

**Decision on the universal postal service tariff proposal, notified by
CTT – Correios de Portugal, S.A., on 17.02.2014**

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1. Introduction

CTT – Correios de Portugal, S.A. (CTT) submitted to ICP - Autoridade Nacional das Comunicações (ICP - ANACOM), on 17.02.2014, a price and discount proposal in the scope of the universal postal service, to apply with effect from 01.04.2014.

Upon a request made by this Authority on 25.02.2014, CTT submitted, by letter of 12.03.2014, additional information and clarifications on the referred price proposal.

On 21.03.2014, CTT changed its proposal, and informed that the proposal for elimination of the simple registered mail modality in the occasional segment would be of no effect, and that the current price list for this service would remain in force.

The price proposal presented by CTT comes under the scope of application of the Universal Postal Service Price Convention, concluded on 10 July 2008 between ICP - ANACOM and CTT, taking into account that paragraph 7 of article 57 of the Postal Law (Law No. 17/2012, of 26 April, as amended by Decree-Law No. 160/2013, of 19 November), provides that such Convention will remain temporarily in force, until ICP - ANACOM establishes the criteria governing the setting of prices of the universal service (as provided for in paragraph 3 of article 14 of the Postal Law).

CTT's communication included a price and discount proposal for the service of legal summons and notifications by post, which is reserved for CTT, under paragraph 3 of article 57 of the Postal Law, which was the subject of a separate decision by ICP - ANACOM, dated 21.03.2014.

This decision thus focuses exclusively on the price and discount proposal submitted by CTT for non-reserved services.

The price proposal (in appendix hereto) includes the following features:

- a) It concerns parcels up to 10 kg and items of correspondence up to 2 kg, including registered items and insured items, falling within the scope of the universal postal service, namely¹:
 - i. Of a national scope: standard mail, priority mail, registered mail, easy mail, standard parcels and insured items;
 - ii. Of an international scope: standard mail, priority mail, registered mail, prime priority mail, easy mail, economic mail, standard parcels and insured items.
- b) As regards items of correspondence, CTT's proposal corresponds, on 01.04.2014, to an average overall increase by 3.1%, which corresponds to a price average annual change by 4.1% (*vide* Table 1).

¹ As regards services that integrate the universal service, CTT's proposal fails only to include prices for the delivery service of books, newspapers and periodicals as well as prices applicable in the scope of the special pricing regime, under article 14-A of the Postal Law.

- c) Relatively to postal parcels, CTT proposes a change on 01.04.2014 by around 4.2% in the national service and by 1.3% in the international service, which corresponds to an average annual change by 6.4% and 1%, respectively.
- d) The price of items of correspondence up to 20g of the national standard mail service, in the occasional segment, changes from the current 0.40€ to 0.42€, the price of items of correspondence up to 20g of the national priority mail service, in the occasional segment, standing at 0.50€;
- e) Elimination of the Special Regime for East Timor, taking into account, according to CTT, the cost-orientation of prices, these items of correspondence being applied the pricing set out for international correspondence to the Rest of the World.

CTT requests of ICP - ANACOM the authorization, under paragraph 7 of article 5 of the Price Convention, for the reduction of the timeframe for communicating prices to users, provided for in that article.

2. Regulatory framework

According to paragraph 7 of article 57 of the Postal Law, the Price Convention, concluded on 10 July 2008 between ICP - ANACOM and CTT, remains temporarily in force, as far as the universal service is concerned, as defined by the Postal Law, until ICP - ANACOM establishes the criteria governing the setting of prices of the universal service (as provided for in paragraph 3 of article 14 of the Postal Law).

The price proposal submitted by CTT, as far as non-reserved services are concerned, is thus analysed in the light of the following rules of the referred Price Convention:

- a. non-reserved services are not subject to any price-cap;
- b. CTT must report to ANACOM, in writing, the price of each postal service comprised in the universal service, in accordance with the rules of this Convention, with an advance notice of at least 30 working days from the date of entry into force thereof (paragraph 1 of article 5);
- c. CTT must disclose prices for each of the services pertaining to the universal service at least 10 working days in advance of the respective date of entry into force, through the appropriate means for the provision of information both to users in general and to the respective market segments (paragraph 6 of article 5);
- d. ICP-ANACOM is entitled to authorize the reduction of the timeframe provided for in the previous two paragraphs, upon reasoned request submitted by CTT (paragraph 7 of article 5);
- e. The pricing system of services integrating the universal service is governed by the principles of cost orientation, transparency and non-discrimination. The principle of cost orientation is applied progressively, so as to allow for a gradual rebalancing of tariffs and to ensure the affordability of prices (paragraphs 1 and 2 of article 2);

- f. Prices of non-reserved services take effect on the date provided for, ICP-ANACOM being entitled to determine changes to those prices at any time, which must be duly reasoned on the basis of compliance with the above-mentioned principles, and taking also into account the levels of quality of service achieved (paragraph 5 of article 5);
- g. CTT is entitled to apply discounts on prices of services, where economic reasons, namely those related to economies of scale, so justify. Such discounts apply in compliance with the principle of cost orientation, taking into account the avoided costs compared to the standard service providing all operations concerning acceptance, sorting, transport and distribution of postal items, as well as with the principles of transparency and non-discrimination towards all customers who meet the same requirements and conditions (paragraphs 1 and 2 of article 7);
- h. CTT is also under the obligation to publish in an appropriate manner, including by making available in a specific address of CTT's website, and to regularly supply users with information on the conditions for the application of tariffs covered by the Convention as well as on the respective discounts [point c) of paragraph 3 of article 2].

It should also be referred that the uniform tariff principle (provided for in the Price Convention) does not apply, as it is not directly imposed under the Postal Law. On this subject, the Postal Law, in its article 14, paragraph 8a), lays down that this Authority may determine, for duly substantiated reasons relating to the public interest, that the price of items of correspondence weighting less than 50g complies with the uniform tariff principle, a uniform tariff being applied throughout the national territory, without prejudice to the right of universal service providers to conclude with users individual agreements on special prices. This principle has not been imposed so far by ICP - ANACOM.

Pursuant to article 37 c) of the Statutes of ICP - ANACOM, its Advisory Council is required to provide an opinion specifically on prices and tariffs of the universal service.

3. Principles of transparency and non-discrimination

The Price Convention determines that the prices of the universal service, including discounts, must be transparent and comply with the principle of non-discrimination towards all customers who meet the same requirements and conditions (article 2, paragraph 1, combined with article 7, paragraph 2), being incumbent on CTT to publish in an appropriate manner, including by making available in a specific address of its website, and by regularly supplying users with information on the conditions for the application of prices covered by the Convention as well as on the respective discounts (article 2, paragraph 3 c)).

It is deemed that the publication of prices and of any discounts associated to the provision of the universal service must include information on all applicable prices, discounts and conditions, in a clear language that allows any user to understand and calculate the price to be paid for the service, irrespective of the service and available modalities of delivery. The publication in these terms will contribute to limit any anticompetitive and discriminatory behaviour, as prices and other conditions are known from the outset by competitors and the regulator.

4. Principle of cost orientation and affordability

The Price Convention lays down that the prices of the universal service must comply with the principle of cost orientation, which must be applied progressively, so as to allow for a gradual rebalancing of tariffs and to ensure the affordability of prices (article 2, paragraphs 1 and 2).

Discounts must also take into account the avoided costs compared to the standard service that provides all operations concerning clearance, sorting, transport and distribution of postal items (article 7, paragraph 2).

Prices of postal services that integrate the universal service provision must, on the other hand, comply with the principle of affordability to all users.

The methodology which ICP - ANACOM has adopted for analysing proposals of prices of the universal postal service has focused, implicitly or explicitly, on (i) taking the basket of services as a whole, while bearing also in mind cost orientation according to the service or group of services, (ii) the overall margin, which should decrease or ultimately not increase where positive.

As regards the analysis of cost orientation of prices in the price proposal under consideration, this Authority takes the view that:

- a) In case the margin of the basket of services concerned is positive for 2013, a price proposal for 2014 will comply with the principle of (progressive) cost orientation of prices where the price proposal does not lead to an increase of the margin of services between 2013 and 2014;
- b) The margin to be considered is the relative margin (in %) compared to revenues;
- c) Moreover, in an analysis on a service-by-service basis, in case there are services for which the increase of the positive margin or the deterioration of the negative margin is estimated, likely from the outset to enhance situations of excessive rents or predatory prices, respectively, ICP - ANACOM will bear in mind in particular:
 - i. CTT's proposal for change of prices for the service concerned;
 - ii. whether the margin is close to zero (specifically, whether the value of estimates of the margin for 2013 and 2014, in modulo, lies within the range [0%; 5%];
 - iii. whether the mark-up estimated for 2014 is close to that estimated for 2013 (specifically whether the difference is equal to or lower than 0.5%; for example, whether the 2013 mark-up = 5,0% and the 2014 mark-up = 5,4%);
 - iv. whether significant traffic reductions inducing increases in unit costs are forecasted;

- v. whether the service presents insignificant traffic values, with a corresponding importance in revenues and costs (for example, traffic value lower than 0.1% of total traffic), which may result in traffic changes being likely to imply significant margin changes (in %).

For example, if a given service is estimated to present the deterioration of the negative margin but CTT presents a proposal for price increase, such proposal may be deemed, within certain limits, to be in conformity, in the light also of the natural uncertainty associated to the evolution of costs in 2014. Likewise, if a given service is estimated to present an increase in its positive margin but CTT does not propose to increase the respective prices, such proposal may be deemed, in specific circumstances, to be in conformity.

5. Analysis of the conformity of the price proposal

Evolution of the margin between 2013 and 2014

Based on the most recent information available on costs, traffic and revenues for 2013², it is estimated that in 2013, the overall margin of the basket of non-reserved services concerned by CTT's proposal is positive, amounting to (BCI) (ECI) million Euro, corresponding in relative terms to a margin of (BCI) (ECI) %.

For 2014, CTT proposes:

- a) for items of correspondence, an average annual change of prices by 4.1% (*vide* Table 1).
- b) for postal parcels, an average annual change of prices by 6.4% in the national service and of 1% in the international service. As regards the latter, the price change results from a review of charging areas, some countries having been rescheduled from Area 1 to Area 2, and from Area 2 to Area 3, which according to CTT aims to ensure better cost alignment and greater geographical consistency.

Table 1 shows in brief price changes proposed by CTT, according to service, destination and segment.

² Values estimated for 2013, presented by CTT by letters of 12.03.2014 and 21.03.2014.

Table 1. Price change proposal for 2014

<i>ITEMS OF CORRESPONDENCE</i>	NATIONAL SERVICE	One-off change on 01.04.2014	Average annual change on 2014
Occasional	<i>Standard mail</i>	4.45%	12.29%
	<i>Priority mail</i>	2.58%	3.93%
	<i>Registered mail</i>	5.34%	5.87%
	<i>Easy mail</i>	2.95%	3.73%
	<i>Rate of change for the Occasional Segment</i>	4.36%	7.70%
Contractual	<i>Standard mail</i>	3.77%	4.15%
	<i>Priority mail</i>	0.55%	1.08%
	<i>Registered mail</i>	1.86%	2.00%
	<i>Easy mail</i>	3.97%	4.37%
	<i>Rate of change for the Contractual Segment</i>	2.33%	2.58%
<i>ITEMS OF CORRESPONDENCE</i>	INTERNATIONAL SERVICE		
Occasional	<i>Standard mail</i>	2.04%	1.95%
	<i>Priority mail</i>	10.90%	8.78%
	<i>Registered mail</i>	4.53%	4.16%
	<i>Prime express mail</i>	2.96%	2.91%
	<i>Economic mail (Special regime)</i>	4.72%	11.22%
	<i>Easy mail</i>	0.00%	1.85%
	<i>Rate of change for the Occasional Segment</i>	3.64%	3.33%
Contractual	<i>Standard mail</i>	1.35%	0.83%
	<i>Priority mail</i>	11.38%	7.62%
	<i>Registered mail</i>	4.05%	2.47%
	<i>Prime express mail</i>	0.47%	0.41%
	<i>Economic mail (Special regime)</i>	8.13%	6.52%
	<i>Easy mail</i>	0.00%	2.70%
	<i>Rate of change for the Contractual Segment</i>	3.70%	2.40%
INSURED MAIL		3.88%	3.81%
PARCELS	NATIONAL SERVICE		
	<i>National by land</i>	4.10%	6.42%
	<i>National by air</i>	6.00%	6.51%
	INTERNATIONAL SERVICE	1.30%	0.97%

Source: CTT and ICP - ANACOM

Taking into account:

- the estimated 2013 margin of the basket of services concerned by the price proposal;
- The price proposal presented by CTT to take effect as from 01.04.2014;
- Forecasts on traffic, costs and revenues for 2014 submitted by CTT³;

it is deemed that, on the whole, the price proposal presented by CTT complies with the principle of (progressive) cost orientation of prices, as it is estimated that it results in the reduction of the relative

³ By letter sent by CTT on 21.03.2014.

margin of services under consideration (in %), from as estimated margin of (BCI) (ECI) % in 2013 to (BCI) (ECI) % in 2014, as well as in a decrease in absolute terms, from as estimated margin of (BCI) (ECI) million Euro in 2013 to (BCI) (ECI) million Euro in 2014 (*vide* Table 2).

Table 2. Overall margin estimates and per service estimates

<i>Total (Occasional Seg.+ Contractual Seg.)</i>	2013 (estimates)		2014 (forecasts)	
	Margin (thousand Euro)	Mg (%)	Margin (thousand Euro)	Mg (%)
<i>National S. Items of Correspondence</i>	(BCI)			
Standard mail				
Priority mail				
Registered mail				
Easy mail				
<i>International S. Items of Correspondence</i>				
Standard + Economic mail				
Priority mail				
Registered mail				
Prime express mail				
Easy mail				
<i>Total Items of Correspondence</i>				
<i>Parcels</i>				
National Service				
International Service				
<i>Insured items</i>				
National and International Service				
<i>Total</i>				(ECI)

Source: CTT estimates for 2013 and 2014.

More details per service presented in the Annex hereto.

A service-by-service analysis also shows a (progressive) cost-orientation of prices (*vide* Table 2). Notwithstanding, it should be referred that:

- The margin of the national priority mail, which in 2013 was negative, is estimated to deteriorate both in value and percentage (by around 4.4%), however CTT presents a proposal increasing significantly the average nominal value of prices, both for the occasional and the contractual segment. This service has shown a traffic fall over the last few years, and its margin evolution depends on the evolution of traffic, which is estimated to fall further in 2014;
- As regards the parcel service, which as a whole shows a negative margin, the respective margin is estimated to deteriorate both in value and percentage (by around 3%), although it is estimated that CTT's price proposal will result in a reduction of the positive margin in the international service and an improvement of the negative margin in the national service;

On the whole, these services represent close to 10% ((BCI) (ECI)%) of total revenues of the non-reserved basket of services concerned by this price proposal.

As regards prices for items of correspondence of standard mail and priority mail up to 20 gr, in the occasional and contractual segments CTT propose:

- a) An increase in 2 Euro cents in the price of standard mail both in the occasional and contractual segments (*vide* Table 3);

In the occasional segment, the price increases from 40 Euro cents to 42 Euro cents (one-of change by 5%). It is stressed that this service was subject to price changes in 2013, one in 01.04.2013 (the price increasing from 0.32 Euro cents to 0.36 Euro cents) and the other in 01.11.2013 (increasing to the current 40 Euro cents). In average annual terms, CTT's proposal consists in a change of the average price in 2014, relatively to the average price in 2013, by 16.4%.

In the contractual segment, the price changes to 35 Euro cents, which corresponds to a one-off change by 6.1%. In average annual terms, CTT's proposal consists in a change of the average annual price in 2014, relatively to the average price in 2013, by 6.6%.

This evolution represents an appropriate movement of relative prices of these offers, towards a higher increase of prices of the standard service in the occasional service, where the margin is significantly negative, compared to the price of the standard mail in the contractual segment, which shows a positive margin.

- b) Prices of national priority mail remain unchanged both in the occasional and contractual segments, which means that, in average annual terms, there is an increase in the average price of priority mail (20 gr of weight) in the occasional segment by 1.5% relatively to the average price in 2013⁴, while in the contractual segment there is an increase by 0.5%⁵ (*vide* Table 3).

This evolution represents a proper movement of relative prices of these offers, towards a higher increase of prices of priority mail in the occasional service, where the margin is significantly negative, compared to the price of priority mail in the contractual segment, which shows a positive margin.

⁴ Given that the current price (0.50 Euro) took effect on April 2013, having increased at the time from 0.47 Euro to 0.50 Euro, the average price for 2013 thus being lower than 0.50 Euro (*vide* Table 3).

⁵ Given that the current price (0.47 Euro) took effect on April 2013, having increased at the time from 0.46 Euro to 0.47 Euro, the average price for 2013 thus being lower than 0.47 Euro (*vide* Table 3).

Table 3. Margin and proposal for change in prices - standard and priority mail up to 20 g

	Margin					Average price 2013	Current price	Price proposal 1 April 2014	Price change on 1 April 2014	Average annual price change in 2014
	2010	2011	2012	2013	2014					
National standard mail	(BCI)									
Occasional segment						0.3567 a)	0.40	0.42	5.0%	16.4%
Contractual segment						0.3238 b)	0.33	0.35	6.1%	6.6%
National priority mail										
Occasional segment						0.4925 c)	0.50	0.50	0%	1.5%
Contractual segment					(ECI)	0.4675 d)	0.47	0.47	0%	0.5%

Source: Margin 2010-2012 - CTT's cost accounting system; margin 2013 (estimate) - CAS data for the 1st half of 2013. Margin for 2014: ANACOM estimates, taking into account the non-application of discounts in 2014 and the evolution of the unit cost in 2014 of items of correspondence up to 20gr that is identical (in relative terms) to the evolution of the unit cost of the service as a whole, per segment.

Margin with respect to revenues; cost of capital included.

Price change: ANACOM calculations made on the basis of CTT's price proposal.

Notes:

- a) 0.32 Euro from January to March; 0.36 Euro from April to October; 0.40 Euro in November and December.
- b) 0.305 Euro from January to March; 0.33 Euro from April to December.
- c) 0.47 Euro from January to March; 0.50 Euro from April to December.
- d) 0.46 Euro from January to March; 0.47 Euro from April to December.

Elimination of the Special Regime for East Timor

CTT proposes to eliminate the Special Regime for East Timor in the provision of international standard mail and international economic mail, to apply prices applicable to mail to the Rest of the World. This change focuses, according to CTT, on the cost orientation of prices.

Standard mail and economic mail to East Timor represented around 1% of outgoing international mail traffic of services under consideration here, in 2012 and 2013, corresponding to (BCI) (ECI) thousand items sent in 2012 and (BCI) (ECI) thousand items sent in 2013⁶, 94% of which via standard mail and the remaining 6% via economic mail; overall, it corresponded to less than 0.1% of total items of correspondence (national and international).

The Special Regime modality presents a negative margin, according to data of CTT's cost accounting system up to 2012, and according to CTT's estimates for 2013, although on the whole it has an insignificant weight as far as CTT's activity is concerned (as it covers only deliveries to East Timor, Guinea-Bissau and São Tomé and Príncipe).

⁶ Which corresponds to an estimate by 9% of traffic increase of this offer between 2012 and 2013.

It is likely that further to the elimination of this provision, current users turn to the standard international mail modality (both in the occasional and contractual segment). Considering prices proposed by CTT, it is estimated that this shift leads to a price increase between 1 to 29% in the case of users that use today the standard mail special regime and between 90 to 567% in the case of users that use the economic mail special regime⁷.

It is deemed, on the whole, that the elimination of this service does not hinder the guarantee of the universal service provision, namely in the light of the existence of alternatives in the scope of offers that integrate the universal service and the insignificant values of the traffic considered. However, the elimination of the offer in such a short period of time may harm in the short term users that use this service modality.

In this context, this Authority takes the view that the elimination of this modality must be communicated to users as early on as possible, in order to allow them a greater period of adjustment, which shall not be less than four calendar months.

Discounts

CTT is entitled to apply discounts on prices of services covered by the Price Convention, where justified by economic reasons, namely those related to economies of scale. Such discounts apply in compliance with the principles of cost orientation, transparency and non-discrimination.

CTT's price proposal includes a change in discounts applicable to the contractual segment, as described below.

a) Franking machines

A reduction by 0.5 percentage points (*vide* table 4) is proposed in discount rates applicable to the regime of mechanical franking machines, for all topping up steps. According to CTT, this change aims to highlight the difference between discounts granted to these traditional franking machines and digital ones, so as to encourage the use of the latter, in order to promote gains brought about by the use of this equipment (via elimination of topping up at post stations and of the need for monitoring).

⁷ It is stressed that the international economic mail service was discontinued by CTT in 2013, except for mail covered by the Special Regime.

Table 4 - Proposal for discounts in the use of franking machines

Topping up of analogue franking machines	Current application of the discount table	Application of the proposed discount table	Change
	Average discount	Average discount	
Less than € 500	-	-	-
Between € 500 and € 9 900	(BCI)		
Between € 10 000 and € 49 900			
More than € 50 000			
Total			(ECI)

Source: CTT

b) Postal services on credit terms

In the scope of discounts applicable to postal services paid on credit terms, CTT present three proposals for change:

- i) Change in the determination of the discount rate applicable every month, by eliminating the formula that defines the basis for billing eligible for establishing the discount step to be applied every month.

Under the current rule, the monthly discount rate depends on the billing of month n and of the two preceding months, unpaid bills being deducted. CTT intends to change this rule, replacing it for the condition that indexes the discount rate and the billing of month No. (only), subject to the non-existence of overdue bills.

CTT thus estimates the reduction of effective discounts - *vide* table below⁸.

⁸ It must be referred that these discounts, as well as those presented in the following points, apply also to standard bulk mail, which are covered by the special price regime mentioned in article 14-A of the Postal Law.

Table 5 - Proposal for change in the calculation of the monthly discount rate (elimination of the formula)

Services	Current application of the discount table	Application of the proposed discount table	Change
	Average discount	Average discount	
National standard mail	(BCI)		
National priority mail			
National registered mail			
International standard mail			
International priority mail			
Prime express mail			
International registered mail			
International parcel service			
Notification / Summons by Post			
Total 1			
National standard bulk mail			
Business mail			
Total 2			(ECI)

Source: CTT estimates

- ii) Change in discounts associated to the adoption of credit payment via direct debit, with a reduction of the level of discounts in case the direct debit system is not taken up.

According to CTT, this change (adoption of credit payment via direct debit) aims to simplify systematic commercial efforts and to rationalize administrative procedures required to meet deadlines for payment defined by contract, representing also, for clients that adopt this means of payment (credit payment via direct debit) an extension of the deadline for payment from 30 to 45 days.

CTT adds that the company has recurring expenses that include administrative costs, non-payment impairments and interest for non payment in time.

Table 6 shows CTT estimates on the impact of the change in the application of discounts, having been considered 3 levels of direct debit take-up by clients (100%, 75% and 50%).

It may be concluded that the higher the level of client take-up of the direct debit system, the lower the reduction of the discount rate, compared to the current situation.

Table 6 - Proposal for discounts on direct debit payments

Services	Direct debit take-up rate: 100%		Direct debit take-up rate: 75%		Direct debit take-up rate: 50%		
	Current application of the discount table	Application of the proposed discount table	Application of the proposed discount table	Application of the proposed discount table	Application of the proposed discount table	Application of the proposed discount table	
	Average discount (a)	Average discount	Change	Average discount	Change	Average discount	Change
National standard mail	(BCI)		0.0 p.p.	(BCI)			
National priority mail			0.0 p.p.				
National registered mail			0.0 p.p.				
International standard mail			0.0 p.p.				
International priority mail			0.0 p.p.				
Prime express mail			0.0 p.p.				
International registered mail			0.0 p.p.				
International parcel service			0.0 p.p.				
Notification / Summons by Post			0.0 p.p.				
Total 1			0.0 p.p.				
National standard bulk mail			0.0 p.p.				
Business mail			0.0 p.p.				
Total 2		(ECI)	0.0 p.p.				(ECI)

Source: CTT estimates

CTT expects a transitory period for the take up of this payment modality, running during the months of April and May.

- iii) Recast of table of additional discounts according to the automatic reading rate of items of correspondence

CTT establishes specific discounts for clients that use a Client Barcode (*Código de Barras de Cliente* - CBC) and changes discount rates and eligibility conditions for clients that do not use CBC [using traditional addressing (alphanumeric address)]. In both cases, discounts apply only to mail delivered at business mail counters and pre-paid responses (*resposta sem franquia* - RSF).

Clients that use CBC are now subject to (a) the use of the full information version and (b) CBC automatic reading for at least 85% of mail items, as requirements for receiving discounts.

As regards clients that do not use CBC, the application of the discount table requires an automatic reading rate of at least 75%, discounts for automatic reading rates between 60% and 74% no longer being applied.

The impact of the change of discounts (Table 7) differs according to the levels of use of the alphanumeric addressing and the number of clients that use CBC. It may be concluded, based on an estimate presented by CTT, that the use of CBC enables an increase in the discount rate, insofar as mail items present an automatic reading rate equal to or higher than 85%.

Table 7 - Discount proposal for use of CBC

Services	Current application of the discount table	Hip1: All clients use alphanumeric addressing (without CBC) and have reading rates \geq 75%		Hip2: 75% of clients use CBC with full information (reading rates \geq 85%) and 25% uses alphanumeric addressing (with reading rates \geq 75%)		Hip3: All clients use CBC with full information (and with reading rates \geq 85%)	
	Average discount	Average discount	Change (p.p.)	Average discount	Change (p.p.)	Average discount	Change (p.p.)
National standard mail	(BCI)						
National priority mail							
Total							(ECI)

Source: CTT estimates

For this change also, CTT has established a transitory period for the adjustment to these conditions, which runs until the end of May. Current discount tables remain in force until the end of that period.

c) Contractual regime: credit, pre-active and cash postal services

CTT proposes a better explanation of pre-handling conditions which are requirements for the granting of discounts, aiming for the provision of more transparent information.

At the moment, the only pre-handling condition referred is the division according to zip codes (CP4). The proposed changes include more conditions (facing operation, division according to zip codes (CP4) and separation/identification of items according to weight step and format).

In conclusion, discounts proposed by CTT are directly or indirectly associated to quantities delivered (via billing volume) and/or to mail pre-handling activities and/or to the addressing quality, being associated to operational costs savings and possible economies of scale.

6. Reduction of the timeframe for disclosure of prices to users

As CTT intended new prices to take effect on 01.04.2014, ICP - ANACOM was requested, under paragraph 7 of article 5 of the Price Convention, to decrease the time limit (of 10 working days) for disclosure of prices to users, as provided for in paragraph 6 of the same article 5.

It is considered that the reduction of the 10-working-day time limit for disclosure of prices to users, provided for in paragraph 6 of article 5 of the Price Convention, should be authorized; notwithstanding, a minimum timeframe for disclosure prior to the respective entry into force is established, of 5 (five) working days, being incumbent on CTT to launch a general disclosure campaign of prices and respective conditions, including in its website.

7. Determination

In the light of the above, and whereas:

- a) Prices of services covered by CTT's proposal, under provisions of the Universal Postal Service Price Convention still in force, must comply with the principles of transparency, non-discrimination and cost orientation, the latter being applied progressively, so as to allow for a gradual rebalancing of tariffs and to ensure the affordability of prices;
- b) On the whole, the overall margin of services concerned by the price proposal has been positive, according to the results of CTT's cost accounting system and CTT estimates for 2013;
- c) Given the overall positive margin of services, it is deemed that the price proposal should not result in forecast of margin increase;
- d) It may be estimated from CTT's proposal, corresponding to:
 - i. an average overall increase of prices of items of correspondence by around 3.1%, on 01.04.2014;
 - ii. an average overall increase of prices of postal parcels, on 01.04.2014, by around 4.2% in the national services and by 1.3% in the international service,

that the margin for 2014 will be positive, but lower than that estimated for 2013, thus complying on the whole with the principle of cost orientation;

- e) the elimination of the Special Regime for East Timor in the provision of the international standard service and international economic service, while not hindering the guarantee of the universal service provision, namely in the light of the existence of alternatives in the scope of offers that integrate the universal service and of its insignificant traffic values, if brought into effect within a

short period of time may, nonetheless, harm in the short term users that currently use this service modality, a period of time for adjustment on the part of users being required;

- f) The recent evolution of the postal sector is characterized by a fall in business, namely a fall in demand, due to temporary factors such as the economic and financial crisis and to structural factors associated to technological changes and changes in the use of postal services by users, both companies and individuals, thus available forecasts may be affected by some uncertainty;
- g) It is necessary to guarantee the economic and financial sustainability and viability of the universal service provision;
- h) In the context of the application of the principles of transparency and non-discrimination, it is deemed that the publication of prices and of any discounts associated to the provision of the universal service must include information on all applicable prices, discounts and conditions, in a clear language that allows any user to understand and calculate the price to be paid, irrespective of the service and available modalities of delivery; the conditions required for any person or company to be part of a contract with CTT, to which apply the prices of the contractual segment, must also be published;
- i) Discounts proposed by CTT that apply to mail items that integrate the universal service, are directly or indirectly associated to quantities delivered (via billing volume) and/or to mail pre-handling activities and/or to the addressing quality, being associated to operational costs savings and possible economies of scale;
- j) CTT intended new prices to take effect on 01.04.2014, and thus ICP - ANACOM was requested, under paragraph 7 of article 5 of the Price Convention, to decrease the time limit (of 10 working days) for disclosure of prices to users, as provided for in paragraph 6 of article 5 of the Price Convention;
- k) under the terms of point c) of article 37 of the Statutes of this Authority, it is incumbent on ICP-ANACOM's Advisory Council to provide its opinion specifically on prices and tariffs of the universal service;

the Management Board of ICP - ANACOM, under powers granted by paragraph 1 b), d), h) and n) of article 6 and by point b) of article 26, both of its Statutes, approved by Decree-Law No. 309/2001, of 7 December, as well as under paragraph 1 of article 8 of Law No. 17/2012, of 26 April, as amended by Decree-Law No. 160/2013, of 19 November, in the pursue and fulfilment of objectives and principles established in paragraphs 1 c) and 2 a) and d) of article 2 of the same Law, and pursuant to paragraph 5 of article 5 of the Universal Postal Price Convention, of 10 July 2008, as amended on 9 July 2010, hereby determines:

1. Not to oppose the price proposal for non-reserved services that integrate the universal service, presented by CTT by letter of 17.02.2014 and amended by communication of 21.03.2014;
2. To authorize the reduction of the 10-working-day period for prior communication of prices to users, as provided for in paragraph 6 of article 5 of the Price Convention; notwithstanding, CTT is

required to ensure the appropriate disclosure of the prices at least 5 (five) working days before the respective entry into force, through the appropriate information channels for users and market segments, informing ICP - ANACOM of the effective date of entry into force of new prices;

3. To determine that the elimination of the Special Regime for East Timor in the provision of the international standard service and international economic service must be subject to an appropriate disclosure action, through the appropriate information channels for users and market segments, this elimination taking effect only after the elapse of a minimum period of 4 (four) months on the launch of the referred disclosure, further to this determination;
4. To submit the price proposal for reserved services presented by CTT to the opinion of ICP-ANACOM's Advisory Council, under the terms of point c) of article 37 of the Statutes of this Authority. Any developments arising therefrom shall be subsequently conveyed to CTT.

Annex

Estimates of overall margin, according to service (2013 and 2014)

<i>Total (Occasional Seg.+ Contractual Seg.)</i>	2013 (estimates)		2014 (forecasts)	
	Margin (thousand Euro)	Mg (%)	Margin (thousand Euro)	Mg (%)
<i>National S. Items of Correspondence</i>	(BCI)			
Standard mail				
Priority mail				
Registered mail				
Simple registration				
Hand-delivered registration				
Personal registration				
Easy mail				
<i>International S. Items of Correspondence</i>				
Standard + Economic mail				
Priority mail				
Registered mail				
Hand-delivered registration				
Personal registration				
Prime express mail				
Easy mail				
<i>Total Items of Correspondence</i>				
<i>Parcels</i>				
National Service				
International Service				
<i>Insured items</i>				
National and International Service				
<i>Total</i>			(ECI)	

Source: CTT estimates

Estimates of overall margin, according to service (2013 and 2014) - occasional segment (source: CTT estimates)

<i>Occasional Segment</i>	2013 (estimates)		2014 (forecasts)	
	Margin (thousand Euro)	Mg (%)	Margin (thousand Euro)	Mg (%)
<i>National S. Items of Correspondence</i>	(BCI)			
Standard mail				
Priority mail				
Registered mail				
Simple registration				
Hand-delivered registration				
Personal registration				
Easy mail				
<i>International S. Items of Correspondence</i>				
Standard + Economic mail				
Priority mail				
Registered mail				
Hand-delivered registration				
Personal registration				
Prime express mail				
Easy mail				
<i>Total Items of Correspondence</i>				
<i>Parcels</i>				
National Service				
International Service				
<i>Insured items</i>				
National and International Service				
<i>Total</i>	(ECI)			

Estimates of overall margin, according to service (2013 and 2014) - contractual segment (source: CTT estimates)

<i>Contractual Segment</i>	2013 (estimates)		2014 (forecasts)	
	Margin (thousand Euro)	Mg (%)	Margin (thousand Euro)	Mg (%)
<i>National S. Items of Correspondence</i>	(BCI)			
Standard mail				
Priority mail				
Registered mail				
Simple registration				
Hand-delivered registration				
Personal registration				
Easy mail				
<i>International S. Items of Correspondence</i>				
Standard + Economic mail				
Priority mail				
Registered mail				
Hand-delivered registration				
Personal registration				
Prime express mail				
Easy mail				
<i>Total Items of Correspondence</i>				
<i>Parcels</i>				
National Service				
International Service				
<i>Insured items</i>				
National and International Service				
<i>Total</i>	(ECI)			

Appendix

Price proposal notified by CTT