the price increases of the products. According to the CPC, the parties had well-established forms of communication through which they discussed important aspects of economic behavior and exchanged information on marketing strategies and the pricing of products.

13. The Commission imposed a fine of 503 280 BGN on “Datex” EOOD, 155 844 BGN on “Daisy Technology” EOOD, 82 512 BGN on “Tremol” EOOD and 257 928 BGN on “Eltrade” EOOD for infringement of Art.15 LPC and ordered the suspension of the infringement.

2.1.2. Vertical agreements in the distribution of “Hyundai” vehicles


15. In the course of the ex officio proceeding initiated following a sector inquiry, the CPC found that, as an authorized importer of new vehicles of the “Hyundai” brand in Bulgaria, “Industrial Commerce” Ltd. had signed dealership contracts with authorized dealers of new “Hyundai” vehicles in Bulgaria. During the Commission’s on-site inspection in the premises of "Industrial Commerce” Ltd., a number of paper and electronic documents were seized, namely uniform dealership contracts signed between the defendants, as well as paper and electronic email correspondence containing evidence of vertical restraints of competition applied by the defendants.

16. The seized copies of uniform dealership contracts, signed in the period from 2008 to 2011, contained clauses constituting prohibited vertical agreements, namely: (1) setting of minimum resale prices of new vehicles; (2) prohibition for dealers of new “Hyundai” vehicles, operating within the selective distribution system, to sell competing brands of new vehicles, (3) prohibition for dealers to perform cross-supply of new “Hyundai” vehicles in the selective distribution system, (4) a ban on dealers to sell new “Hyundai” vehicles outside the designated area, (5) fixing of resale prices of original spare parts and accessories for “Hyundai” vehicles, (6 ) price fixing of out-of-warranty service of “Hyundai” vehicles, (7) prohibition for dealers within the selective distribution system to sell spare parts of matching quality when performing out-of-warranty service of “Hyundai” vehicles, (8) prohibition for dealers within the selective distribution system to perform cross-supply of original spare parts for “Hyundai” vehicles.

17. For the established infringements of Art.15 (1) LPC and Article 101 (1) TFEU, the Commission imposed fines amounting to, respectively: 15 988 300 BGN on “Industrial Commerce” EOOD, 83 400 BGN on “Alexiev” EOOD, 291 100 BGN on “Technocar” EOOD, 13 000 BGN of “Karmobil” EOOD, 5 000 BGN on “Kabi Car” EOOD and 32 400 BGN on “Mototehnika Hristov” sole proprietor.
2.1.3. Commitments by retail food chains

18. By Decision № 833/19.07.2012 the CPC approved commitments, proposed under Art.75 LPC by “Metro Cash & Carry Bulgaria” EOOD, “Billa Bulgaria” EOOD, “Kaufland Bulgaria” EOod, “Hit Hypermarket” EOOD, “Maxima Bulgaria” EOOD and “Piccadilly” EAD. During the proceeding, the Commission examined the policy of the above retailers in terms of the conditions for supplying food products and the contractual relations between the retailers and their suppliers. In the abovementioned vertical contracts for delivering food products signed between the retailers and their suppliers, the CPC found the presence of certain clauses, primarily concerning the pricing of the delivered goods, which created obligations and restrictions for suppliers in their vertical relations with each of the retailers. Their simultaneous and parallel presence in the contracts separately signed by the retail chains with the same suppliers led to a justified concern by the CPC that the retail chains could deliberately coordinate their conduct even without an explicit agreement or direct contacts with each other.

19. Due to the reasonable doubt for the existence of restrictions on competition, the CPC submitted to the retail chains a Statement of Objections for violation of Art.15 (1) LPC consisting in the application of joint mechanisms for coordination of their trade policy on the market of the supply of goods, as well as in coordination of their marketing policy with regard to promotions. Each of the defendants proposed commitments to take specific actions in order to discontinue the conduct in relation to which the CPC’s proceeding had been initiated. The commitments concerned mainly the removal of the ambiguous contract clauses and general conditions between the retail chains and their suppliers. Those commitments were intended to disrupt the possibility of prevention, restriction or distortion of competition in the market by the companies through coordination of their commercial and marketing policy on the market of the supply of goods. Timely removal of common mechanisms is essential for the normal functioning of competition in the relevant market. The Commission assessed the commitments proposed by the defendants and approved them on the presumption that they would lead to a rapid and effective prevention of the dangers to competition, and on the fact that they contained specific measures to restore competition in the market.

2.2. Action against abuse of monopoly and dominant position

20. In 2012, the CPC initiated 16 proceedings for abuse of dominant position under Art. 21 LPC and/or Art.102 TFEU and adopted a total of 13 decisions under Art.21 of the LPC and/or Art.102 TFEU.
2.3. Mergers and acquisitions

21. In 2012 the CPC initiated a total of 24 proceedings on concentrations between undertakings and adopted a total of 28 decisions authorizing concentrations between undertakings. In one case, the Commission opened an in-depth investigation due to doubts that the notified transaction would significantly impede competition. The CPC also imposed pecuniary sanctions to the amount of 45 679 BGN (~23 365 Euro) for breach of the obligation for prior notification of a concentration.
3. CPC competition advocacy cases

22. In 2012 a total of 37 proceedings were initiated under Art. 28 LPC, namely – for the assessment of the compliance with competition rules of draft legislative or regulatory administrative or general administrative acts; of legislative or regulatory administrative or general administrative acts in force and of draft acts of associations of undertakings, which regulate the activities of their members. A total of 32 decisions on competition advocacy cases were taken by the CPC.

23. With its decisions the CPC made proposals to the competent authorities for amendments or supplements to the following draft or acting legislative acts:

- Draft Law on amending the Law on Protection of Competition;
- Draft Law on amending the Public Procurement Act;
- Draft Act on amending the Act on the Activities of Provision of Services;
- Draft Law on amending the Law on the Chamber of Representatives in Industrial Property;
- Veterinary Practice Act;
- Act on the Professional Organization of Veterinarians in Bulgaria and the bylaws governing the conditions for providing veterinary services in the country;
• Ordinance on Regulating and Registering the Prices of Medical Products (Art. 5 (4) of the Ordinance);

• Ordinance № 10 of 24 March 2009 on the Terms and Conditions for Reimbursement of Medical Products under Art. 262 (5), p. 1 of the Law on Medicinal Products in Human Medicine, as well as of medical devices and dietary foods for special medical purposes;

• Ordinance on the Regulation and Registration of the Prices of the Medicinal Products, the Conditions, Rules and Criteria for Inclusion, Change and/or Exclusion of Medicinal Products from the Positive Drug List (PDL) and the Terms and Conditions of work of the Pricing and Reimbursement Commission (Article 27 (3) of the Ordinance);

• Ordinance № H-18 of 13 December 2006 for the Registration and Reporting of Sales in Commercial Outlets with the Means of Fiscal Devices.

Figure 4. On competition advocacy for the period 2008-2012

3.1. Case Studies

3.1.1. Veterinary Services

24. By Decision № 274/13.03.2012, the CPC adopted an opinion on the compliance with the competition rules of the legal framework governing the conditions for carrying out veterinary activities in the country.

25. The CPC considered that the requirement for being entered in a register as a condition for working as a veterinary doctor is justified. Further to this, the existence of the requirement for compulsory membership in a professional organization depends on whether the State has assigned regulatory and supervisory functions to the organization. Provided that the Bulgarian Veterinary Union (BVU) is assigned certain control functions, the membership is necessary and mandatory for the effective implementation of those functions. In this regard, the CPC supported proposed amendments to the Veterinary Act, providing
for the creation of the Federation of Veterinarians in Bulgaria. This would allow veterinarians to select what professional organization to join.

26. The Commission proposed to eliminate the requirement for three years of professional experience for the position of Director of a veterinary hospital as it unduly limits the number of market participants.

27. Furthermore, the Commission proposed the existing restriction for the veterinarians to practice only in a certain area to be removed as it restricts competition by creating geographical barriers to the free movement of goods or services, and also limits the ability of suppliers to compete by limiting the geographical area in which providers of veterinary services can operate.

28. Next, the CPC proposed the power of the BVU to set minimum prices for veterinary activities be revoked as the fixing of minimum prices is one of the most serious infringements of competition.

29. The CPC also proposed the abolishment of the power of the BVU to determine annually the number and names of the members of registered veterinarians with whom to enter into a contract for the state paid prevention program as it restricts the free business initiative and distorts competition putting existing members in this market in a privileged position compared to new entrants. Another power of the BVU also placed some veterinary practitioners in a privileged position compared to others – the power of the BVU to decide to which of its members to grant use of state-owned veterinary clinics free of charge.

30. The CPC proposed also the repeal of the prohibition for a trainee assistant (stagier) or deputy veterinarian to establish professional practice within a radius of 30 km from the office of the clinic where he worked, because this provision creates restrictions for performing veterinary activities in a particular region and prevents competition between market participants.

3.1.2. Medicinal products

31. By Decision № 1428/04.12.2012 the CPC adopted an opinion on the compliance with competition rules of Art. 5 (4) of the Ordinance for regulation and registration of the prices of the medical products, for the conditions, rules and criteria for inclusion, change and/or exclusion of drugs on the positive drug list of medicines and the terms and conditions of work of the Committee on prices and reimbursement (the Ordinance).

32. According to the provisions of Art.5 (4) of the Ordinance, in the case of medicines for home treatment of insured individuals, 100% reimbursed by the National Health Insurance Fund (NHIF), it is set that the pharmacy does not make a surcharge for the retailer but receives only 2 BGN for the administration of each filled prescription form. This amount is not interconnected to the cost of medicines.

33. According to the CPC, taking into account the fact that in a prescription form there can be up to 3 medicines, incl. those with more than one package, and that almost all medical products with a level of 100% reimbursement are priced over 3 BGN, this means that in most cases, payment of 2 BGN that pharmacies receive is lower than the amount they would receive if they were able to make an overcharge.

34. Additional obstacle faced by pharmacies is the provision of Art.8 (6) of the Ordinance № 10 that the amount of 2 BGN for each reported prescription form, and the value of the product reimbursed to them by the NHIF are paid within 30 business days from the date of submission of the required documents. Based on the possible dates for reporting and its execution time, it was determined that the average length of time between the sale of the product and the reimbursement of the price of the drug to the pharmacy was 51 days.
35. According to the Commission the long duration of the period between dispensing of the product and payment of its value from the NHIF creates a necessity for pharmacies to block their own or loaned funds or to negotiate postponement of their payment with wholesalers, i.e. sale of 100% reimbursed medicines creates additional difficulties for retailers by reducing the amount of working capital required for the normal operation of the pharmacy.

36. Furthermore, the retailer of medicinal products is obligated to pay VAT on the sold product within an average of 29 days after its sale. This period is 22 days shorter than the calculated above average duration of 51 days between dispensing and recovery of the value of the product to the pharmacy. According to the CPC the lack of correlation between the two regulatory regimes – the tax and the reimbursement regimes in this case, unduly hinders the business of pharmacies that participate in the reimbursement market, thereby reducing their natural market incentives to be present and to operate in this market. In turn, this status strongly encourages pharmacies to leave the market or restrict the supply of medicines, which is likely to result in significant harm to the interests of consumers of 100% reimbursed medicines that are actually the ultimate target of the reimbursement policy of the state.

37. The Commission considered that the reduced incentives to retailers to enter the market of medical products reimbursed 100% by the NHIF could lead to restriction of competition by reducing the number of market participants. On one hand, this could increase the market concentration, and on the other hand, limit the consumers’ choice. The reduced number of retailers on the market of medical products paid 100% by the NHIF can reduce participants on other markets in which the pharmacies operate: the market of medical products, partially paid by NHIF as well as the market of medical products for free sale, as it is reasonable to expect that consumers who use 100% reimbursed medicines, purchase other drugs that they need from the same pharmacy.

3.1.3. Services of industrial property representatives


39. According to Art.4 of the Bill, an industrial property representative can be any person who meets the requirements specified in the provisions, one of which is work experience. Under §1 of the additional provisions of the draft, experience within the meaning of Art.4, p. 3 is “the time during which one has worked in the position of expert in the expert departments, the Department of Disputes or the Legal Services Department in the Patent Office, as a trainee to an industrial property representative or as an industrial property specialist or as a lecturer on industrial property in a university”.

40. In the Commission's view, the requirement of 3 years minimum experience in the field of industrial property, acquired in the last 10 years, is objectively likely to function as an additional and unjustified barrier to entering the market. Considering the above it should be noted that the presence of an officially recognized diploma within the meaning of Art. 4 (2) of the draft law and passed examination by the applicants to practice as an industrial property representative can be regarded as sufficient indicators for the presence of knowledge and expertise in the area needed to practice this regulated profession. The cumulative requirement for three years of service, combined with the definition of work experience (§1 of the additional provisions of the draft law), containing a list of the practices that are recognized as such, could limit or delay the market entry of some companies providing services in the field of industrial property, which even with the sufficient knowledge and expertise cannot meet the experience requirements.

41. Therefore, the CPC considered that the recognition of the minimum required experience for the period during which the applicant has been in the exhaustively listed in §1 of the additional provisions
types of employment relationships or their equivalent, sets unreasonable barrier to certain potential candidates on the market and restricts competition in the provision of the above professional services.

4. **Sector inquiries, conducted by the CPC**

4.1. **Sunflower and sunflower oil markets**

42. By Decision № 686/22.06.2012, the Commission adopted a sector inquiry of the competitive environment on the two interconnected markets of production and marketing of sunflower and sunflower oil in the country.

43. In its analysis the CPC found that the above-mentioned markets are highly fragmented and comprise many manufacturers, which implies the existence of many intermediate traders who mediate the purchase of raw materials. Part of the raw materials is purchased directly from the sunflower oil refineries at more favorable conditions, which influences the price dynamics in the chain. The Commission found discrepancies in the price changes at the level of the agricultural production and processing of sunflower seeds into sunflower oil, since it did not observe the necessary immediate price adjustments along the chain in case of change in the price of raw materials.

44. Based on the results of the sector inquiry the Commission initiated a proceeding for a possible breach of Art.15 of the LPC by the three main oil producers – “Biser Oliva”, “Zvezda” and “Kaliakra” – in relation to the identified in the inquiry vertical restraints in their contractual relations as to buying and selling sunflower seeds by distributors.

4.2. **Wheat, flour and bread markets**

45. By Decision № 1125/02.10.2012 the CPC adopted a sector inquiry of the competitive environment on the interconnected downstream markets of wheat, wheat flour and wheat bread for mass consumption in Bulgaria.

46. The inquiry examined the status of each of the vertically related markets “wheat – flour – wheat bread for mass consumption”, focusing on the study of price dynamics for the years between 2008 and 2010.

47. As regards the production market and marketing of wheat in the country, it was established that it is highly fragmented, with a large number of farmers with different legal status, which implies the existence of many intermediate traders who mediate the purchase of wheat. The lack of agricultural stock markets and financial derivatives (e.g. futures contracts) on which manufacturers could directly sell their produce also leads to a distortion of price signals between the various participants in the chain.

48. Along the next level of the chain – the storage of wheat – the number of the participants decreases, due to the existence of a mandatory requirement to have facilities that are licensed and comply with specific regulatory standards. Mills are able to negotiate their supply of raw material for production with a large number of potential suppliers (farmers and/or grain traders with whom they are not vertically integrated), which in turn gives them the advantage to negotiate favorable purchase prices of wheat. The Commission found asymmetry in the price change of flour (type 500, type 700) and wheat, expressed in a significant increase in the wholesale price of flour compared to the price increase of the main raw material – wheat, for the period from July to December 2010.

49. Following the sector inquiry and its findings, the Commission opened an investigation for a possible infringement of Art.15 LPC by the Union of Bulgarian Millers, which brings together companies with established significant influence on the market of production and trade with wheat flour. The CPC
also informed the Ministry of Agriculture and Food of the possible need to take the appropriate measures in its power to achieve a more stable market environment for the development of efficient competition in each link of the chain.

4.3. **Distribution of new motor vehicles, spare parts and repair services market**


51. The inquiry examined the organization and structure of networks established by vehicle manufacturers and their authorized importers in Bulgaria for the distribution of new motor vehicles (cars and vans), original spare parts and repair services. As part of the inquiry, the market position of the participants in the distribution networks of new motor vehicles, namely the importers and their authorized dealers, as well as the brands of new motor vehicles which they imported, was analyzed. The inquiry also examined the contractual relations between the participants in the different levels of the distribution networks, including between manufacturers and their authorized importers, and between importers and their authorized dealers, in order to ascertain their compliance with the requirements and objectives of existing EU and Bulgarian legislation for block exemption of vertical agreements in the sector.

52. As a result of the analysis of the contractual relations between the importers and the dealers of new vehicles, the CPC found that in their relations with the authorized dealers and repair shops, some importers apply certain vertical restraints which are not covered by the block exemption under Art. 15 LPC and Art. 101 TFEU. The vertical restraints on competition, identified by the Commission, imposed by certain importers in regards to their authorized dealers and repair shops, can be summarized as follows:

- Direct or indirect restrictions on dealers not to distribute competing brands of new vehicles. In some cases those restrictions continued for 2 years after the termination of the contract;

- Quantitative criteria for access by independent companies to networks of authorized repairers or indirect requirements for repair shops to sell new motor vehicles;

- Restrictions on dealers and repairers to carry out active sales outside the assigned area of operations, including on the territories of other EU member states;

- Limitations on authorized repairers to sell competing brands of spare parts and accessories, including spare parts of matching quality for out-of-warranty repair services;

- Requirements for customers to use only the services of authorized service providers for repair services within the warranty period;

- Obligations for authorized dealers to apply fixed or minimal prices for the sale of new vehicles, which have been set by the importers.

53. As a measure to improve the competition in the sector of the distribution of new motor vehicles, original spare parts and repair services, the Commission recommended to the importers to remove the established vertical restraints on competition in the contractual relations with their authorized dealers and repairers.
5. **Resources of competition authorities**

5.1. *Annual budget (in your currency and USD):*

- 3 805 200 BGN (1 946 394 Euro) for 2012
- 3 755 167 BGN (~1 920 802 Euro) for 2011

5.2. *Number of employees:*

- economists – 26
- lawyers – 69
- other professionals – 18
- support staff – 19
- all staff combined -113

5.3. *Human resources applied to:*

- Enforcement against anticompetitive practices - 24
- Merger review and enforcement – 8
- Advocacy efforts -11

5.4 *Period covered by the above information:*

- 2012

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1 The numbers under this point include the Members of the CPC and all experts, working at the CPC (incl. those, dealing with Unfair Competition and Public Procurement Review)