

**DECISION**

**VALUES OF THE UNIVERSAL POSTAL SERVICE QUALITY INDICATORS  
FOUND BY CTT – CORREIOS DE PORTUGAL, SA, IN 2018**

**ANACOM**

**2019**

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## 1. Framework

CTT – Correios de Portugal, S.A. (CTT) is obliged, under Article 13 (1) of the Postal Act<sup>1</sup> and Base XII, paragraph 1 of the Concession<sup>2</sup>, to provide the services that form part of the universal postal service according to the service quality parameters (SQP) and performance targets established by the Autoridade Nacional de Comunicações (ANACOM).

By decision of 12.07.2018, ANACOM established the SQP and performance objectives associated with the provision of the universal postal service for the 2018-2020 period, and defined the rules for their measurement, monitoring and disclosure<sup>3</sup>.

In the said decision of 12.07.2018, ANACOM determined that, in 2018, the decisions of 30.12.2014 and 13.03.2015, which established the SQP and performance objectives associated with the provision of the universal postal service for the 2015-2017 period were applicable. In other words:

- a) in 2018, the Quality of Service Indicators (QSI) in force in 2017 remained applicable;
- b) in 2019, a new set of QSI entered into force which, in order to create conditions for a higher level of universal postal service quality, is characterised, *inter alia*, by the setting of more stringent objectives for some QSI, with the abolition of a minimum value associated with each QSI, which was below the target value, and the creation of an additional reliability target, which ranges from 99.9% for cases where speed and security are crucial (blue (priority) mail, registered mail and daily and weekly newspapers) and 99.7% for all other mail (standard mail, parcels and monthly and biweekly newspapers), to prevent traffic not delivered within these service standards from being delivered very far outside these standards.

In the event of non-compliance with the performance targets established for 2018, a compensation mechanism shall be applied in the year following that of the non-compliance and shall be effective exclusively in that year, corresponding to the deduction of up to 1

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<sup>1</sup> Law 17/2012, of 26 April, as per the current amended version.

<sup>2</sup> Basic Acts of Concession of the Universal Postal Service, as approved by Decree-Law 448/99, of 04 November, republished, after amendment, annexed to Decree-Law 160/2013, of 19 November.

<sup>3</sup> Available at <https://www.anacom.pt/render.jsp?contentId=1457268>.

percentage point from the maximum variation in prices of the basket consisting of correspondence, editorial mail and parcel services that form part of the universal service, which will benefit all users of those services<sup>4</sup>.

Situations of non-compliance are verified by ANACOM, after consultation with CTT<sup>5</sup>.

CTT, by means of a letter dated 11.04.2018, reported the values of the QSI found in 2018, which were measured, using an independent measurement system, by the external entity PricewaterhouseCoopers (PwC).

It is noted that, following an audit carried out, under paragraph 5 of the aforementioned Article 13 of the Postal Act, on the 2016 and 2017 QSI measurement system, it was concluded that the measurement system had multiple weaknesses, ANACOM ordered CTT to make<sup>6</sup> a series of changes to the QSI measurement procedures, to be implemented by 01.07.2019.

## **2. QSI values in 2018**

The QSI values reported by CTT for the year 2018 are those contained in Table 1. According to that company, the QSI figures incorporate deductions for the effects of air transport disruption, which occurred in the Autonomous Region of Madeira on 07 and 08 December 2018 and in the Autonomous Region of the Azores on 27 November 2018<sup>7</sup>.

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<sup>4</sup> Results from the joint reading of Article 7 (1) of the “Quality of Service Parameters and Performance Objectives Associated with the Provision of the Universal Postal Service” established by ANACOM by decision of 30.12.2014, and paragraphs 1 and 2 of its Appendix 2. Paragraph 3.4 of the same Appendix provides that, in situations duly substantiated by CTT associated with operational difficulties in implementing the price reduction, that company may, as an alternative, ask ANACOM to apply financial compensation to be paid to users, the specific arrangements for paying this compensation, to be made under the services that form part of the universal service, being of a financial value at least equivalent to the reduction in revenues that would result from the application of the compensation provided for in paragraph 1 of that Appendix.

<sup>5</sup> Article 7 (2) of the “Quality of Service Parameters and Performance Objectives Associated with the Provision of the Universal Postal Service”, as established by the decisions of 30.12.2014 and 13.03.2015.

<sup>6</sup> By determination of 28.12.2018.

<sup>7</sup> It is recalled that ANACOM:

- a) by decision of 25.07.2018, granted the deduction: (i) of the registers of mailings of standard mail and standard parcels from 05 to 08 February (inclusive) and of blue (priority) mail and registered mail from 06 to 08 February (inclusive), in the flows from the Autonomous Region of Madeira to mainland Portugal and to the Autonomous Region of the Azores; (ii) the registers of mailings of standard mail from February 02 to 08 (inclusive), standard parcels from February 05 to 08 (inclusive) and blue (priority) mail and registered mail from February 06 to 08 (inclusive) , in flows to the Autonomous Region of Madeira from Mainland Portugal

Table 1. QSI values in the year 2018

SERVICE QUALITY INDICATORS		Established values			Quality year 2018 (a)
		RI (%)	Minimum	Target	
QSI1	Transit time standard mail (D+3)	32.0	95.5%	96.3%	96.4%
QSI2	Transit time blue (priority) mail – Mainland (D+1)	6.0	93.5%	94.5%	92.3%
QSI3	Transit time blue (priority) mail – CAM (D+2)	3.0	84.0%	87.0%	86.0%
QSI4	Standard mail not delivered within 15 working days (per thousand letters)	3.0	2.3%	1.4%	0.7%
QSI5	Blue (priority) mail not delivered within 10 working days (per thousand letters)	3.0	2.5%	1.5%	1.2%
QSI6	Transit time newspapers and periodicals (D+3)	10.0	95.5%	96.3%	97.0%
QSI7	Transit time cross-border intra-community mail (D+3)	2.5	85.0%	88.0%	80.5%
QSI8	Transit time cross-border intra-community mail (D+5)	2.5	95.0%	97.0%	96.0%
QSI9	Transit time standard parcel (D+3)	3.0	90.5%	92.0%	94.8%
QSI10	Waiting time at postal establishments (% of events up to 10 minutes)	5.0	75.0%	85.0%	91.4%
QSI11	Transit time registered mail (D+1)	30.0	89.0%	91.0%	93.7%
<b>OI - OVERALL SERVICE QUALITY INDICATOR (b)</b>		N/A	N/A	N/A	<b>155</b>

Source: (a) CTT and PwC measurement system.

(b) ANACOM, based on information reported by CTT.

Notes: D+X means delivery within X working day(s) after deposit of postal items at mail reception point.

RI – Relative importance.

N/A – Not applicable.

Values not yet audited.

According to the values in Table 1, it can be seen that:

a) the following QSI exceeded the target values established for the year:

- QSI1 (transit time standard mail);
- QSI4 (standard mail not delivered within 15 working days);
- QSI5 (blue (priority) mail not delivered within 10 working days);

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and the Autonomous Region of the Azores – due to air traffic disruption at Funchal airport on 07 and 08 February 2018, caused by bad weather.

b) A decision of 28.03.2019 granted the deduction of the registers of mailings of standard mail and standard parcels from 23 to 27 November (inclusive) and blue (priority) mail and registered mail from 26 to 27 November (inclusive), in the flows of to the Autonomous Region of the Azores, with the exception of the internal sending of postal items to each island of the Azores – due to air traffic disruption at airports in the Autonomous Region of the Azores caused by storm Diana.

- QSI6 (transit time newspapers and periodicals);
  - QSI9 (transit time standard parcel);
  - QSI10 (waiting time at postal establishments);
  - QSI11 (transit time registered mail);
- b) the following QSI did not exceed the respective annual target values and exceeded the respective annual minimum values:
- QSI3 (transit time blue (priority) mail – CAM);
  - QSI8 (transit time cross-border intra-community mail D+5);
- c) the following QSI did not meet the target values and the minimum values established for the year:
- QSI2 (transit time blue (priority) mail Mainland);
  - QSI7 (transit time cross-border intra-community mail D+3);
- d) the overall service quality indicator (OI) reached a value of 155<sup>8</sup>.

According to CTT, in addition to the transport disruptions, the results in 2018 were negatively affected by labour disruptions at the end of December 2017 and also in 2018 – a general strike by CTT workers on 21 and 22 December and 23 February – which, according to the company, resulted in a drop in the performance of transit times in early January and late February.

Regarding the indicators for cross-border intra-community mail, according to CTT and as the end-to-end results are measured, “their unfavourable results are dependent on the performance of the originating and destination postal operators, which, according to information from the IPC – International Post Corporation, have changed their operating

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<sup>8</sup> The target is 100 or more.



models and revised their domestic quality standards, following a progressive decline in postal traffic.

With respect to QSI2 and QSI7, as the respective minimum values have not been reached, the compensation mechanism provided for under Article 7 of the “Quality of service parameters and performance targets associated with the provision of the universal postal service” shall apply, as established in ANACOM’s decision of 30.12.2014.

### **3. Application of the compensation mechanism**

In accordance with Appendix 2 of the “Quality of service parameters and performance objectives associated with the provision of universal postal service”, as established by ANACOM in its decision of 30.12.2014, which, as referred to above, the following apply in 2018:

- a) where any QSI falls below the minimum values, the deduction corresponds to the product of the relative importance (RI) of the QSI and the expected maximum deduction (1 percentage point deduction from the maximum price variation of the basket consisting of mail, editorial mail and parcel services that form part of the universal service);
- b) since the OI is over 100, the deduction associated with the OI is not applicable (Appendix 2, section 3.1), with only the deduction associated with non-compliance with the minimum values of QSI2 and QSI7 applying.

Thus, the total deduction to be applied corresponds to the product of the sum of the RI of QSI2 (6%) and QSI7 (2.5%) and the maximum deduction (1%), i.e.:  $(6\% + 2.5\%) \times 0.01 = 0.085\%$  (or, alternatively, equivalent to:  $6\% \times 0.01 + 2.5\% \times 0.01 = 0.085\%$ ).

However, in accordance with the rules applicable from 2019 inclusive, as set out in the said Decision of 12.07.2018, it is foreseen, in particular, that the figures for the cross-border intra-community mail quality of service indicator will not be considered for the purpose of applying the compensation mechanism. As explained in that ANACOM decision, “... bearing in mind that the values [of the transit time for cross-border mail] achieved depend not only on CTT but also on other service providers in the other countries, the primary objective of the indicators for cross-border intra-community mail becomes monitoring quality levels in

the sending of postal items originating or having destination in Portugal, no longer relevant for the purposes of applying the user compensation mechanism...”.

Despite the fact that the results of the QSI in 2018 are governed by the provisions of ANACOM's deliberations of 30.12.2014 and 13.03.2015, as follows from the decision of 12.07.2018 and as already explained above, it should be noted that the grounds remain valid for the decision, effective from 01 January 2019, to disregard the figures relating to cross-border intra-community mail quality of service indicators in the decision to apply the compensation mechanism, regardless of the reference period for the quality of service assessment of the universal postal service provided by the concessionaire.

In this context, and considering that , in the application of the compensation mechanism for universal service users resulting from non-compliance with the performance targets associated with the provision of the universal service, ANACOM is subject to the set of principles laid down in Article 47 of the Postal Act, in particular the principle of proportionality, it is understood that the 2018 QSI should be subject to the rule established in the decision of 12.07.2018 (applicable from 01.01.2019), which provides that transit times in cross-border intra-community mail (QSI7 and QSI8) should not be relevant for the purposes of applying the user compensation mechanism.

It follows that the total deduction to be applied corresponds to the product of the RI of QSI2 (6%) and the maximum deduction (1%), i.e.:  $6\% \times 0.01 = 0.06\%$

By application of the criteria for pricing the postal services that comprise the universal service in the 2018-2020 period (pricing criteria), defined by ANACOM decision of 12.07.2018 and complemented by decision of 05.11.2018, under Article 14 (3) of the Postal Act, the weighted average variation in the prices of the basket of letter, parcel and editorial mail services may not exceed, in 2019, the  $CPI + CPIAF - 0.25\% + TCF$ , in nominal average terms, which corresponds to a maximum variation of 1.15%<sup>9</sup>.

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<sup>9</sup> Whereas:

- a) CPI: in accordance with Article 5 (1) (a) of the pricing criteria, the CPI (for 2019) is the inflation forecast by the Government (for 2019) and, as such, entered in the National Budget Memorandum (2019). This value is 1.3%.
- b) CPIAF: taking into account Article 5 (1) (b) of the pricing criteria, the CPIAF corresponds to the difference between the amount of inflation projected in the 2019 National Budget Memorandum for 2018, which is 1.3%, and the amount of inflation that was forecast for 2018 in the 2018 National Budget Memorandum,

The application of this 0.06% deduction, due to non-compliance with the minimum QSI2 value in 2018, implies that the weighted average variation in the prices of the basket of letter, parcel and editorial mail services cannot be higher, in 2019, than  $CPI + CPIAF - 0.25\% + TCF - 0.06\%$ , in nominal average terms, i.e. it cannot be higher than 1.09% (= 1.15% - 0.06%).

The weighted average variation in the prices of that basket of services implemented in the meantime by CTT in 2019, was 1.15%<sup>10</sup>, which means that, in order to comply with the maximum price variation allowed after applying the deduction for non-compliance with minimum QSI values in 2018, during the course of 2019, CTT should implement a reduction in current prices.

#### **4. Determination**

Whereas:

- a) CTT undertakes to provide the services that comprise the universal service in accordance with the quality of service parameters and performance targets established by ANACOM, pursuant to Article 13 (1) of the Postal Act;
- b) based on the information available regarding the values achieved by CTT, in 2018, the values of QSI2 and QSI7 did not meet the respective minimum values established for the year;
- c) in accordance with the rules applicable in 2018, as laid down in the decision of 12.07.2018, non-compliance with these minimum QSI values results in the application of a user compensation mechanism;

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which was 1.4%, with this difference limited to a maximum of 2.5%. Therefore, and given the values mentioned above, the CPIAF is -0.1% [= 1.3% - 1.4%].

- c) TCF: the traffic correction factor is a correction factor for the maximum price variation which takes into account part of the deviations found between the change in traffic forecast for 2018 when defining the pricing criteria (which was expected to be -6.43%) and the change in traffic observed (which is -6.95%, according to the calculation formula provided for in Article 5 (1) (c) of the pricing criteria).

This aforementioned deviation is -0.52% [= -6.95% - (-6.43%)], as a result of which the TCF is 0.20% [= -0.375 \* (-0.52%)],

the weighted average variation in the prices of the basket of letter, parcel and editorial mail services may not exceed 1.15% in 2019 [= 1.3% - 0.1% - 0.25% + 0.2%].

<sup>10</sup> See ANACOM decision of 22.05.2019 (<https://www.anacom.pt/render.jsp?contentId=1472940>).

- d) according to the same decision of 12.07.2018, with effect from 01 January 2019, the figures relating to the QSI for cross-border intra-community mail are not relevant for the purposes of applying the user compensation mechanism;
- e) the grounds on which the decision to disregard, with effect from 01.01.2019, the values calculated for the QSI of cross-border intra-community mail remain valid, regardless of the reference period for the quality assessment of the universal postal service provided by the concessionaire. It is appropriate for ANACOM to consider such grounds in accordance with the principles set out in Article 47 of the Postal Act, in particular the principle of proportionality, under the terms of which this Authority understands that the 2018 QSI should be subject the rule established in the decision of 12.07.2018 (which would apply from 01.01.2019) which provides that the figures found in transit times in cross-border intra-community mail (QSI7 and QSI8) should not be relevant for the purposes of applying the user compensation mechanism;
- f) CTT's prior hearing has been held regarding the draft decision concerning the values of the quality of service indicators found by CTT in 2018, including the statement received and the respective analysis of the "Prior hearing report regarding the draft decision concerning values of the quality of service indicators found by CTT – Correios de Portugal, SA, in 2018", which forms an integral part of this decision,

ANACOM's Management Board:

- in the exercise of the duties and powers conferred upon ANACOM, respectively, by Article 8 (1) (h) and (i) and Article 9 (1) (g), (h) and (p), all of its Charter, as approved by Decree-Law 39/2015, of 16 March;
- in the exercise of the powers conferred upon it by Article 26 (1) (b) of the ANACOM Charter; and
- observing the provisions of Article 13 (1) and Article 47, both of the Postal Act (Law 17/2012, of 26 April, as per the current amended version), paragraphs 1 and 2 of Base XII of the Basic acts of concession of the universal postal service (as approved by Decree-Law 448/99, of 04 November, as per the current amended version), Articles 1 and 7 of the "quality of service and performance targets associated with the provision

of the universal postal service”, as approved by ANACOM’s decisions of 30.12.2014 and 13.03.2015, applicable to the 2018 QSI by means of ANACOM’s decision of 12.07.2018, which laid down the “quality of service parameters and performance targets associated with the provision of the universal postal service” for the 2018-2020 period, and taking into account Appendix 2 of that decision (which contains the rules of the compensation mechanism for non-compliance with the defined performance targets, to become effective from 01 January 2019),

determines:

- 1) Approval of the “Prior hearing report regarding the draft decision concerning values of the quality of service indicators found by CTT – Correios de Portugal, SA, in 2018”;
- 2) The application of the compensation mechanism provided for in Article 7 of the “quality of service parameters and performance targets associated with the provision of the universal postal service”, as laid down in ANACOM’s decision of 30.12.2014;
- 3) That, for the purpose of applying the compensation mechanism referred to in the preceding paragraph, the value found for the cross-border intra-community mail quality of service indicator (QSI7) should be disregarded;
- 4) In accordance with the preceding paragraphs, the application of the 0.06% deduction to the weighted average variation in the prices of the basket of letter, parcel and editorial mail services allowed for the year 2019 – this change being  $CPI + CPIAF - 0.25\% + TCF - 0.06\%$  – this deduction should benefit all users of those services;
- 5) That CTT should be ordered to start the application of the deduction determined in the preceding paragraph by 01.10.2019, and for a minimum period of three months;
- 6) That CTT should be ordered to inform ANACOM of the deduction of prices to be implemented in accordance with the preceding paragraphs, prior to its date of application, accompanied by information demonstrating compliance with this determination, namely, the maximum price variation allowed for 2019, as determined in paragraph 4) above.