

### **3. POSTAL SERVICES**

#### **3.1. Universal service**

It is ICP-ANACOM's duty, as the postal regulatory entity, to supervise the quality and the price of the postal services included in the universal postal service (US) – according to paragraph c) of no. 2 of article 18 of the Basic Law for Postal Services<sup>32</sup>. In 2007, several activities were carried out in connection with these matters.

##### **3.1.1. Universal postal service's prices**

The rules for setting prices of the services that make up the US services provided by CTT are defined by an agreement signed between ICP-ANACOM and CTT (no. 3 of Clause 24 of the Concession and no. 2 of article 14 of the Basic Law).

The Universal Postal Service Price Convention (Price Convention) signed on 21 April 2006 between CTT and ICP-ANACOM was in force until 31 December 2007. In the meanwhile, it was terminated by CTT in October 2007, in order to negotiate another convention replacing it, namely in terms of the maximum price variation of the services provided allowed for each year.

The following stands out within the Price Convention:

- a) US prices must obey the principles of cost orientation (made progressively, in order to make it possible to rebalance the tariffs and to guarantee price accessibility), transparency, non-discrimination and uniformity in its application (article 2);
- b) The weighted average variation of the reserved postal services cannot outdo, in real terms, CPI-0.3%. For this purpose, CPI is the inflation expected for each year that is officially forecasted by the Government and thus included in the State Budget each year (paragraph k) of article 3). Since the value stated in the 2007 State Budget was 2.1 per cent, the average price variation of the reserved postal services allowed in 2006 was 1.8 per cent.
- c) The prices of the non-reserved services that make part of the US enter into force on the foreseen date. ICP-ANACOM may, at any time, decide changes to each of those

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<sup>32</sup> Law no. 102/99 of 26 July, as amended by the mentioned Decree-Law no. 112/2003 of 12 June.

prices, duly supported in terms of the fulfilment of the tariff principles and considering the quality levels observed (no. 5 of article 5).

Also in 2006, by determination of 14 December, ICP-ANACOM decided not to oppose the entry into force of the US prices proposed by CTT to be in force after 1 January 2007. The weighted average variation of the prices of the reserved postal services proposed was 1.8 per cent, as mentioned before.

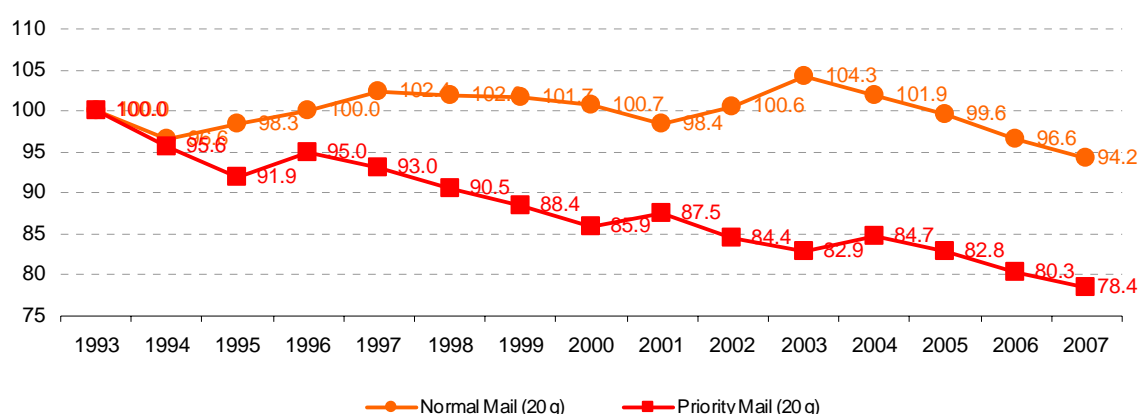
ICP-ANACOM also decided, on 8 March 2007, not to oppose the entry into force of the proposal of a tariff scheme and discounts regarding the newspaper, periodical and book service, presented by CTT in the scope of the Price Convention.

The negotiation process for a new Price Convention was started in 2007, following the mentioned termination by CTT of the convention signed on 21 April 2006 and together with the presentation by that operator of a proposal for a new convention to be in force in 2008.

Between 1993 and 2007, the price of the basic tariff (tariff of a 20 grams letter, national) for normal mail decreased, in real terms, 5.8 per cent<sup>33</sup> (Graph 32).

The price of the national priority mail's basic tariff decreased 21.6 per cent in real terms, between 1993 and 2007 (Graph 32).

**Graph 32.** Evolution in real terms of the basic tariff (1993 = 100): normal and priority mail, national



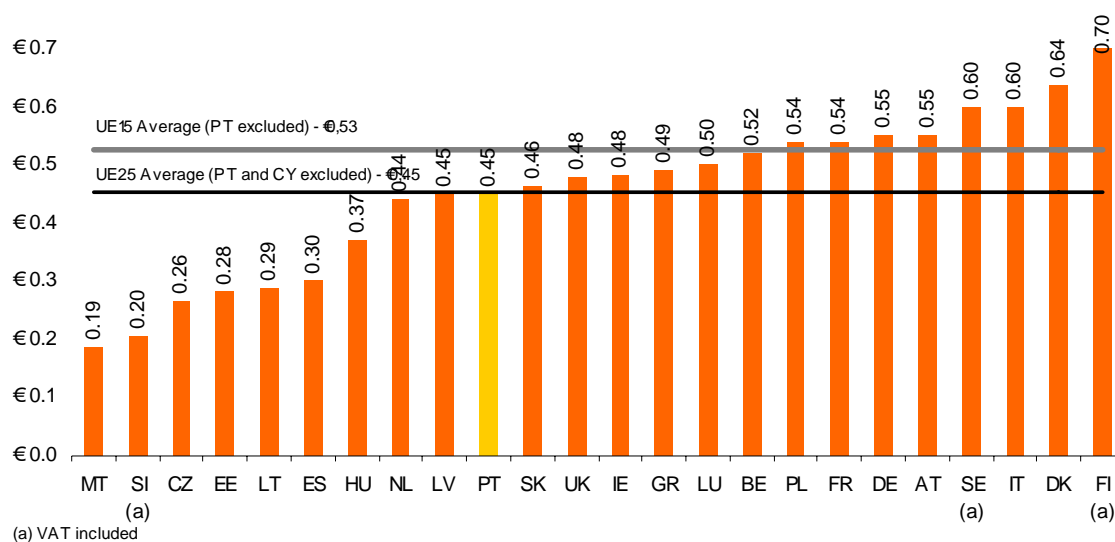
Source: ICP-ANACOM

<sup>33</sup> Year in which the first Price Convention, signed between ICP-ANACOM, CTT and the former Direcção-Geral do Comércio e da Concorrência (Directorate-General for Commerce and Competition), entered into force.

These figures stand favourably besides the European Union's average in 2007<sup>34</sup> (Graph 33 and Graph 34):

- a) The price of a 20 grams national priority mail sending ("blue mail" in Portugal) is 15.1 per cent below the UE15<sup>35</sup> average and equal to the UE25<sup>Error! Bookmark not defined.,36</sup> average;
- b) The price of a 20 grams national non-priority mail sending ("normal mail" in Portugal) is 28.6 per cent below de average of the UE25<sup>Error! Bookmark not defined.</sup> countries that provide an equivalent service.

**Graph 33.** Basic tariff of the domestic priority mail



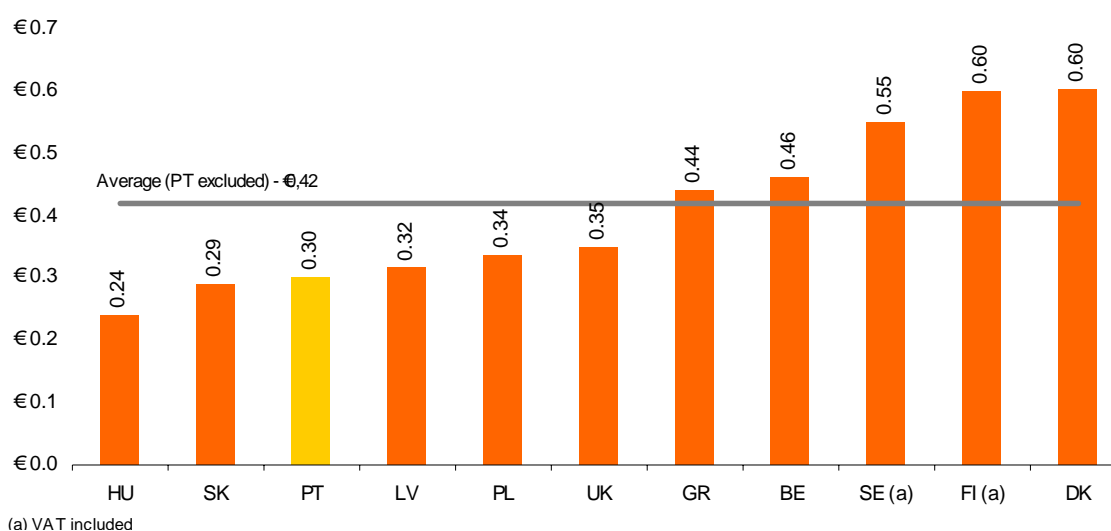
Source: ICP-ANACOM

<sup>34</sup> According to the collection of prices made by ICP-ANACOM, directly from the websites of the universal postal services providers, 13 February 2007.

<sup>35</sup> Average excluding Portugal.

<sup>36</sup> Does not include Cyprus (no information available).

**Graph 34. Basic tariff domestic non-priority mail**



Source: ICP-ANACOM

### 3.1.2. Universal postal service's quality of service

Through a convention to be signed between ICP-ANACOM and CTT, on a negotiation process that takes place at the same time as the negotiation of the US price scheme, the parameters and minimum quality levels that CTT is committed to fulfil on the US are established and published (Clause 12 of the Concession and no. 5 of article 8 of the Basic Law).

Also in force until 31 December 2006 was the Universal Postal Service Quality Convention (Quality Convention), signed on the same date that the Price Convention was signed (21 April 2006), and which was also terminated by CTT on 31 October 2007.

The Quality Convention sets the several quality of service indicators (QSI) to be considered, establishing a minimum level and a target level for the quality of service, as shown on Table 12.

**Table 12.** QSI defined by the Quality Convention for 2006 and 2007

Quality of service indicators	2006 and 2007 Convention		
	RI (%)	Min.	Target
IQS1 – Transit time for non-priority mail (D+3)	45.0	95.5%	96.3%
IQS2 – Transit time for priority mail - Mainland (D+1)	15.0	93.5%	94.5%
IQS3 – Transit time for priority mail - CAM (D+2)	4.0	84.0%	87.0%
IQS4 – Non-priority mail not delivered within 15 working days (per each thousand letters)	5.0	2.3‰	1.4‰
IQS5 – Priority mail not delivered within 10 working days (per each thousand letters)	3.0	2.5‰	1.5‰
IQS6 – Transit time for newspapers and periodicals (D+3)	11.0	95.5%	96.3%
IQS7 – Transit time for intra-Community cross border mail (D+3)	3.5	85.0%	88.0%

Quality of service indicators	2006 and 2007 Convention		
	RI (%)	Min.	Target
IQS8 – Transit time for intra-Community cross border mail (D+5)	3.5	95.0%	97.0%
IQS9 – Transit time for non-priority parcels (D+3)	5.0	90.5%	92.0%
IQS10 – Waiting time at post establishments (% of occurrences < 10min)	5.0	75.0%	85.0%

Source: Universal Postal Service Quality Convention of 21 April 2006

The Quality Convention also sets a global quality of service indicator (OQSI)<sup>37</sup>, which is reckoned according to the quality of service levels reached by CTT for the aforementioned QSI.

Under the terms of the Quality Convention, ICP-ANACOM monitors the QSI of the universal postal service provider (CTT) every quarter, assessing the compliance regarding what was set, by the end of each year.

Should CTT not fulfil the quality of service levels it is obliged to assure, the Quality Convention foresees that consumers should be compensated through a deduction of up to 1 per cent on the prices of the services which provision is reserved to CTT, that deduction being applied on the prices for the year following the year of the non-fulfilment.

Regarding the monitoring of the QSI achieved by CTT in 2006, where the values of some indicators did not reach the minimum and/or target values applying to that year, which according to CTT was due, namely, to strikes by its employees, the OQSI reached a value of 49. In this context, ICP-ANACOM decided, as per determination of 18 July 2007, to apply to CTT the deduction, foreseen in the Quality Convention, of 1 per cent to the weighted average variation of the prices of the reserved services allowed for 2007. For that purpose, it requested CTT to send a proposal for carrying out that measure, which implementation should take place until the end of that year.

Thus, as per determination of 5 September, ICP-ANACOM decided not to oppose the implementation of the deduction proposed by CTT to compensate users in general for the

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<sup>37</sup> The OQSI is reckoned in the following way: Firstly, each QSI defined in the Quality Agreement is given a classification in accordance with the following methodology: i) given the value set for each QSI, the target value is given the value 100 ii) non-fulfilment of the minimum value = 0; iii) proportional value from 0 to 100 for values in the interval between the target and the minimum; iv) for values above the target, the classification will also be above 100, in proportion to the positive variation regarding the target. Secondly, sum of the classifications given to each QSI, weighted by their corresponding relative importance. Thirdly, should the OQSI be: i) 100 or above 100, there is no application of the subtraction associated to the OQSI; ii) below 90, one fully applies the maximum deduction foreseen, of 1 per cent; iii) between 90 and 100, one applies the subtraction proportionally, The subtraction corresponds to deducting up to 1 per cent to the price variation of the reserved services allowed for the year following the year of the non-fulfilment.

quality of service deterioration registered in 2006, notwithstanding the implementation of a control mechanism in order to, if needed, timely correct until the end of 2007 the possible non-fulfilment of its values.

Measures proposed by CTT and accepted by ICP-ANACOM included benefits for users in the amount of roughly 3 million Euros, a figure slightly higher than 1 per cent of the net profits foreseen for the reserved service in 2007.

According to the forecast, based on intermediate report sent by CTT in November, that the activities originally planned by that operator would lead to an under-implementation of the foreseen values, ICP-ANACOM, on a determination of 13 December 2007, did not oppose complementary activities to be carried out by CTT until the end of 2007, in order to fully achieve the initial goals, notwithstanding the assessment of their fulfilment at the beginning of 2008.

Already in 2008, after receiving CTT's report with the results of the activities implemented in 2007 to compensate users for the deterioration of the quality of service in 2006, the conclusion was that the level of the overall implementation of the mentioned activities, concerning benefits for users, accomplished the targets that were established<sup>38</sup>.

Regarding 2007 and further to the monitoring of the QSI, there was a general improvement in the quality of service levels provided by CTT, the OQSI registering a value above 100.

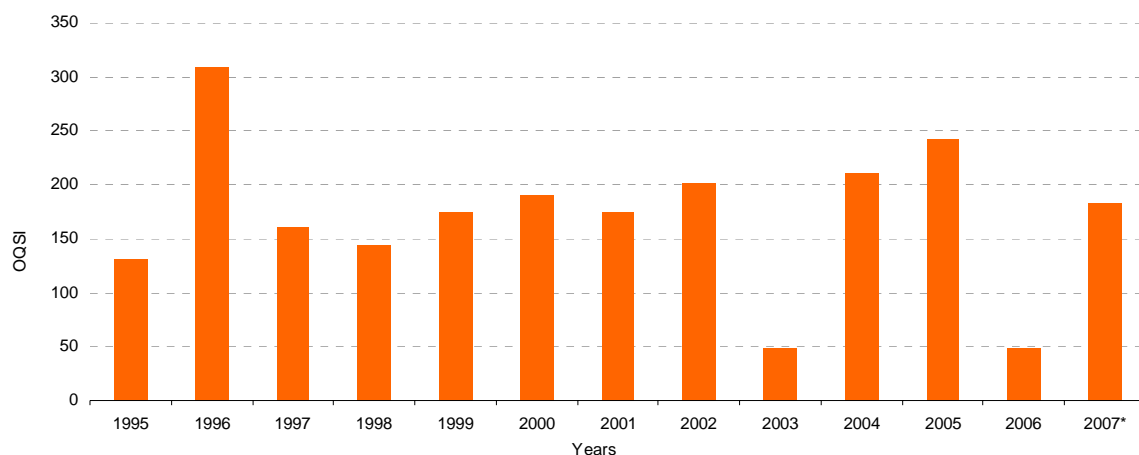
Graph 35 shows that the OQSI has a positive evolution from 1997 to 2005, although interrupted in 2003 and 2006, when it registered a value below 100 points.

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<sup>38</sup> See

[http://www.anacom.pt/streaming/report.pdf?contentId=583718&field=ATTACHED\\_FILE](http://www.anacom.pt/streaming/report.pdf?contentId=583718&field=ATTACHED_FILE)

**Graph 35. Overall quality of service indicator**



Note: Since the OQSI figure results from QSI individual values, the comparison of OQSI's evolution should be done carefully, taking into account the changes on the QSI established for each year and their corresponding reckoning methodology.

\*Provisional value.

Source: ICP-ANACOM

No. 7 of article 8 of the Basic Law also establishes that “the regulatory entity will assure, independently from the USP, the control of the quality of service levels effectively offered, the results being object of a report to be published at least once a year”.

In this context, a determination of 7 November 2007 approved the publication of the report on the quality monitoring system of the US provided by CTT, regarding 2004, following the audit performed to the QSI and to that company's complaints system, which concluded that: (i) the QSI values reported by CTT to ICP-ANACOM were in compliance, albeit the identification of limitations at the sample level and of items to be improved in the monitoring system; (ii) that the complaints system did not present an adequate level of reliability and precision regarding the analyzed sample since, namely, it did not enable the validation of data on the total amount of complaints that year, and on the average response time, therefore lacking the conditions to assess its compliance.

Following the mentioned audit, ICP-ANACOM carried out determinations and recommendations in order to improve CTT's quality of service system and complaints system.

An audit to CTT's QSI monitoring system and complaints system was carried out in 2007, regarding 2006 and 2007, which will be concluded in 2008.

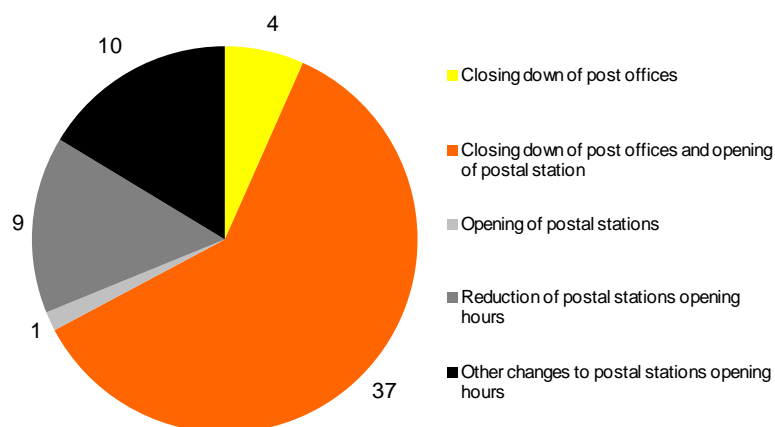
### 3.1.3. Postal stations network

According to no. 3 of clause 20 of the Concession, it is the concessionary's duty to create and close down postal stations, and to change the opening hours of postal stations, considering the needs of the service and its demand.

CTT is only obliged to inform ICP-ANACOM of the determinations that it adopts on that matter, and to support its decision in the cases of closing down postal stations or changing their opening hours, namely based on the service need, demand levels and level of satisfaction of the population's and economic activities' need for communication.

In this scope, 62 communications were received from CTT in 2007, as shown in Graph 36:

**Graph 36.** Communications from CTT in the scope of Basis XX, no. 4 of the Concession



Source: CTT

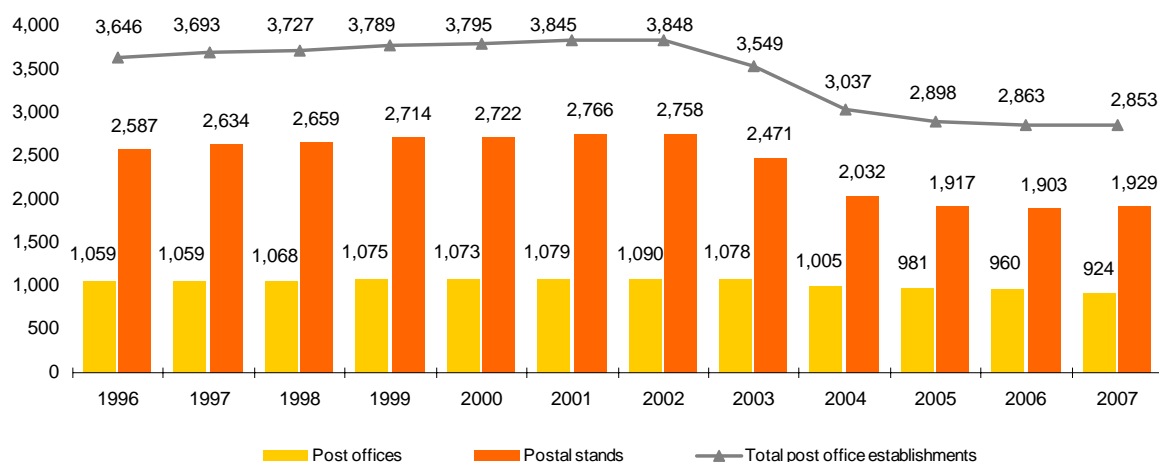
Albeit the trend registered towards the decrease in the amount of postal stations since 2002, the last three years<sup>39</sup> also registered a trend towards stabilization (see Graph 37).

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<sup>39</sup> According to CTT, post office stands are stations which operation is of the responsibility of third parties, following a contract. All of them provide postal services that make part of the US.



**Graph 37. Evolution in the amount of postal stations**



Source: CTT

### 3.1.4. Conventions

Further to CTT's termination of the universal postal service's price and quality Conventions on 8 October 2007, and its simultaneous proposal of the conventions to be in force from 2008 on, ICP-ANACOM analyzed that company's texts and proposals, and implemented preparatory studies in order to negotiate them with CTT, which took place already in 2008 and ended with the celebration of the conventions on 10 July 2008.

### 3.2. Postal services liberalization

After long negotiations lasting throughout most of 2007, on 8 November 2007, under the Portuguese Presidency, a common position of the Council was adopted changing Directive 97/67/EC regarding the full accomplishment of the Community's postal services internal market.

The EC considered that the text of the common position totally reflected the fundamental elements of its initial proposal, presented on 19 October 2006, also respecting the modification made by the EP on a first reading. Standing out, particularly, among these changes, is the final date for the sector's full liberalization (until 31 December 2010), some Member States being able to postpone the market's full liberalization for another two years, at the most, and including a reciprocity clause applying to Member States that make use of that transition period. Together with the sector's full liberalization, the

directive safeguards the provision of the universal service to all users regardless of where they are located in the EU<sup>40</sup>.

To better support ICP-ANACOM's intervention in the framework of its duties and taking into account the coming liberalization of the sector, ICP-ANACOM promoted a study on the development of competition in the Portuguese postal market, conducted in 2006 by an independent consultant, to characterize the market and its forecasted evolution, and to identify possible effects on the sector resulting from potential liberalization scenarios.

ICP-ANACOM promoted (at a seminar that took place on 26 September 2007) the public presentation of this report, which main conclusions indicated that the Portuguese postal market seems to be ready for full liberalization, the general effect of this liberalization being presented as globally favourable and with low probability of creating disruptive effects, notwithstanding the need to clearly define the future postal activity's regulatory framework, namely regarding the US's definition and financing scheme, the corresponding provider's statute, the public postal network's access regime, and the alternative operators' obligations.

Considering the abovementioned liberalization scenario, clearly established by the EU, and the need to carry out a deeper analysis of the Portuguese market aiming at the future regulation of postal services, ICP-ANACOM decided to launch in 2007 a study on the consumption of postal services by the business market in Portugal, carried out by a consultancy firm hired for that purpose.

This study is justified by the importance of the business segment in the postal sector, which, according to a study carried out for the EU<sup>41</sup>, is responsible for about 89 per cent of the overall traffic originated in Portugal. Public entities, financial companies and electronic communications companies stand among the largest senders of Direct Mail. The courier, priority and parcels services are led by the pharmaceutical industry, mobile components, editors, and textile and footwear industries.

The study intended: (1) to characterize business consumers regarding the demand of postal services; (2) to characterize the *business to business* and *business to consumer* postal markets; (3) to evaluate the perceived quality and the satisfaction levels of business

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<sup>40</sup> The new Postal Directive (Directive 2008/6/EC) of the European Parliament and the Council was published on 20 February 2008.

<sup>41</sup> "Development of Competition in the European Postal Sector", Ecorys (2005)

consumers; (4) to analyze the different issues related with market competition, namely liberalized area's market shares, to evaluate the perception of competition by business customers and to assess their behaviour regarding sector regulatory developments.