

FINAL DECISION

UNIVERSAL POSTAL SERVICE PRICING CRITERIA FOR THE 2018-2020 PERIOD

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1. Introduction and scope of application of this decision

Law 17/2012 of 26 April, as amended by Decree-Law 160/2013 of 19 November and by Law 16/2014 of 4 April (Postal Law), lays down the legal framework applicable to the provision of postal services under full competition, within national territory, as well as for international services to or from the national territory, and transposes Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 into the national legal system.

This law aims to (according to Article 2(1)):

- define the conditions for the provision of postal services under full competition;
- ensure the efficient and sustainable provision of a universal postal service; and
- establish the rights and interests of users, especially of consumers.

The Postal Law lays down that, in order to achieve the above objectives the following principles (among others) must be observed (Article 2 (2)):

- to ensure the existence, availability, affordability and quality of the universal service;
- to ensure the economic and financial sustainability and viability of universal service provision;
- to ensure the protection of users in their relationship with postal service providers, particularly in the handling and resolution of complaints.

With the entry into force of the Postal Law, postal services started to be provided under a regime of full competition in Portugal.

Notwithstanding, on grounds of public policy or security, some services or activities may be reserved for specific postal service providers, such as the siting of letter boxes on the public highway intended for the deposit of postal items, the issue and sale of postal stamps bearing the word “Portugal”, and the registered mail service used in court or administrative proceedings.

Until 31 December 2020, CTT - Correios de Portugal, S. A., will be the sole provider of the mentioned reserved activities and services (see Article 57(3) of the Postal Law).

The Postal Law contains a chapter which focuses on the universal service, understood as the supply of postal services defined in the Law, of a specified quality and permanently available throughout the territory, at affordable prices for all users,¹ aiming to meet people's communication needs and those of economic and social activities (Article 10 (1)).

The universal service covers the following national and international provision (Article 12): a postal service for correspondence,² books, catalogues, newspapers and other periodicals up to 2 kg and postal parcels up to 10 kg, as well as services for registered items and insured items. It also covers the delivery within the national territory of postal parcels received from other Member States of the European Union and weighing up to 20 kg

The Postal Law designates CTT as the universal postal service provider (USP), until 31 December 2020 (Article 57(1)).

The same Law (Article 14(3)) establishes that the National Communications Authority (ANACOM) sets, for a minimum period of three years, the criteria governing the setting of prices of postal services that comprise the universal service.

This document aims to define the listed criteria to be applied in the 2018-2020 triennium, as was previously decided by ANACOM by determination of 21 November 2014,³ corrected by determination of 25 June 2015,⁴ which set out the pricing criteria for the 2015-2017 triennium.

These rules have a significant impact on the market because they focus on the liberalized services within the universal service and provided by CTT, and, as such, prices to be set under these rules may be taken as a reference for competing service providers, as well as for users

¹ The Postal Law defines a user (Article 3 (4)) as a natural or legal person who is the beneficiary of a postal service provision, as sender or recipient.

² Excluding direct mail.

³ Available at <https://www.anacom.pt/render.jsp?contentId=1341155>.

⁴ Available at <https://www.anacom.pt/render.jsp?contentId=1361280>.

of postal services, which is why the public consultation procedure provided for in Article 9 of the Postal Law will be adopted.

This Decision does not apply to the special prices and associated conditions of postal services which are part of the universal service offer referred to in Article 14a of the Postal Law.⁵ The repeal by Decree-Law 160/2013 of 19 November, of Article 14(2) of the Postal Law and the addition of Article 14a exclude special tariffs from the scope of application of the whole Article 14, and these shall be governed solely by Article 14a.

2. Regulatory framework

2.1 Principles and rules governing the setting of prices covered by this decision

The Postal Law lays down that the pricing of postal services that form part of the universal service complies with the following principles (Article 14 (1)):

- affordability for all users;
- cost-orientation, such that prices should encourage the efficient provision of the universal service;
- transparency and non-discrimination.

It is incumbent on ANACOM to establish, for a minimum three-year multiannual period, the pricing criteria for postal services that comprise the universal service (Article 14(3) of the Postal Law).

ANACOM can:

- determine, for duly substantiated reasons relating to the public interest, that the price of the (universal) postal service for correspondence weighing less than 50 g complies with the uniform tariff principle, a uniform tariff being applied throughout the national

⁵ Special tariffs and associated conditions of postal services that form part of the universal service provision, applied by CTT (universal service provider), notably for business services, bulk mailers and consolidators of mail from different users.

territory, without prejudice to the universal service provider (CTT) entering into individual agreements with users on special prices [Article 14(8)(a)];

- impose price control mechanisms, including price caps, to the extent required to promote effective competition or to protect the interest of users [Article 14(8)(b)];
- determine that some postal services for the use of blind and partially-sighted persons are provided free of charge [Article 14(8)(c)].

CTT must notify ANACOM each year of the prices to be applied to postal services within the universal service provision, including any amendment thereto, at least 30 (working) days before the date on which such prices take effect (Article 14(4)).

Where ANACOM deems that the prices submitted fail to comply with the pricing principles and criteria, it must notify CTT of this before the deadline specified in the preceding paragraph, based on a substantiated decision, so that CTT can revise such prices within 15 (working) days - Article 14(5).

If prices are revised under the preceding paragraph, ANACOM must assess new prices within no more than 15 (working) days of the date of reception of CTT's new notification (Article 14(6)).

If ANACOM has not expressed an opinion by the specified deadlines, CTT can apply the notified prices (Article 14(7)).

CTT must publish in an appropriate manner and regularly supply users and postal service providers with accurate and up-to-date information regarding the particular features of the universal service offered, especially the general conditions of access to and use of the service, prices and quality standards (Article 11(2)).

ANACOM can decide to change the prices of postal services that form part of the universal service provision and to amend or remove conditions associated with prices, duly substantiated as regards compliance with principles provided for in Article 14(1), taking into account the quality of service provided, to the extent required to promote effective competition or to protect the interest of users [Article 14(8)(d), as amended by Decree-Law 160/2013 of 19 November].

2.2 Non-compliance with quality of service standards

Article 47 of the Postal Law lays down that in the event of failure to meet [quality] performance objectives associated with the provision of the universal service set out pursuant to Article 13(1), ANACOM must apply mechanisms to compensate universal service users, in accordance with the principles of proportionality, appropriateness, non-discrimination and transparency.

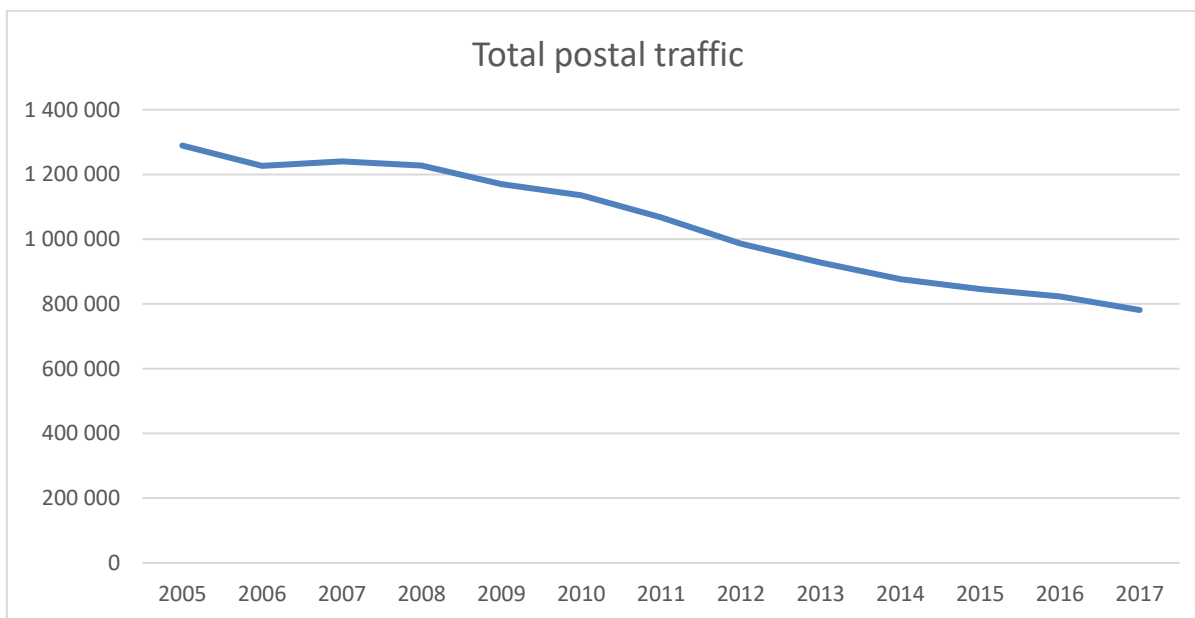
The compensation mechanisms intended for users of the universal service are defined in ANACOM's determination provided for in Article 13(1) of the Postal Law, which sets out the quality of service parameters and performance objectives associated with the universal service provision, reflecting the prices to be charged by CTT for the services that make up the universal service that is the subject of this decision and benefiting all of the users of these services.

3. The postal sector in Portugal

In Portugal, around 781 million postal items were sent in 2017, 5.1% fewer than in 2016 and 10.8% fewer than in 2014 (Figure 1). The decrease recorded in 2017 is higher than the average annual reduction registered since 2014 (-3.8%).

It is estimated that at least 51.8% of total postal traffic consisted of bulk mail.

Figure 1 - Total postal traffic trend



Unit: thousands of items.
Source: ANACOM.

Regarding traffic by type of service, it is noteworthy that there has been a growth in the express mail service segment, although this is still a very small part of the sector (less than 10%).

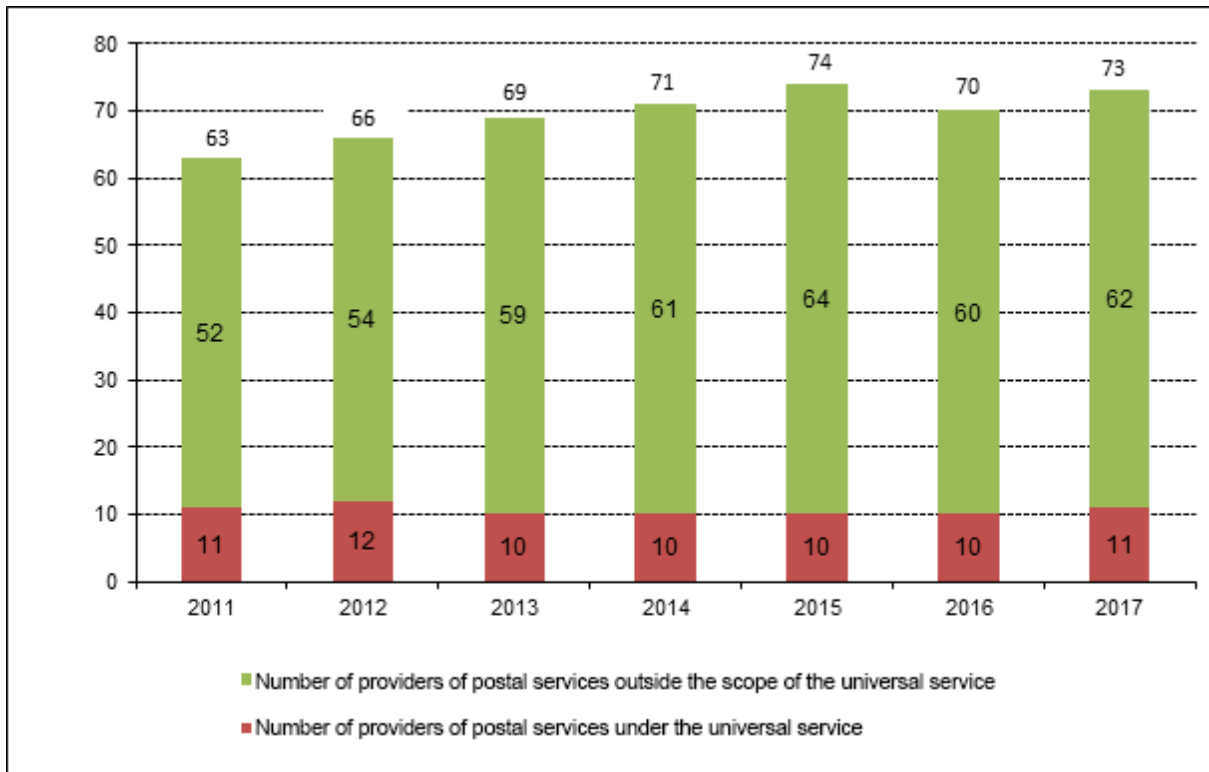
However, there is still a decline in postal traffic outside the express mail category, that is to say, the majority of postal traffic, which explains the reduction in total postal traffic.

It is estimated that traffic in the universal service represents approximately 83.8% of total postal traffic and 90.5% of postal traffic not covered by the express mail category.

In Portugal, in 2017, there were 92 entities listed on the register of postal service providers. Eighty-four of these providers were registered for the provision of postal services outside the scope of the universal service (mainly express mail), and 14 were qualified to provide services under the universal service, while six were simultaneously registered for both types of service.

In 2017, there were 11 providers operating within the universal service, and 62 providers operating outside it (**Error! Not a valid bookmark self-reference.**).

Figure 2 - Active postal service providers



Source: ANACOM.

In 2017, the CTT Group had a market share of 92.2% of total postal traffic. Of the competitors, Grupo Adicional stands out with a market share of 2.1% (Table 1). As a result of the liberalization of the sector, CTT lost about 4 percentage points of total annual traffic share. Considering only non-express mail items, the traffic share of CTT Group is higher than is shown in Table 1.

Table 1 - Total postal traffic shares

	2011	2012	2013	2014	2015	2016	2017
CTT Group *	96.7%	95.9%	94.7%	94.5%	94.5%	93%	92.2%
GEOPOST / DPD Group	0.8%	0.9%	0.9%	1.1%	1.3%	1.5%	1.7%
City Post	0.0%	0.0%	0.0%	0.0%	0.2%	1.0%	0.3%
Additional Group	0.2%	0.2%	0.1%	0.2%	0.3%	0.9%	2.1%
Premium	0.5%	0.6%	0.7%	0.7%	0.7%	0.8%	0.9%
News Direct	0.4%	0.2%	0.5%	0.8%	0.6%	0.6%	0.6%
Urban	0.1%	0.2%	0.3%	0.3%	0.3%	0.4%	0.4%
Iberomail	0.1%	0.1%	0.3%	0.3%	0.3%	0.3%	0.3%
Express	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
Nacex Group	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%
SDIM	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Best Direct	0.0%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
Other providers	0.8%	1.4%	1.7%	1.3%	1.0%	0.7%	0.6%

* Includes CTT, CTT Expresso and CTT Contact.
Source: ANACOM

It is expected that mail traffic will continue to decline, mainly because of the intensification of cost reduction measures by companies, associated with the tendency to replace physical mail by electronic communications.

On the other hand, the development of e-commerce has helped to increase the number of postal parcels. According to the European Commission (EC),⁶ in the first quarter of 2016 23% of residents in Portugal had made purchases or placed orders online in the previous 3 months⁷ (6 percentage points more than in 2014).

⁶ Survey on the Use of Information and Communication Technologies by Households (IUTICF) carried out by the national statistical institutes of the European Union and harmonized and compiled by Eurostat. The respondent group consisted of households resident in Portugal with at least one member aged between 16 and 74 years. The sample size was 7642 households. The reference period of the information is the time of the interview for household data, and the first quarter of 2016 for data relating to persons. The sample was stratified by NUTS II and designed to produce representative estimates for Portugal and the Autonomous Regions of the Azores and Madeira.

⁷ Orders placed through websites or Internet applications were considered. Included are participation in lotteries and betting (such as Santa Casa games), acquisition of financial investments (such as shares), accommodation reservations or purchases in Internet auctions. Orders by email, SMS or MMS are not included, nor are products or services obtained free of charge and orders for professional purposes. Respondents were asked: "Have you ever made purchases or placed orders over the Internet? When did you last make a purchase or place an order? "

4. Universal service covered by this Decision

Scope of services

The services on which this decision focuses represent between 30% and 40% of total postal traffic and total traffic within the scope of the universal service in 2017.⁸

Taking into account the current offer of CTT services, the services covered by this decision are:⁹

- non-priority mail (excluding mail in quantity subject to special prices);
- registered mail
- registered mail and insured mail;
- publications/editorial mail/newspapers and periodicals;
- priority mail;
- green mail;
- service of judicial documents and notifications by registered post;
- postal parcels.

Incoming international mail originating abroad and with destination in Portugal is not included, nor, as mentioned above, are services provided under the special price regime, which includes bulk mail offered in particular for business services, bulk senders and consolidators of mail from different users.

⁸ They represent ((Start of confidential information - hereinafter SCI) (end of confidential information - hereinafter ECI) of total postal traffic and (SCI) (ECI)) of total traffic under the universal service.

⁹ At the national and international outgoing level.

Price developments

In accordance with the pricing rules for the 2015-2017 triennium, the average annual price change in the basket of correspondence, parcel and editorial mail services was 2% per year, in nominal terms (Table 2).

Among these, the prices of non-priority and priority mail in the national service, weighing up to 20 g, in the occasional segment (users, natural or legal persons, who use or ask CTT to provide a postal service without formalizing a written contract for the purpose with that company), varied by an average of 5.9% and 7.3% per year, respectively, in nominal terms. It should be noted that these provisions have shown significantly negative margins.

The prices of reserved services (service of judicial documents and notifications by registered post) decreased by an average of 3.4% per year over the same period, in nominal terms.

Table 2 - Price changes

	2015	2016	2017	Δ 2015-2017 average
Basket - Correspondence, orders and editorial mail				
whereof:				
<i>National Non-priority Mail up to 20 g</i>	2.3%	1.3%	2.4%	2.0%
<i>National Priority Mail up to 20 g</i>	7.3%	5.2%	5.2%	5.90%
	8.3%	6.6%	6.9%	7.3%
Basket Reserved services (Service of Notifications/Summons)	-3.8%	-4.7%	-1.7%	-3.4%

Source: ANACOM's decisions on CTT price proposals for 2015, 2016 and 2017.

The increase in the prices of mail items is a trend in the other Member States, with very few exceptions.

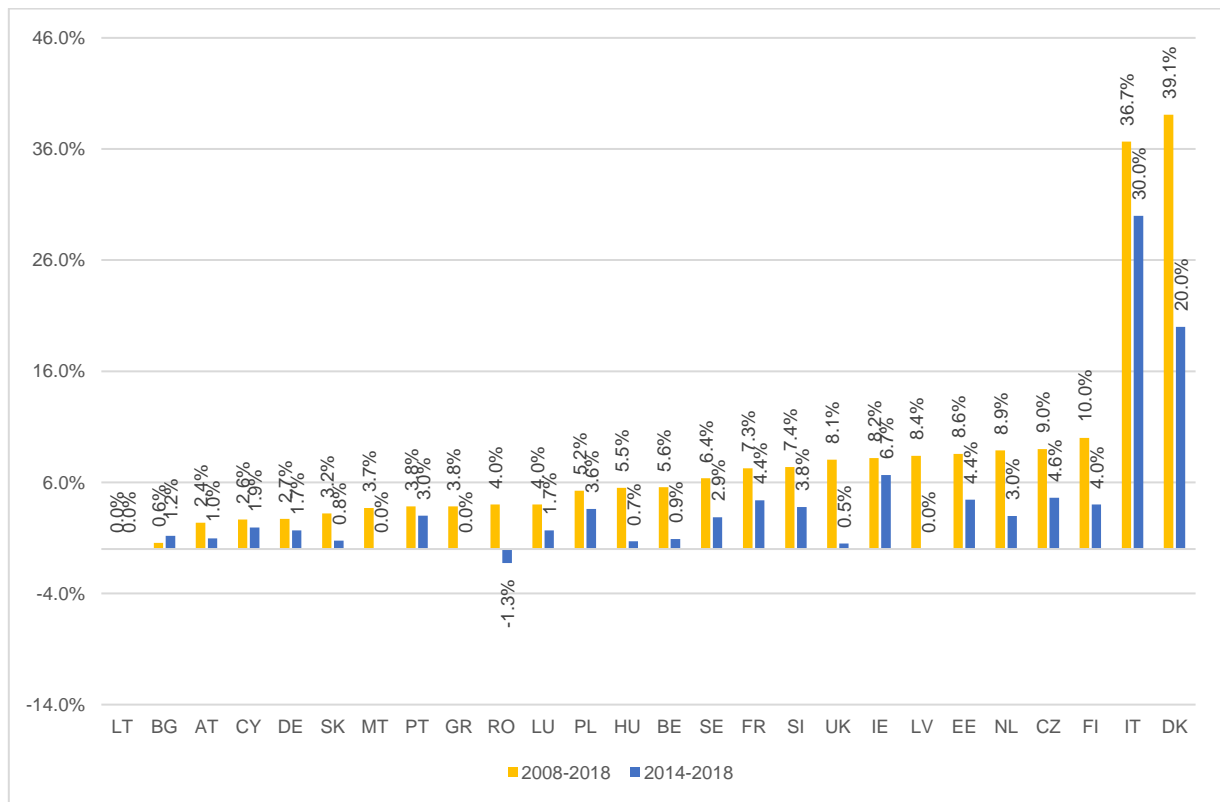
Figure 3 presents the cumulative percentage change in prices in 26 Member States, where the local currency is considered, for the national priority service (equivalent to priority mail) weighing up to 20 grams between 2008 and 2018, as well as the change between 2014 and 2018.¹⁰ By comparing the price level in 2008 with that of 2018 we can see that the price of this service has increased in 25 Member States, the largest increase being in Denmark (391%),

¹⁰ For Portugal, it already considers the price increase implemented by CTT in April 2018.

and in the period from 2014 to 2018 the price increased in 19 Member States, with the largest increase being in Italy (300%).¹¹

Between 2014 and 2018 there were no price changes in four Member States, and in the period from 2008 to 2018 prices changed in all Member States except Lithuania. Only one Member State reduced the price: between 2014 and 2018, Romania, which showed a price reduction of 12.5%. In the group of 21 Member States which saw a price rise between 2014 and 2018, Portugal recorded the tenth largest price increase. Between 2008 and 2018, a total of 18 countries recorded a higher increase than Portugal.

Figure 3 - Price change in local currency of national priority mail up to 20 grams (2008-2018)



Note: 2008 prices for October. Prices for 2014 and 2018.
Source: ANACOM.

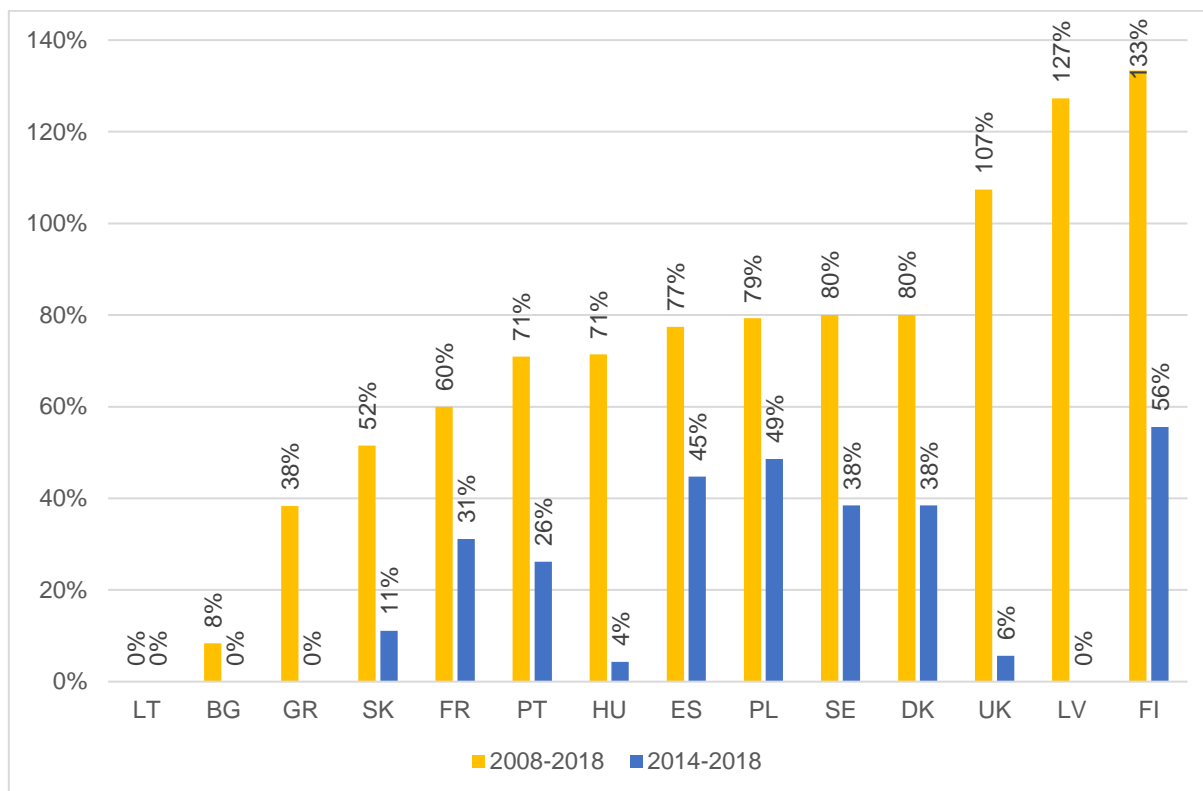
¹¹ This price increase in Italy is also associated with a change in the characteristics of this service.

Figure 4 shows the price change between 2008 and 2018, and between 2014 and 2018,¹² of non-priority national mail (equivalent to standard mail) weighing up to 20 grams, in local currency, in 14 Member States where the universal service provider offers this service.¹³ Between 2008 and 2018, the price in local currency of non-priority national mail rose in all Member States except Lithuania, where prices remained constant over the periods studied. The biggest percentage price increase was 133%, in Finland. The increase in Portugal from 2008 to 2018 was 71%, the eighth largest (along with Hungary). Between 2014 and 2018, only three Member States left prices unchanged, with rises in the remaining 11 countries. Of the countries where the price of this service increased in this period, Finland recorded the largest increase, 56%. In Portugal the increase was 26%, the seventh largest increase, thus corresponding to an intermediate position in all the Member States concerned.

¹² For Portugal, it already considers the price increase implemented by CTT in April 2018.

¹³ Not including Cyprus, where only one service of this nature was offered in the universal service, Romania, where the same situation occurred from 2009, and Croatia, due to its entry into the EU on 1 July 2013.

Figure 4 – Price change in local currency of 20 gram non-priority national mail (2008-2018)



Note: 2008 prices for October. Prices for 2014 and 2018.
Source: ANACOM.

According to a study on the needs of consumers of postal services, dated May 2017 and conducted by the Instituto de Marketing Research (IMR) for ANACOM,¹⁴ the average perception of the price of various types of mail is greater than the actual value, except for registered mail. According to the same study, this supports the hypothesis arising from the qualitative research undertaken that customers do not consider the price of shipping mail to be expensive. This finding is also supported by the high proportions obtained from respondents who indicated that they did not know the price charged for each type of correspondence.

According to the same study, when questioned about the importance of several aspects related to the sending of postal correspondence, listed in nine criteria, 56.3% of the respondents

¹⁴ Study available in <https://www.anacom.pt/render.jsp?contentId=1413422>.

This study was presented at a seminar held on 14 July 2017, <https://www.anacom.pt/render.jsp?contentId=1413480>. It should be noted that more than 99% of respondents in this study use CTT to meet their postal service needs. Only residential users were surveyed.

attributed an importance higher than 7 points¹⁵ to the price of the correspondence, which is the third most valued criterion after security (59.9%) and the guarantee of delivery to the recipient (57.1%), Regarding postal parcels, 83.3% of the respondents attributed more than 7 points to the criterion "price", which is the criterion with the highest percentage. In the specific case of satisfaction with the price of the types of correspondence used by customers, the results of the study show that residential users are satisfied with the price of total correspondence.¹⁶

Traffic, revenues and costs

As shown in Table 3, in the 2013-2017 period, CTT's traffic, revenues and costs with the basket of correspondence, parcel and editorial mail services fell. On average, traffic decreased by several percentage points ((SCI) (ECI)%) per year, with income and costs having fallen (SCI) (ECI) and (SCI) (ECI)% per year, respectively. However, since unit revenues increased relative to costs in that period, this resulted in an improvement in the relative margin of this basket of services (Figure 5). Compared to 2014, the relative (and absolute) margin of this basket of services fell (Table 3 and Figure 5).

Table 3 - Evolution of the basket of correspondence, parcel and editorial mail services

	2013	2014	2015	2016	2017	Δ annual average 2013-2017
Traffic (no)	(SCI)					
Income						
Costs						
Margin						
Margin (in %)						
Unitary income						
Unit cost						(ECI)

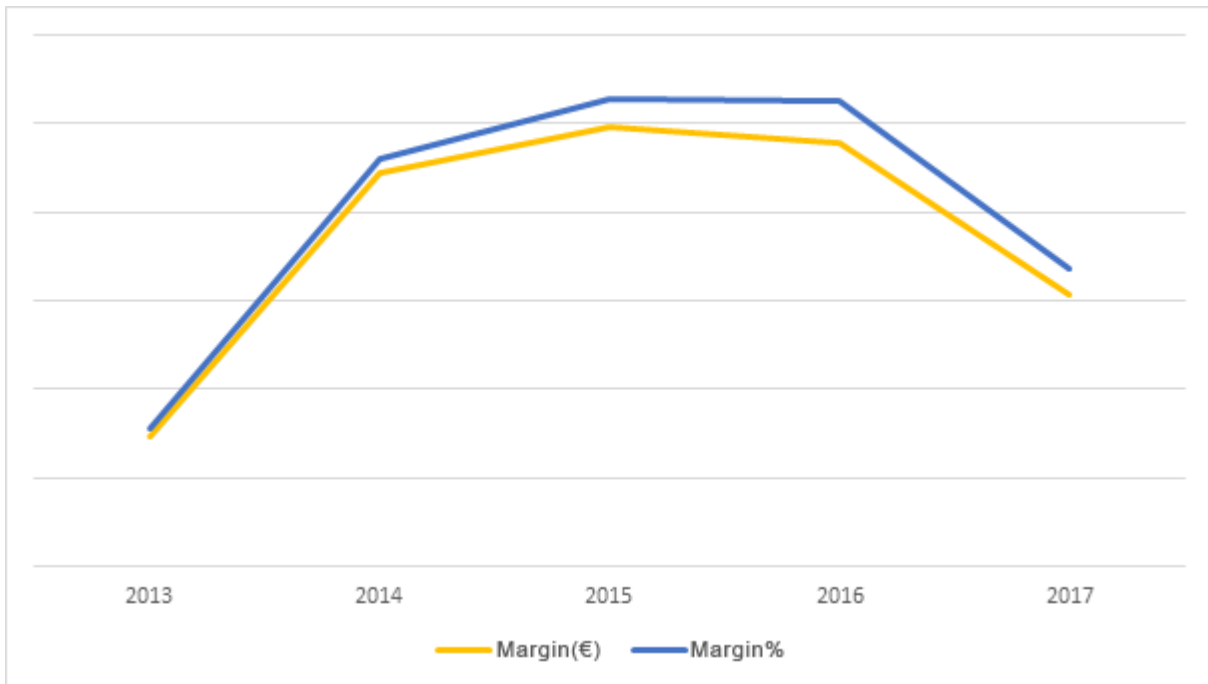
Source: CTT Cost accounting system¹⁷, 2013-2017.

¹⁵ Scale from 1 – Not at all important to 10 - Very Important.

¹⁶ According to that study, page 21. It should also be noted that average satisfaction with the price was more than 7 points (1 – Not at all satisfied, 10 - Very satisfied) for all correspondence services.

¹⁷ Throughout this document, when using cost accounting system data, versions from which non-recurring results have been removed are taken into account.

Figure 5 - Margin of the basket of correspondence, parcels and editorial mail



Source: CTT 2013-2017 cost accounting system.

5. Application of universal service pricing criteria in 2018

Given that this final decision on the pricing criteria of the universal postal service for the 2018-2020 period has been determined during 2018, ANACOM understands that the pricing criteria to be applied in 2018 should be those defined for the 2015-2017 triennium through the determination of 21 November 2014.¹⁸

6. Application of the principles of transparency and non-discrimination

Prices of the services that form part of the universal service provision must comply with the principles of transparency and non-discrimination.

The publication of information also benefits users who, being better informed, can make more efficient choices that are better adjusted to their needs.

¹⁸ Available at <https://www.anacom.pt/render.jsp?contentId=1341155>.

In view of the above, and also bearing in mind that CTT is under an obligation:

- as the USP, to appropriately publish and regularly supply users and postal service providers with accurate and up-to-date information on the features of the universal service offered, with special reference to the general conditions of access to and use of the service, prices and quality standard levels (Article 11(2) of the Postal Law);
- as a postal service provider, to appropriately publish, that is, on its website, and to regularly supply users with detailed and up-to-date information on the features of the services offered, with special reference to the general conditions of access to and use of these services, prices and quality standards [Article 37(1)(c) of the Postal Law],

it is deemed that CTT is required to publish prices and discounts of services that form part of the universal service provision covered by this decision, as well as the associated conditions, at least on its website (as results, in fact, from the obligation referred to, provided for in Article 37(1)(c) of the Postal Law). This information must also be available at any point where such services are provided (such as post offices), and be provided in the concessionaire's user information services, upon request.

Such publication must include up-to-date information on all applicable prices, discounts and conditions, in clear language that allows any user to understand and calculate the price to be paid, irrespective of the service and modes of dispatch available.

Moreover, it is deemed appropriate to require CTT to notify ANACOM of the specific Internet address where universal service prices and other relevant conditions are published, so that ANACOM can create a direct hyperlink to that address on its website.

7. Application of principles of price cost-orientation and affordability

Prices of services that form part of the universal service covered by this decision must be cost-oriented, and encourage the efficient provision of the universal service

The cost orientation of prices aims to ensure a proper management of the universal service and to prevent competition distortions. In this latter case it should prevent an operator from charging prices that are too high for less competitive segments, thereby harming users, or too

low for anti-competitive purposes, for example by applying predatory prices in an attempt to exclude competition in a potentially more competitive market.

CTT is required (Article 15 of the Postal Law) to make use of a cost accounting system that allows the separation of accounts between each of the services and products that form part of the universal service and those that do not. This system should, in addition, allow separation of the costs associated with the various operations of the postal service (clearance, sorting, routing and delivery).

This obligation to be provided with a cost accounting system aims to introduce transparency in the real costs of the various services. It is thus a tool which ANACOM can use to obtain information to check fulfilment of the principle of cost-oriented pricing, as well as of transparency and non-discrimination.

The prices of the postal services included in the universal service offer must, however, respect the principle of affordability for all users [Article 14(1)(a) of the Postal Law].

7.1 On the principle of cost-oriented pricing

The European Commission's line of case-law and decision making has not yet provided any clarification on the principle of cost-oriented pricing within postal sector regulation.

The methodology for analysing universal postal service pricing proposals which ANACOM¹⁹ has been adopting has explicitly favoured:

- the basket of services as a whole (that is, for example, if the pricing proposal presented by CTT involves the full universal service, the cost orientation of the full basket is analysed); as well as

¹⁹ See universal postal service pricing criteria, defined by ANACOM by determination of 21 November 2014 and corrected by decision of 25 June 2015, at www.anacom.pt.

- each service considered individually (for example, the national non-priority mail service, or the national priority mail service) in light of its specific case, in particular in terms of expected changes in its margin.

This analysis methodology has been applied simultaneously with a price control mechanism²⁰ which establishes, for each year, maximum price variations for the basket of services as a whole. As mentioned above, this Authority considers that this mechanism should continue to be applied during the 2018-2020 triennium.

In the context of applying the principle of cost-oriented pricing, ANACOM considers that if the margin of a service subject to the price proposal under analysis is positive in a given year, a proposal to change prices for the following year will respect the principle of cost-oriented pricing if it leads to a reduction in the margin or, at least does not lead to an increase in the margin of that service.

On the other hand, if the margin of the service under review is negative in a given year, a price increase proposal for the following year will be in line with the principle of cost-oriented pricing if it leads to an improvement in the margin or, at least does not lead to a deterioration of the service margin.

The margin to be considered is the relative margin (in percentage) compared to revenues, as it also shows the price variation required to obtain, all other things being equal, a zero margin.

ANACOM has taken into account, and will continue to do so, the checking of non-recurring effects that may have a significant impact on the analysis of the verification of compliance with cost-oriented pricing, removing such effects from the analysis where deemed appropriate.

For the 2019-2020²¹ period, however, ANACOM considers that this approach, applied in conjunction with the application of a maximum price change for the basket of services, should be reviewed as described below.

²⁰ Pursuant to what is provided for in Article 14(8)(b) of the Postal Law.

²¹ As mentioned above, the pricing criteria defined for the 2015-2017 triennium will apply in 2018.

This Authority recognizes that the obligation to comply with cost-oriented pricing, as currently defined and applied, at the level of each service, as well as complicating the drafting of a price proposal - because CTT has to coordinate the price changes so as to ensure compliance with the cost orientation of prices per service, while at the same time complying with the applicable maximum price change (which this Authority intends to continue to implement, as will be seen in the following chapters) - could limit the flexibility of the operator to operate in a market which, while continuing to suffer from lack of competition, is liberalized.

Such a tariff constraint might restrict CTT practices that consist of aligning the prices of services with their level of overall demand, or of each service, theoretically reducing social welfare. Its removal should enable CTT to respond more efficiently and flexibly to changes in demand, both among services and globally, while ensuring the efficient and sustainable provision of the universal service.

In any case, ANACOM will pay particular attention to significant variations in prices and margins of each of the services. In particular, in the case of significant price increases, ANACOM will take into account the possible impact of such variations on compliance with the principle of price affordability. In the case of significant price and/or margin reductions, ANACOM will take cost-oriented pricing into account and, within its field of competence, it will watch out for the possible application of anti-competitive prices aimed at eliminating or limiting competition.

In particular, the Authority considers it unlikely that price increases or reductions of less than 10% and/or margins of less than 10 percentage points alone would reflect concerns in terms of affordability to users regarding the services covered by this decision.

To sum up, in the context of applying cost-oriented pricing and with the simultaneous application of a maximum price change for the basket of services, ANACOM will evaluate the development of each service and pay particular attention to:

- proposals for significant annual average price changes (paying particular attention to price increases of more than 10% or price reductions of more than 10%);

- price proposals resulting in estimates of significant margin changes (with particular attention to increases or reductions in the relative margin value of more than 10 percentage points).

In the context of analysing these situations, this Authority will take into account, in particular and insofar as applicable:

- the forecasts of the trend of traffic and of the costs of the service or services in question;
- the margin value (for example whether it is close zero) and its estimated variation (for example, if the relative margin estimated for the year of application of the new prices is very close to this year's margin);
- the importance of the provision in question in terms of revenues and traffic, within the framework of the universal service and the price proposal under analysis.

Regarding the analysis of significant price changes, the analysis at the level of the basic product will be preferred (e.g., price of shipping a non-priority item weighing between 50 and 100 grams, in the national service, applicable to the occasional segment/"basic price" tariff).

In the context of the significant variations in the margin, analysis at a more aggregated level than the basic product will be favoured (for example, at the level of each service and at the level of its forms of service).

As regards the criterion of the cost to be considered in the analysis of cost-oriented pricing, and considering:

- a) Decision 97/301/EC and the Arcor ruling (Case C-55/06), both in the telecommunications sector, as regards the application of the principle of cost-orientation:
 - prices should reflect only the service's underlying costs;
 - when determining the basis for calculating costs, the real costs borne by the operator must be kept in mind; these are the costs already paid (borne) by the notified operator and a reasonable remuneration to allow the long-term development and modernization of infrastructure;

- b) European case law and practices relating to the application of competition rules,²² where it is possible to conclude that in the case of the obligation to provide a universal service, prices incurred with such provision must bear the service's specific incremental costs and part of the network's general maintenance costs incurred (fixed costs and common costs associated with the installed network), in accordance with the obligation to provide the universal service;
- c) that the application of the principle of cost-orientation, provided for in Article 14 of the Postal Law, must correspond to the application of a price whose minimum threshold does not constitute a predatory price in the context of the application of competition law;
- d) that CTT is obliged (Article 15(1) of the Postal Law) to use a cost accounting system that allows the separation of accounts between each of the services and products which are part of the universal service and those which are not;
- e) that this cost accounting system must also allow the separation between costs associated to the various operations forming part of the postal service (clearance, sorting, transport and distribution) (Article 15(2) of the Postal Law);
- f) that the accounting system should operate on the basis of consistently applied and objectively justifiable cost accounting principles (Article 15(3) of the Postal Law),

ANACOM will take as reference the underlying costs of the service, produced and reported by CTT's cost accounting system according to the cost allocation rules arising from the Postal Law, unless another rule is defined by ANACOM under Articles 15 and 16 of the Postal Law. In this context, ANACOM will take the relation between the prices of each service and the total costs underlying the service as reference, as well as the relationship between the prices of each service and the sum of: (i) costs directly attributable to the service (direct costs); (ii) the part of the generally called common costs related to the service; and (iii) a reasonable

²² In particular Case C-62/96 (Case AKZO), Decision 2001/354/EC (Deutsche Post I) and the Chronopost case law (La Poste/Chronopost case).

remuneration from the USP (that is, to cover the part of the cost of capital that is allocated to the service).²³

In situations where the second relationship is negative, together with the price proposal, CTT will present detailed and reasoned information justifying this situation, including any additional information on relevant costs.

7.2 On the principle of price affordability

The prices of postal services that form part of the universal service provision covered by this decision must comply with the principle of affordability for all users (Article 14(1)(a)).

Bearing in mind the report of the European Regulators Group for Postal Services (ERGP),²⁴ the principle of affordability is ensured in the Member States through, *inter alia*, the application of maximum price changes and individual price control mechanisms for services.

According to available data relating to the Statistics Portugal (Instituto Nacional de Estatística - INE) Survey on Household Expenditure 2015/2016, postal services have a negligible weight in the shopping basket of Portuguese households (an average of 3 euros for a total of 23 635 euros per year, that is, they represent, on average, 0.013% of total expenditure in the year).²⁵

In addition, according to the survey on the consumption of postal services of the residential population carried out by ANACOM between November 2016 and January 2017,²⁶ it can be seen that, on average, the average monthly expenditure of the respondents using postal services was around 1.79 euros (this expenditure was 2.6 euros per month in 2014).²⁷ It should

²³ It should be noted that in the study "Pricing behaviour of postal operators", page 22, December 2012, prepared by *Copenhagen Economics* for the EC, this consultant concludes, *inter alia*, that the requirement for prices of universal service services in a competitive market to be cost-oriented may lead to less efficient competitors entering the postal market. This is the case where cost-oriented prices (which have to cover marginal costs and a part of the fixed and common costs of the operator) are higher than prices based on average variable costs (used in predatory pricing tests). The consultant adds that this is generally the case in the provision of postal services, owing to the high weight of fixed and common costs in this provision. The consultant concludes that the requirement of cost-oriented pricing could be contrary to the objective of ensuring the efficient provision of postal services.

²⁴ ERGP Report on tariff regulation in the context of volume decline (2014), pp. 29-31.

²⁵

https://www.ine.pt/xportal/xmain?xpid=INE&xpgid=ine_publicacoes&PUBLICACOESpub_boui=277098526&PUBLICACOESmodo=2

²⁶ https://www.anacom.pt/streaming/SPInquerito2016.pdf?contentId=1404153&field=ATTACHED_FILE

²⁷ Source: ANACOM, "Survey on the use of postal services - 2014".

be noted that only 29% of respondents (389 out of 1340 respondents) in this study reported using postal services in the last 12 months prior to the interview date. This last result is in line with the aforementioned study carried out by IMR, which shows that in the last 12 months before the interview, 31% of respondents from the residential population sent correspondence.

The IMR study also concludes, as already mentioned, that residential users are satisfied with the overall price of correspondence.

As far as companies are concerned, in some cases correspondence costs may have a relevant weight, particularly at the level of small and medium-size enterprises (SME). Postal services may play a particularly relevant role for agencies sending editorial mail/newspapers and periodicals, the cost of postal services also playing an important role in these agencies' costs, especially regarding their ability to pass on any price increases in the value of subscriptions in good time.

In this context, as far as the principle of affordability is concerned, ANACOM will take into account, specifically:

- information available on family expenditure on postal services;
- information collected by ANACOM from postal service consumption surveys (residential and business customers), satisfaction surveys, and studies on the needs of postal services users;
- price increases that, while required with the application of the principle of cost-oriented pricing, could jeopardize the commercial viability of users (companies) of the service, notably because the service is a critical input to their activity and service expenses play a relevant part in their financial position;
- the need to prevent price increases from entailing sharp traffic falls, particularly due to the elasticity of demand and/or its transfer to electronic communications media, with a subsequent increase in unit costs, which could lead to a spiral process that might jeopardize the economic and financial viability of the universal service provision.

In segments where competition is highest, or where it is effective, the principle of affordability will in principle be less relevant, as it is likely that competition will limit price increases (in compliance with competition rules) and encourage a more efficient provision of the universal service.

7.3 Application to the correspondence delivery service

According to CTT's cost accounting system data for 2017,²⁸ the correspondence service covered by this decision - which does not include mail services subject to special prices²⁹ - has a positive margin [of (SCI) (ECI)%].

Available data on the sector show that, as of the first quarter of 2015, CTT ceased to be the only operator providing correspondence services under the universal service at national level. However, by the end of 2017 they still had almost the whole (more than 90%) market share of this service, both in terms of traffic and in terms of revenues.

On the basis of CTT's cost accounting system data, the margin of the correspondence service within the universal service is negative overall in the "basic price" tariff (tariff applicable to the occasional user segment) and positive overall in the "bulk prices" tariff (applicable to (i) users of the contractual segment³⁰ that reach certain minimum volumes of annual invoicing and to (ii) shipments with postage franking machines)³¹ - see Table 4.

Table 4 - Margins by segment (2017)

	Margin	Margin (%)
Basic Price Tariff	(SCI)	
Bulk Price Tariff		(ECI)

Source: 2017 cost accounting system. Data without internal mail (service mail) of CTT.

²⁸ Note: figures not yet audited.

²⁹ The national and international bulk mail service offered by CTT to senders of bulk mail by means of applying special prices, which are, as a rule, subject to the shipping of minimum quantities and to certain conditions and preparation requirements (e.g. pre-separation) and delivery directly to specific network access points for clearance of bulk mail, not deposited at acceptance points such as postal establishments (post offices) or post boxes. The prices of these services are subject to the regime in Article 14a of the Postal Law.

³⁰ According to the CTT, a contractual customer is any natural or legal person who enters into a contract with CTT for the provision of postal services in which it is incorporated as part of said contract.

³¹ It is recalled that this tariff does not correspond to the tariff applicable to bulk mail under the special prices regime.

Overall, according to the cost accounting system, between 2014 and 2016 the margin for correspondence increased slightly in relative terms (having increased by 1.1 percentage points compared to 2014 and 0.3 percentage points over 2015). In 2017 there is a reduction in the margin - see Table 5.

Table 5 - Margin of correspondence service in the scope of universal service (except bulk mail)

	2014	2015	2016	2017
Absolute Margin	(SCI)			
Relative margin against income				(ECI)

Source: Cost accounting system 2014-2017.

As noted earlier, the principle of cost orientation of prices aims to ensure the proper management of the universal service and to avoid competition distortions, in this latter case to prevent the existing lack of competition from letting an operator apply prices that are either too high, and to the detriment of users, or too low with anti-competitive intentions.

Universal service prices must also ensure they are affordable and encourage the efficient provision of the universal service, which a simple *de jure* liberalization does not by any means guarantee, especially when, as is the case here, competition in the services covered is in general still at an early stage.

As such, the application of the principle of cost-oriented pricing to a reference scenario, as mentioned in Chapter 9, leads in practice to the application of an additional price control mechanism [allowed under Article 14(8)(b) of the Postal Law], which especially aims to uphold user interests.

According to the price control mechanism considered in this document (see Chapter 9), the company cannot increase prices above the inflation value added to or subtracted from a given percentage per year. This type of price regulation encourages the operator to minimize costs - where the company is able to reduce costs below the forecast levels, when the percentage ceiling was set, it may then retain any excess profits, at least until that ceiling is revised.

But if the company is not able to achieve the forecasted efficiency levels, it is penalized through a reduction of its margins.

This type of control also avoids excessively intrusive regulation, and it also reduces regulatory activity current costs by introducing a simple and objective mechanism for checking the cost orientation of prices obligation.

It is stressed that efficiency gains are very important in any activity sector and in any company, thus the pricing rule to be adopted must neither be so demanding as to place a too heavy burden on the company, nor so easily attainable as to discourage the company from endeavouring to constantly improve its productive efficiency.

This price regulation technique, in which a maximum price variation is defined, is used in several European Union Member States (namely Belgium, France, Sweden, United Kingdom, Germany, and the Netherlands - see chapter on European practice).

In this context, the determination of the maximum allowed price change will constrain the margin (and financial resources) to be obtained by CTT in each year that the price control mechanism is in force, which is also dependent on other constraints, such as the trend in demand and operating costs of the service.

In the specific case of 2019 and 2020, the price control mechanism will be established, as set out in Chapter 9, on the basis of a baseline scenario (cost, inflation and traffic trends).

7.4 Application to the editorial mail service

The editorial mail service is provided in the market on the basis of free competition, just as it was before the full liberalization of the sector. The service provision up to 2 kg requires a licence.

According to the information available, by the end of 2017, CTT had market shares well above 50% - (SCI) (ECI) and (SCI) (ECI) of the national and international outgoing market, respectively - in both traffic and revenues.

The overall margin of the editorial mail service (national and international service) has been strongly negative, influenced especially by the national service, but nevertheless showing a tendency to improve since 2012. However, this has deteriorated since 2015 in relative terms, with an improvement in the absolute margin between 2016 and 2017.

Table 6 - Margins (%) of editorial mail

	2012	2013	2014	2015	2016	2017
Editorial Mail	(SCI)					
National						
National subsidized						
National non-subsidized						
International Service						(ECI)

Source: SCA 2012-17.

Table 7 - Margins (in euros) of the editorial mail

	2012	2013	2014	2015	2016	2017
Editorial Mail	(SCI)					
National						
National subsidized						
National non-subsidized						
International Service						(ECI)

Source: Cost accounting system 2012-2017.

In the national service, CTT's provision is characterized by a form that applies to the delivery of books, newspapers and periodicals that benefit from the regime of "encouragement to reading and access to information", provided for in Decree-Law 98/2007 of 2 April (former postage paid regime), amended and republished by Decree-Law 22/2015 of 6 February, falling within the framework of the agreement concluded between CTT, the *Associação Portuguesa de Imprensa* (the Portuguese Press Association) and the *Secretaria-Geral da Presidência do Conselho de Ministros* (General Secretariat of the Presidency of the Council of Ministers) (a form known as a subsidized system), and by another form which does not benefit from such an arrangement (non-subsidized system).

The agreement between the CTT, the Portuguese Press Association and the General Secretariat of the Presidency of the Council of Ministers also covers international mail.

The editorial mail service, together with correspondence and parcels, was subjected to a maximum price variation under the current pricing criteria.³²

³² Maximum price variation provided for in Article 8 of the price criteria fixed by ANACOM on 21 November 2014.

Bearing in mind that CTT has a significant market share in this service,³³ although other providers are also operating in this segment, it is considered appropriate to continue applying an additional price control mechanism, including it within the pricing rule to be applied to the correspondence service, thereby simultaneously making it possible to: (i) limit the increase in CTT's overall margin in the universal service; (ii) encourage CTT to be more efficient in providing this service.

At the same time, without prejudice to the need to improve the negative margin of this service (to offer conditions likely to favour the development of effective competition, taking into account the criteria for applying the principle of cost orientation referred to in Chapter 7.1) by applying the principle of affordability, a particular attention will be given to the impact that price increase proposals for this service may have on users, particularly publishing companies.

7.5 Application to the parcel service

Data from CTT's cost accounting system for 2017 (Table 8 and Table 9) shows that in 2016 CTT showed a positive margin in the provision of the parcel service for the first time since 2012.³⁴ This was achieved by reducing the negative margin of the national service, which is still negative, and increasing the positive margin of the international parcel service between 2012 and 2017.

Table 8 - Margins (%) of the parcel service (universal service)

	2012	2013	2014	2015	2016	2017
Parcels	(SCI)					
National Service						
International Service						(ECI)

Source: Cost accounting system 2012-2017.

³³ However, its share of traffic declined by 3.4 percentage points between the last quarter of 2014 and the last quarter of 2017.

³⁴ This was possible due to a significant reduction in the costs of this provision (around 24%) because of savings in operating costs.

Table 9 - Margins (in euros) of the parcel service (universal service)

	2012	2013	2014	2015	2016	2017
Parcels	(SCI)					
National Service						
International Service						(ECI)

Source: Cost accounting system 2012-17.

The parcel service is provided in the market on the basis of free competition, just as it was before the full liberalization of the sector.³⁵ A licence is required for its provision under the universal service.

As mentioned above, this service is subject to maximum price change within the current pricing criteria in force.

According to the available information, in 2017 CTT ceased to be the only provider offering the parcel service under the universal service. However, it still has almost all ((SCI) (ECI)) of the traffic share of this service. Note, for example, what happens in the express mail segment, where several service providers are operating and there is effective competition.

In this context, it is also deemed appropriate to continue to subject this service to an additional price control mechanism, including it within the pricing rule to be applied to the correspondence service, thereby simultaneously making it possible to: (i) limit the increase of CTT's overall margin in the universal service; and (ii) encourage CTT to be more efficient in the provision of this service.

7.6 Application to reserved services

In the current regulatory framework, the provision of the registered mail service used in judicial or administrative proceedings (service of judicial documents and notifications by registered post) is reserved for CTT, and users may not use any other service provider to meet their needs.

³⁵ In references to the full liberalization of the sector, we are referring to the situation in force since 27 April 2012, except for the service of judicial documents and notifications by registered post, which is the only postal service that has been reserved since that date.

According to the available data, this service has had a positive margin, which has stabilized and even reduced in the last two years.

Table 10 - Margins of reserved services

	2013		2014		2015		2016		2017	
	Mg	Mg	Mg	Mg	Mg	Mg	Mg	Mg	Mg	Mg
Service of Notification / Summons by post	(SCI)									
Simple Notification by post										
By post										(ECI)

Unit: thousands of euros

Source: Cost accounting system 2013-2017.

Given the fact that this service is reserved for CTT, it is deemed that the principle of cost-oriented pricing should continue to be supplemented by the application of a price reduction, as in the 2015-2017 period, so as to ensure the affordability of the service and to encourage a more efficient provision on the part of CTT, which is all the more necessary as this is a provision covered by exclusive rights granted by the State.

8. Principle of uniform tariffs

The application of the principle of uniform tariffs falls within the powers relating to the regulation of prices attributed to ANACOM by the Postal Law.

The Postal Law lays down [Article 14(8)(a)] that ANACOM can determine, for duly substantiated reasons of public interest, that the price of postal items weighting less than 50 g shall respect the uniform tariff principle, with a single price being applied throughout the national territory, without prejudice to the right of universal service providers to conclude individual agreements with users on special prices.

This principle has also been provided for in the Postal Directive, whose second indent of Article 12, as amended by Directive 2008/6/EC, states that "... [universal service] prices shall be cost-oriented and give incentives for an efficient universal service provision. Whenever necessary

for reasons of public interest, Member States may decide that a uniform tariff shall be applied, throughout their national territory and/or cross-border, to services provided at single piece tariff and to other postal items”.

Recital 38 of Directive 2008/6/EC states that “in a fully competitive environment, it is important, both for the financial equilibrium of the universal service and for limiting market distortions, that the principle that prices reflect normal commercial conditions and costs is only departed from in order to protect the public interest. This objective should be achieved by continuing to allow Member States to maintain uniform tariffs for single piece tariff mail, the service most frequently used by consumers, including small and medium-sized enterprises. (...)”.

Given that:

- market shares are expected to remain similar to the current ones in the short to medium term in the segment of mail sent by residential users and small and medium-sized enterprises that mostly send one-off pieces of mail, mostly paid for with stamps and postage franking at post offices/CTT stores;
- any application of different tariffs, geographically speaking, for postal items weighing less than 50 g sent by these users, could lead to unnecessary complexity, even to a lower degree of use of postal services by these users, which could ultimately hinder the fulfilment of their need for postal services, and thus the affordability of the postal services that form part of the universal service,

it is deemed that there are grounds to continue to impose the said obligation for a uniform tariff on postal items weighing less than 50 g, in the national service, sent by users of the occasional segment, mainly residential users and small and medium-sized enterprises.

It is also considered to be justified to maintain the imposition of the same obligation of uniform tariffs for items of mail³⁶ weighing less than 50 grams, in the national service, carried out in the context of registered mail services used in judicial or administrative proceedings (to serve summons and notifications), given that, on the one hand, its provision is reserved for CTT, this

³⁶ Which includes non-priority mail, priority mail, easy mails and registered mail.

company being the only operator to provide that service. The application of a uniform price taking into account the average unit cost of its provision at national level therefore does not call into question the sustainability of its provision. On the other hand, it does not create unnecessary complexity for the user.

The imposition of a uniform tariff for single pieces of mail, has also been the option used in some European Union Member States, such as the United Kingdom, the Netherlands, France,³⁷ Sweden, Belgium, Finland (for non-priority mail items in the national service), Ireland and Italy. In Germany uniform tariffs are not required, but in practice they are applied by the incumbent operator.

9. Pricing rule to be applied to correspondence, editorial mail and parcel services

The new pricing criteria are intended to be applied to prices charged as from 1 January 2019. That is, the prices to be in force in 2019 will be analysed according to these new criteria.

Given that the universal postal service concession contract between the Portuguese State and CTT terminates on 31 December 2020 (Article 57(1) of the Postal Law), the minimum multi-annual period provided for in Article 14(3) of the Postal Law shall be adopted. Thus, the validity period of the pricing criteria subject to this decision will run from 1 January 2018 to 31 December 2020 (3 years),³⁸ while the rules defined by ANACOM by decision of 21 November 2014, which defined the pricing criteria for the 2015-2017 triennium, will apply from 1 January 2018 to 31 December 2018.

The purpose here is to determine a pricing rule that counterbalances trend forecasts of unit costs for the 2018-2020 period, which result from traffic and cost trend forecasting for this period, and simultaneously encourages the universal service provider to continue to implement efficiency measures in the provision of the universal postal service.

³⁷ In the case of France, uniformity only applies to single shipments, although bulk mail is also included, as in Portugal, within the scope of the universal service.

³⁸ Notwithstanding, the difficulty still found in terms of forecasting traffic and cost trends for a longer period also recommends that the minimum period laid down by law be adopted.

This price control mechanism is in accordance with the principle of cost-oriented pricing as it makes it possible to:

- achieve the objective of limiting the overall margin of services covered by the pricing rule, via the application of a maximum price change of services that form part of the basket; and, at the same time
- promote an efficient provision of the universal service, as it provides incentives to the operator to minimize costs; if the operator is able to reduce costs below levels forecasted when the maximum price change was defined, then any surplus profits can be retained.

Incentives are also created to ensure affordability of the service, such that where it is provided more efficiently lower prices can be established or price increases can be limited.

For this purpose, although it is not possible to accurately forecast how traffic and costs will develop in the 2018-2020 period, estimates of these parameters are presented below to serve as a basis for establishing the formula and the value of the annual price change.

Cost estimation

CTT's costs may vary (i) through direct changes in personnel costs, the cost of supplies and external services and other costs, (ii) through the effect of traffic changes on costs, (iii) or through both effects simultaneously.

According to the operational transformation plan, published by CTT on 19 December 2017, on its website,³⁹ CTT plans to implement several cost-saving measures between 2018 and 2020. According to CTT, these measures consist of:

- a) increasing the effort to reduce spending on external supplies and services;
- b) strengthening the HR optimization program;
- c) optimizing the Store Network;

³⁹ Available at https://www.ctt.pt/contentAsset/raw-data/6d28b95d-558c-4419-9ce5-d8ab3fafa342/ficheiroPdf/CTT%20Operational%20Transformation%20Plan_PT_FINAL.PDF?bylnode=true.

- d) redesigning the Distribution Network;
- e) optimizing mail operations and handling.

According to CTT, these measures are expected to make a positive contribution of between 38 and 45 million euros for recurrent EBITDA in 2020, with these effects starting to be visible to some extent in 2018 and 2019.

In view of the impact on EBITDA, which therefore does not consider the depreciation and amortization expenses associated with the investment that CTT intends to carry out, these costs must also be taken into account. According to CTT, this value will be (SCI) (ECI) million euros.

In order to encourage the service provider to continue to implement efficiency measures in the provision of the universal postal service, it is deemed that only half the of estimated cost savings (from the average point of that forecast, in this case) should be considered for the definition of the maximum allowable price variation.

Taking into account the range of values established by CTT (impact on EBITDA between 38 and 45 million euros, deducting (SCI) (ECI) million euros in depreciation and amortization costs), for the purpose of using an estimate of the cost range in the maximum price change to be applied, this Authority understands that the midpoint of that range should be used, that is, it is assumed that by 2020 CTT will achieve cost savings equal to (SCI) (ECI) million euros. In this way, ANACOM only considers a cost saving equal to (SCI) (ECI) million euros.

However, the savings estimated by CTT relate to all mail activity, so this Authority only considers the share of this saving that will relate to the basket of services targeted by this analysis, which will be estimated taking into account the weight of the costs of the basket in CTT's total costs.⁴⁰

According to the cost accounting system data for 2017, it is concluded that the basket of correspondence, editorial mail and parcel services represents (SCI) (ECI) of the costs of universal and non-universal service provision by CTT (Table 11).

⁴⁰ This may, however, represent a conservative position of this Authority, since CTT's total costs also include those incurred with other non-postal activities.

Table 11 - Weight of the cost of correspondence, editorial mail and parcel services basket in total costs

	Universal Service + Non-Universal	Basket of services in question	Basket of services weight in total
Costs	(SCI)		(ECI)

Source: Cost accounting system 2017

CTT is estimated to achieved cost savings that might equal (SCI) (ECI) of the (SCI) (ECI) million euros considered by this Authority, that is to say, (SCI) (ECI) million euros.

Based on the cost of this basket in 2017, this Authority concludes that in 2020 the cost could be equal to (SCI) (ECI) million euros, which, without taking into account the effect of cost change resulting from traffic changes, corresponds to an average annual cost reduction of 1.13%.

Table 12 - Evolution of the cost of the correspondence, editorial mail and parcels basket

	2017	2020	Average change 2017-2020
Cost of the basket	(SCI)	(ECI)	-1.13%

Source: Cost accounting system 2017 and ANACOM estimates.

Moreover, the impact of the traffic trend (estimate below) on costs is also taken into consideration, assuming that part of the cost varies with traffic. Bearing in mind that 75% of CTT's costs are fixed costs, the estimated variation in traffic will result in a change in CTT's costs corrected by the weight of variable costs in CTT's total costs. That is, for each 1% variation in traffic, it is estimated that only 0.25% of CTT's costs will vary.

Lastly, given that there has been a deterioration in the levels of quality of service in 2016 and, according to the available data, also in 2017, this Authority intends to correct this deterioration by fixing (in parallel with this determination) more demanding overall quality targets for the 2018-2020 period. According to historic quality of service levels, CTT has already achieved in the past a large part of the performance levels that ANACOM intends to set, which, together with the aforementioned operational transformation measures announced by CTT for the 2018-2020 period, which are expected to have a positive impact on the quality of the service offered,

and automation measures for the handling of postal items, it is possible to conclude that the new performance targets will not result in an increase in CTT's costs.

Traffic Estimate

It is estimated that in the 2018-2020 triennium there will continue to be a reduction in traffic for the services covered by this Decision as well as for total traffic in the sector.

In order to forecast the traffic reductions in the 2018-2020 period, given its more linear nature compared with costs, this Authority used mathematical forecasting models based on CTT's quarterly traffic figures between 2009 and 2017.

This Authority considered the total traffic of the non-reserved universal service at the national and international outgoing level,⁴¹ including bulk mail traffic, in its traffic estimates.

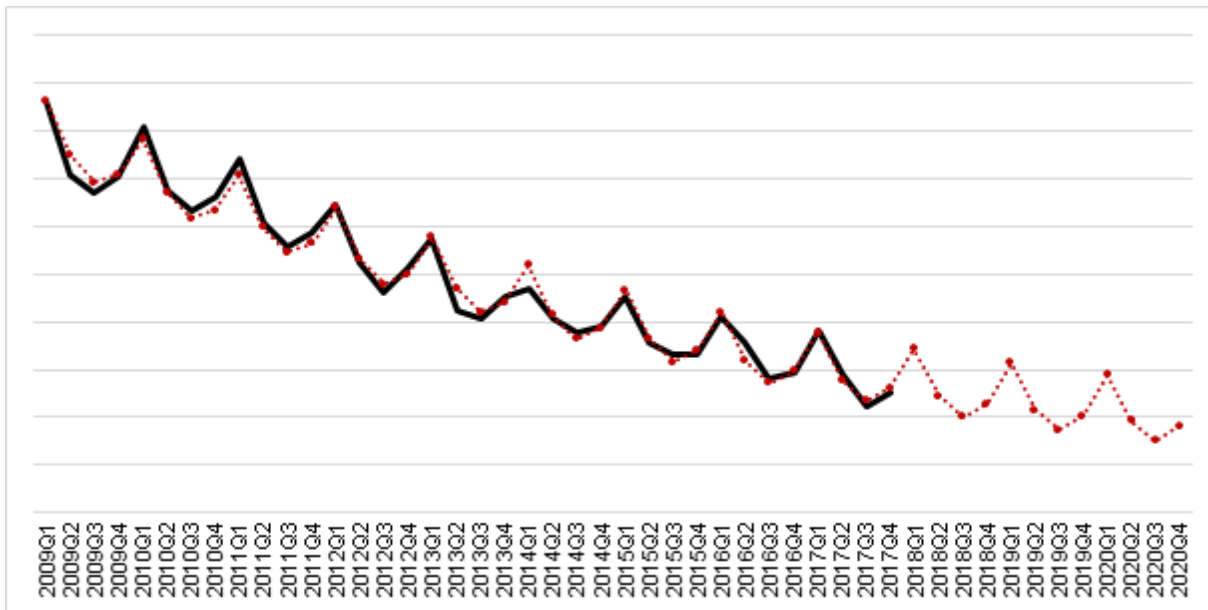
Due to economies of scope and common fixed costs, the change in bulk mail traffic influences, albeit indirectly, the unit cost of the services covered by the basket of services to which the maximum price change will apply. It should be noted that bulk mail has recorded the biggest traffic reductions. It is understood, then, that the changes in bulk mail traffic should be considered in the maximum price change to be applied in order to reflect the impact on costs more realistically.

Based on the estimated model,⁴² it is expected that traffic will fall on average by 3.7% per year in the 2018-2020 triennium.

⁴¹ The (national and international outgoing) traffic figures of services currently included within the non-reserved universal service, reported quarterly by CTT to ANACOM, were used, except for data up to the first quarter of 2012 which includes the registered post to serve summons and notifications (service reserved for CTT since the end of April 2012).

⁴² Model with a quadratic tendency and seasonal variables for which an adjusted R^2 was obtained, equal to 0.983 and a root mean square error equal to 3,996,000 objects for the entire series used.

Figure 6 - Traffic forecasts for 2018-2020



Note: Traffic forecasts for 2018-2020 with the estimated model, based on the quarterly traffic figures for CTT between 2009 and 2017 (national and international outgoing) services that currently form part of the universal service.

Source: CTT and ANACOM.

Although not directly comparable, since it does not include bulk mail traffic subject to special prices under Article 14a of the Postal Law, the average annual traffic reduction adopted in the 2015-2017 triennium was 3.5% .

Inflation

The following levels of inflation are forecast for the 2018-2020 period:

- for 2018, the average of the forecasts from the State Budget Report for 2018, Banco de Portugal (BdP), EC, OECD and IMF, that is 1.34%;
- for 2019, the average forecasts from the BdP, EC, OECD and IMF,⁴³ i.e. inflation of 1.68%;

⁴³ The only ones available.

- for 2020, the inflation forecast by the BdP and the IMF,⁴⁴ or 1.65%.

In average terms, this leads to considering an average inflation rate for the period 2018-2020 of 1.56% per year. However, given that in 2018 the pricing rules applicable to the 2015-2017 triennium will apply, only the average inflation in 2019 and 2020 will be taken into account in calculating the maximum price change, i.e. 1.66%.

Table 13 - Inflation forecasts for Portugal

Entity	2018	2019	2020
State Budget Report for 2018	1.40%	-	-
Bank of Portugal (BdP)	1.40%	1.50%	1.40%
EC	1.20%	1.60%	-
Organisation for Economic Cooperation and Development (OECD)	1.10%	1.70%	-
International Monetary Fund (IMF)	1.60%	1.90%	1.90%
Average annual value	1.34%	1.68%	1.65%

Source: BdP - Economic Bulletin June 2018; EC - *Spring 2018 Economic Forecast*; OECD - *Portugal, Economic forecast summary, May 2018*; IMF - *World Economic Outlook, April 2018*; *State Budget Report for 2018*

Value of the annual price variation

Based on these estimates of the development of inflation, traffic and costs for the 2018-2020 period, the average annual price change that counterbalances the development of unit costs considered for the 2018-2020 period is 1.70%. Given the application in 2018 of the maximum price change allowed by applying the 2015-2017 pricing criteria (4.5% change), the average annual price change to be applied in the 2019-2020 period is **CPI - 1.33%** (see Table 14).

Table 14 - Price variation for the period from 1 January 2019 to 31 December 2020

Variable	Year		
	2018	2019	2020
Inflation	1.34%	1.68%	1.65%
Traffic change	4-21	-3.74%	3-13
Change in total costs	-2.18%	-2.06%	-1.91%
Change in unit costs	2.11%	1.74%	1.26%
Annual average change in unit profit in the 2018-2020 period to maintain the margin	1.70%		
Price change in 2018	4.5%	-	
Price change (CPI - X) for the period 2019-2020*	-	CPI - 1.33%	

* The calculation of "X" only took into account the average inflation for 2019 and 2020, i.e. inflation = 1.66%.

⁴⁴ The only one available.

It should be noted again that the expected developments in the 2018-2020 period may obviously be higher or lower than that considered. It should be noted that the estimates considered in the decision on the pricing criteria for the 2015-2017 triennium,⁴⁵ did not correspond exactly to the figures recorded in 2015-2017 and showed some deviations. Those related to traffic and inflation were, in any case, the lowest.

Table 15 - Forecasts considered in the decision on universal postal service pricing criteria for the 2015-2017 triennium

	2015		2016		2017	
	Estimate	Actual	Estimate	Actual	Estimate	Actual
Traffic	-4.6%	(SCI)	-4.1%	(SCI)	-3.7%	(SCI)
Costs	-1.8%		-1.7%		-1,6%	
Unit Costs	3.0%	(ECI)	2.5%	(ECI)	2.2%	(ECI)
Inflation	0.7%	0.5%	1.1%	0.6%	1.1%	1.4%

Source: ANACOM decision of 21 November 2014; Cost accounting system 2015, 2016 and 2017; INE

Traffic estimate correction factor

Given the degree of uncertainty as regards the traffic evolution in the period of application of this pricing rule, it is deemed appropriate to continue to provide for a traffic correction factor (TCF) that takes into account deviations between the traffic forecasted in this decision for the purpose of defining the formula of the maximum annual change of prices and the traffic that actually occurs, thus correcting part of deviations occurring in the percentage margin of services covered by this pricing rule.

As already noted, it is estimated that a 1% traffic variation leads to 0.25% change in (total) costs. As such, assuming that profits vary in the same proportion as traffic,⁴⁶ the impact on the margin will be 0.75%.

So as not to transfer this risk fully to consumers, it is deemed that only a part of this traffic deviation should be incorporated into the pricing rule. It seems appropriate to apportion only half of this deviation and as such to share this risk equally between CTT and consumers. As such, if a traffic decrease that is higher than expected occurs, a part of it is allowed to be incorporated into the pricing rule, and so the incentive for the universal service provider to be

⁴⁵ <https://www.anacom.pt/render.jsp?contentId=1341155>.

⁴⁶ Assuming that the traffic composition remains unchanged.

more efficient remains. Likewise, in the event of a lower traffic decrease, or even of an increase thereof, part of that benefit is transferred to users and a similar part to the provider.

Thus, for each one-off traffic deviation relative to forecasts, the allowed price variation is corrected by a value corresponding to half of 0.75, that is, to 0.375.

As the correction value in the pricing rule is currently limited to a minimum and to a maximum value, which, also currently, correspond to values that apply in situations of traffic deviations of 5 percentage points (positive and negative). The annual value of TCF is thus found within the range [-1.9%; 1.9%].

This traffic correction factor will continue to apply in 2018, through the aforementioned application of the pricing rules operating in the 2015-2017 triennium. Thus, in 2018, the estimated traffic forecast for 2017 in ANACOM's decision of 21 November 2014, regarding the pricing criteria for the 2015-2017 triennium, will be taken into account. For the following years, all the universal service traffic not reserved for CTT (outgoing national and international) will be considered, since this was considered in the forecasts presented above.

Inflation estimate correction factor

Additionally, it is deemed that the pricing rule should continue to include an inflation correction factor (CPICF), which aims to incorporate into the maximum annual price variation any deviations from the inflation level initially provided for the previous year.

This correction will apply throughout the three-year period since this service basket is currently subject to a maximum price variation which includes a CPICF.

Conclusion

Given the above:

- bearing in mind traffic and cost development forecasts;
- aiming to protect user interests; and

- intending to create incentives, in the framework of the principle of cost orientation of prices, for an efficient provision of the universal postal service, and accepting that it is reasonable for productivity gains exceeding those required by the defined pricing rule to be passed on to CTT's margins,

it is deemed appropriate to define the following maximum change rule for the average price of the basket of services that includes correspondence, editorial mail and parcel services, covered by Article 14 of the Postal Law for the 2019-2020 period:

- **(CPI + CPICF) - 1.33% + TFC**, where:

CPI - corresponds to the inflation expected for each year. It is officially forecast by the Government and as such entered in the State Budget Report in each year, as a rule published in October of the year preceding the application of the prices.

If at the date of submission of the price proposal by CTT, the said State Budget Report is not available, the CPI will correspond to the inflation forecast by the Bank of Portugal that appears in the respective Economic Bulletin published most recently at that date. For this purpose, the Economic Bulletins published in December or June of the year prior to the application of the prices are considered.⁴⁷

When the expected inflation corresponds to a variation range, the midpoint of that range is considered.

If there are technical difficulties in obtaining the value of the CPI, particularly in terms of interpretation, ANACOM is responsible for the required clarification.

CPICF (CPI correction factor) - corresponds to the difference between the inflation value forecast in the State Budget Report of a given year for the preceding year, and the inflation value that had been originally forecast for the preceding year.

If the aforementioned State Budget Report is not available at the date of submission of the price proposal by CTT, or if the inflation value forecast for the previous year is not

⁴⁷ Because they contain economic projections. See <https://www.bportugal.pt/publications/banco-de-portugal/all/381>.

published in that report, it is replaced by the inflation rate estimated for the previous year by the Bank of Portugal, published in its most recent Economic Bulletin, at that date. For this purpose, the Economic Bulletins published in December, October or June of the year prior to the application of prices are considered.

As currently happens, the value of CPICF continues to be limited above to 2.5 percentage points.

The value to be considered for the inflation forecast for the previous year continues to be zero, if in the aforementioned State Budget Report (or in the Bank of Portugal Economic Bulletin used in its stead), an inflation rate forecast for the previous year was below zero and, cumulatively, the inflation rate that was originally forecast for the previous year was positive.

TCF - traffic correction factor, which is calculated as follows:

$TCF = -1.9\%$, if $(\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}}) \geq 5$ percentage points;

$TCF = 1.9\%$, if $(\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}}) \leq -5$ percentage points;

$TCF = -0.375\% * (\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}})$, in the remaining situations⁴⁸;

Where:

$\Delta q_{i_{n-1}} = -3.7\%$ in 2017⁴⁹, -4.21% in 2018, -3.74% in 2019 and -3.13% in 2020; and

$\Delta q_{r_{n-1}} = (Q_{n-1} - Q_{n-2}) - 1$, where $\Delta q_{r_{n-1}}$ expressed in percentage points;

Q_{n-1} - total traffic of non-reserved (outgoing national and international) universal service in the twelve-month period ending in June of year $n-1$;

⁴⁸ That is, in this case the annual value of the TCF is in the range $[-1.9\%; 1.9\%]$.

⁴⁹ -3.7% corresponds to the initially estimated traffic change for 2017, applicable in that year under the pricing criteria defined by the ANACOM decision of 21 November 2014.

Q_{n-2} - total traffic of non-reserved (outgoing national and international) universal service in the twelve-month period ending in June of $n-2$.⁵⁰

However, for the purpose of applying the traffic correction factor in 2018, since in this year it is intended to correct the deviation that occurred in 2017 and in 2017 the traffic considered was that in the basket composed of the correspondence service, editorial mail and parcels, not including bulk mail under the special pricing scheme, then, for the sake of consistency, in the calculation of Q_{n-1} and Q_{n-2} the actual traffic change from that basket will be taken into account, rather than the change in total non-reserved universal service traffic (which includes bulk mail under the special prices regime).

Variation of national mail prices up to 20 grams

Additionally, considering the principle of affordability and to protect users, especially residential users and small and medium-sized enterprises, it is deemed appropriate to continue to define a maximum annual change for the price of national non-priority mail up to 20 g, which constitutes the most relevant service in terms of traffic for the segment of residential users.

The Authority therefore understands that the price change in non-priority national mail weighing up to 20 grams, paid for with stamps and franking at post offices, will not be subject to an annual price change in 2019 and 2020 that is higher than the maximum price change applicable each year to the basket of correspondence, editorial mail and parcel services.⁵¹ In 2018, the maximum applicable change is 7.5%, due to the application of the pricing criteria defined in ANACOM's decision of 21 November 2014.

The Authority considers that the following exception to this rule should be allowed: where the application of the maximum price variation allowed for these shipments would lead to a price increase of less than 1 cent in a given year, thus not allowing the application of a price rounded

⁵⁰ Account is taken of the traffic information for the twelve-month period ending in June each year, using as information source the statistical indicators of postal services reported every quarter by CTT to ANACOM, to allow CTT to prepare on good time the price proposals to take effect at the beginning of the next calendar year. Data for the following quarter, relating to the 3rd quarter of the year, are reported to ANACOM at the end of October, that is, close to the submission by CTT of price proposals that should come into force at the beginning of the year

⁵¹ It should be noted that in the 2015-2017 triennium, and in 2018, the maximum applicable change is 7.5% per year.

up to the next cent, this unused price change in that year can be used in the following year. In any case it must respect the maximum price change allowed each year for the basket of correspondence, parcel and editorial mail services.

In April 2017, the average price applied in the European Union (EU)^{52,53} for this service (or equivalent) was 0.58⁵⁴ in purchasing power parity (PPP) and 0.60 euros in nominal terms. It is thus estimated that this will still keep the price below the average EU price (in PPP and in euros), while allowing a reasonable increase in its price which, other things being equal, makes it possible to bring the price closer to the unit cost of its provision, which continues to have a significantly negative margin [(SCI) (ECI)%].

10. Price rule to apply to reserved services

This basket of reserved services is currently subject to a price cap of CPI + CPICF – 3.5%, defined by ANACOM decision of 21 November 2014. As mentioned above, this maximum price change and all other pricing rules will also apply to 2018 prices.

Given that:

- this service, as noted earlier, has a largely positive margin, over 30% in 2017;
- its provision is reserved for CTT, and so there is no competitive pressure,

it is deemed appropriate to continue to apply a price cap to this service, aiming to:

- protect the interests of users of this service;
- create incentives within the framework of the principle of cost-oriented pricing for an efficient provision of the universal postal service.

⁵² Average excluding Portugal.

⁵³ In Member States offering equivalent services. In some Member States there is no non-priority service within the universal service.

⁵⁴ Calculated by ANACOM. The prices in each Member State were obtained from a questionnaire sent by ANACOM to the members of the ERGP, supplemented in some cases by consulting the websites of the USPs of the Member States. Purchasing power parity data provided by Eurostat were used.

Considering the application in 2018 of the minimum price reduction allowed by the application in that year of the pricing rules defined by ANACOM on 21 November 2014,⁵⁵ and taking into account certain estimates of cost and traffic developments, as set out in the following Table, it is considered that a reduction in annual prices in nominal terms of at least **CPI - 4.4%** must be applied in 2019 and 2020, which it is estimated will nullify, by the end of 2020, the positive margin of these services in 2017.

Table 16 - Forecast of costs and traffic trends for reserved services (2017-2020)

	2018	2019	2020
Traffic	-12.5% a)	-14.0% a)	-15.0% a)
Costs	-4.3% b)	-4.6% b)	4.9 (b)

(a) CTT forecasts.

(b) The cost change is considered using the same assumptions previously adopted in the estimation of CTT's cost change, in Chapter 9. This means that it takes into account the cost savings that CTT expects, according to its Operational restructuring plan, estimated according to the weight of the costs of reserved services within the entire group of services (universal and non-universal) ((SCI) (ECI)) and that costs vary by 0.25% for each 1% traffic change.

Applying these costs and traffic development estimates to the figures for 2017,⁵⁶ as mentioned above, to obtain a zero margin by the end of 2020 it is necessary to apply an annual price reduction of at least CPI – 4.4%⁵⁷ in 2019 and 2020.

Table 17 - Estimates of the reserved services margin (2016-2020)

	2017	2018	2019	2020
Income	(SCI)			
Costs				
Margin				
Margin (%)				
Traffic				
Unit Price				
Unit Cost				(ECI)

Unit: euros and number of items.

Source: Cost accounting system 2017 and ANACOM

It should be noted that there may be deviations from the estimate. Also, the estimates considered in the decision on the pricing criteria for the 2015-2017 triennium did not correspond exactly to the figures recorded. There were some deviations, particularly in terms of costs, which were significantly lower than expected, except in 2017, as shown in Table 18.

⁵⁵ By applying these pricing criteria, the maximum price change allowed for 2018 corresponds to a reduction of 0.5% (= CPI + CPICF -3,5%+TCF = 1.4% -0.3% -3.5 % +1.9%).

⁵⁶ 2017 revenues, costs and traffic reported by CTT's cost accounting system for 2017.

⁵⁷ With CPI of 1.34% in 2018, 1.68% in 2019 and 1.65% in 2020.

Table 18 - Forecasts considered in the decision on the pricing criteria of the reserved universal postal service for the 2015-17 triennium

	2015		2016		2017	
	Estimate	Actual	Estimate	Actual	Estimate	Actual
Traffic	-11.5%	(SCI)	-7.7%	(SCI)	-4,0%	(SCI)
Costs	-3.5%		-2.6%		-1.6%	
Unit Costs	9.0%	(ECI)	5.6%	(ECI)	2.5%	(ECI)
Inflation	0.7%	0.5%	1.1%	0.6%	1.1%	1.4%

Source: ANACOM decision of 21 November 2014; Cost accounting system 2015 and 2016; INE

Just like in the case of the pricing rule applicable to the basket of correspondence, editorial mail and parcel services, it is deemed that, for the same reasons, the same inflation correction factor (CPICF) and a traffic correction factor (TCF) must also be applied.

Therefore, it is understood that the following minimum price reduction will apply to reserved services in the 2019-2020 period: **(CPI + CPICF) - 4.4% + TCF**.

Correction factors will apply as of the first year of validity of these pricing rules, as the formula now includes CPICF and TCF.

The definitions of CPI and CPICF are as presented above, but the TCF definition in this case takes the reserved universal service traffic into account, as already happens today.

In the 2018, the calculation of the TCF (which aims to correct deviations verified in 2017) will take into account the traffic forecast, for the same basket of reserved services, estimated for 2017 in the aforementioned decision of ANACOM of 21 November 2014.

11. European practices

Table 19 gives information on the price control mechanisms applied in some Member States.

Table 19 - European practices in the application of price control mechanisms

Country	Description
Belgium	Application of a price cap to services (national and international outgoing services) that form part of the universal service, except for mail the price of which varies according to its amount and handling (which means that it applies only to mail sent by residential users and small and medium-sized enterprises). Applies to: priority and non-priority mail weighing up to 2 kg; parcels up to 10 kg; registered mail and insured mail.

	<p>Price changes are limited to the value of inflation (without alcohol, tobacco and fuel) plus a factor linked to compliance with quality of service indicators (bonus), in addition to permitting the use of price changes allowed and not previously used.</p> <p>Weighting each price change: revenues in year t-2.</p>
France	<p>A price cap of CPI +3.5% is applied in the 2015-2018 period, and it covers the entire universal service except international incoming mail. The use of the price cap is limited to 50% in 2015, 70% in 2016, 90% in 2017 and 100% in 2018. The price cap can be revised if it is found that the forecasts considered deviated too far from the actual values.</p> <p>By decision of 6 November.2017, the French regulator (ARCEP) established that in the 2019-2022 period the price change of the universal service is limited to 5% per year in nominal terms. Given the uncertainty regarding the estimates made for the development of traffic and costs, after two years of implementation of this price regime the USP may, if justified, request a total or partial revision of the pricing methodology.</p>
United Kingdom	<p>The maximum accumulated change in the price of a non-priority letter in the 2012-2019 7-year period corresponds to 53%+annual CPI (approximately, CPI +6.6% annually), on the basis of the price applied in the 2011-2012 financial year.</p> <p>The same price cap applies to the remaining basket of non-priority items of letters and parcels (single piece) weighing up to 2 kg.</p> <p>Rules apply only to single piece mail.</p>
The Netherlands	<p>Pricing cap applicable to domestic single piece items of correspondence (includes registered and insured mail) up to 2 kg and parcels up to 10 kg and international correspondence mail up to 2 kg and books up to 5 kg. The price cap takes into account inflation, the effects of traffic change on average costs and revenues. An additional price cap is applied if the USP has a cost margin above 11.11%.</p>
Sweden	<p>Price increases of single piece mail up to 500 g, national service, limited by inflation rate in the twelve months ending in June of the preceding year. The variation that has not been implemented in a given year may be implemented in one of the three following years.</p>
Germany	<p>A price cap is applied in the 2016-2018 period for all products of the operator with significant market power (up to 1 kg correspondence, except bulk mail). Although a price cap is used, the operator with significant market power cannot unilaterally change prices, and needs prior approval from the regulator.</p> <p>The price cap has one CPI-related component (1.7% for the 2016-2018 period) and another with an efficiency factor, based on postal traffic forecasts (-5.8% for the three-year period). That is, it roughly corresponds to the application of a price cap of CPI + 1.9% in average annual terms.</p>
Italy	<p>Up to the end of 2016, the regulator applied the following maximum prices: (i) 0.95 euros for single piece non-priority deliveries up to 20 grams; (ii) 5.40 euros for registered mail up to 20 grams, until the end of 2016 (this price can be reached in not less than two price increases, each of which may not exceed 60%). For the universal basket of services (single delivery international incoming and outgoing parcels, bulk mail, registered and insured value mail), the price increase is allowed for as long as</p>

	prices are reasonable. In addition, the price of business mail must be at least 10% lower than the tariff applied to residential customers.
Ireland	It ceased to apply a price cap in March 2017 by legal constraint due to the serious financial situation of the USP. Currently, the tariff principles of transparency, affordability, cost orientation and non-discrimination are applied.
Austria	The average change in universal service prices cannot be higher than inflation.
Finland	Prices are regulated <i>ex post</i> , based on information provided by the USP. Prices should be affordable, available throughout the territory for any user, be cost-oriented, encourage efficient provision of the universal service and comply with the principles of transparency and non-discrimination.
Spain	Compliance with tariff principles of transparency, affordability, cost orientation and non-discrimination.
Lithuania	Compliance with tariff principles of transparency, affordability, cost orientation and non-discrimination. In addition, universal service prices are limited by maximum prices set by the regulator.

Source: *Cullen International* (updated June 2017), website of the Lithuanian communications regulator and ARCEP Decision 2017-1252.

12. Decision

Bearing in mind:

- what has been mentioned in the preceding chapters;
- that, by determination of 11 January 2018, ANACOM's Board of Directors approved the draft decision on the pricing criteria of the universal postal service for the 2018-2020 period, which was submitted to (i) a hearing of consumer organisations, under the provisions of Article 43 of the Postal Law; to the (ii) a hearing of CTT, pursuant to Articles 121 ff of the Code of Administrative Procedure; and (iii) a public consultation procedure, pursuant to Article 9 of the Postal Law;
- the contributions received under the referred procedures, the analysis of which is laid down in the "Report of the prior hearing and public consultation on the DD concerning pricing criteria for the universal postal service for the 2018-2020 period";

in the exercise of the assignments and powers conferred on ANACOM by Article 8(1)(h)(i) and Article 9(1)(a)(f), all from its Articles of Association, approved by Decree-Law 39/2015 of 16 March, in the pursuit of and compliance with the objectives and principles laid down in Article 2(1)(b)(c) and Article 2(2)(a)(b) of the Postal Law and in compliance with the provisions of Article 14(3) of the same law, the Board of Directors of ANACOM, in the exercise of the powers conferred on it by Article 26(1)(b) of the Articles of Association of ANACOM, has accordingly decided to approve:

1. the "Report of the public consultation and prior hearing on the draft decision on the pricing criteria for the universal postal service for the 2018-2020 period", which forms an integral part of this determination;
2. the criteria to be met by CTT - Correios de Portugal, S.A., for the pricing of the postal services that comprise the universal service in the 2018-2020 triennium, (see the **Appendix**), except for the methodology for forecasting the traffic of the basket of non-reserved services for the 2018-2020 triennium, which, through this decision, is submitted to:
 - i. a hearing of CTT - Correios de Portugal, S.A., pursuant to Articles 121 ff of the Code of Administrative Procedure;
 - ii. a hearing of consumer organizations, under the provisions of Article 43 of the Postal Law; and
 - iii. a public consultation procedure, pursuant to Article 9 of the Postal Law, setting a time limit of 20 working days so that, in the framework of these procedures, interested parties who wish to do so can express their views in writing and in Portuguese.

It should be noted that the maximum price change applicable to the basket of non-reserved services is dependent on the final decision to be taken on the said methodology of traffic forecasting of this basket for the 2018-2020 period.

APPENDIX

(Pricing criteria for postal services that comprise the universal service in the 2018-2020 triennium)

PRICING CRITERIA FOR POSTAL SERVICES THAT COMPRISE THE UNIVERSAL SERVICE, IN THE CONTEXT AND FOR THE PURPOSE OF ARTICLE 14(3) OF THE POSTAL LAW

Section I - Scope

Article 1

Scope

The rules in this document apply to services that form part of the universal service, referred to in Article 12(1) of the Postal Law and covered by Article 14 of the same Law.

Section II - Pricing criteria applicable in 2018

Article 2

Pricing criteria for the universal service to be applied in 2018

The pricing criteria for the 2015-2017 triennium set out in the ANACOM decision of 21 November 2014, rectified by decision of 25 June 2015, apply to the prices to be applied in 2018.

Section III - Pricing criteria applicable in 2019 and subsequent years

Article 3

Pricing criteria for the universal service to be applied in 2019 and subsequent years

The pricing criteria that shall apply to prices in 2019 and following years are set out in the following articles.

Article 4

Services

1. The following services and forms of service are taken into account, in their various formats and weight bands:
 - a) Priority/blue mail service, in the national and international outgoing category.
 - b) Non-priority/standard mail service, in the national and international outgoing category;
 - i. in the international outgoing category, this service also considers the form of international economic mail - Special Regime.
 - c) Green mail, in the national and international outgoing category.
 - d) Registered mail service, in the national and international outgoing category.
 - i. At the national level, this service considers the following forms:
 - a. simple registered mail;
 - b. registered mail;
 - c. personally delivered registered mail (by hand).
 - ii. In the international outgoing category, this service considers the following modalities:
 - a. registered mail
 - b. personally delivered registered mail (by hand);
 - e) Registered and insured mail service, in the national and international outgoing category;
 - f) Registered mail, including serving summons and notifications by post (reserved services), which covers the following forms:

- i. Summons by post;
 - ii. Notification by post;
 - iii. Simple notification by post;
 - iv. Summons by post 2nd attempt;
- g) Editorial mail service, in the national and international outgoing category;
- i. At the national level, this service covers the following forms:
 - a. subsidized (books, newspapers and periodicals);
 - b. non-subsidized (editorial mail - periodical and non-periodical publications).
 - ii. In the international outgoing category, this service covers the following forms:
 - a. standard/non-priority;
 - b. economic.
- h) Postal parcel service, in the national and international outgoing category.
2. Where postal service forms are created or altered, their inclusion in the regime set out herein shall be the subject of a decision by ANACOM. For this purpose, the creation or alteration of postal services or forms must be communicated in advance by CTT to ANACOM.

Article 5

Definitions

1. For the purpose of this document, the definitions set out in Law 17/2012 of 26 April (Postal Law), as amended by Decree-Law 160/2013 of 19 November, and by Law 16/2014 of 4 April shall apply, as well as those contained in the following paragraphs:

- a) CPI - inflation expected for each year which is officially forecast by the Government and as such entered in the State Budget Report each year, as a rule published in October of the year prior to the application of the prices.

If, at the date of submission of the price proposal by CTT, the said State Budget Report is not available, the CPI will correspond to the inflation forecast by the Bank of Portugal and that appears in the respective Economic Bulletin published most recently at that date. For this purpose, the Economic Bulletins published in December or June of the year prior to the application of the prices are considered.

When the expected inflation corresponds to a variation range, the midpoint point of that range is considered.

If there are technical difficulties in obtaining the CPI value, particularly in the terms of interpretation, ANACOM is responsible for the required clarification

- b) CPI Correction Factor (CPICF) - corresponds to the difference between the inflation value forecast in the State Budget Report of a given year for the preceding year, and the inflation value that had been forecast for the preceding year, under the preceding paragraph.

If the aforementioned State Budget Report is not available at the date of submission of the price proposal by CTT, or if the projected inflation value for the previous year is not published in that report, it is replaced by the inflation rate estimated for the previous year by the Bank of Portugal in its most recent Economic Bulletin published at that date. For this purpose, the Economic Bulletins published in December, October or June of the year prior to the application of prices are considered.

The value of CPICF is subject to an upper limit of 2.5 percentage points.

The value to be considered for the inflation forecast in the State Budget Report of a given year for the preceding year will be zero, if, in the aforementioned Report an inflation rate below zero has been forecast for the preceding year and, cumulatively,

the inflation rate that had been forecast for the preceding year under the preceding paragraph was positive.

c) Traffic Correction Factor (TCF):

TCF = -1.9%, if $(\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}}) \geq 5$ percentage points;

TCF = 1.9%, if $(\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}}) \leq -5$ percentage points;

TCF = $-0.375\% * (\Delta q_{r_{n-1}} - \Delta q_{i_{n-1}})$, in the remaining situations;

Where:

$\Delta q_{i_{n-1}}$ = -4.21% in 2018, -3.74% in 2019 and -3.13% in 2020, for the purposes of Article 11;

$\Delta q_{i_{n-1}}$ = -12.5% in 2018, -14.0% in 2019 and -15.0% in 2020, for the purposes of Article 13; and

$\Delta q_{r_{n-1}} = (Q_{n-1} - Q_{n-2}) - 1$, where $\Delta q_{r_{n-1}}$ expressed in percentage points;

Q_{n-1} - total traffic in the 12-month period ending in June of the year $n-1$ (i) of the non-reserved universal service (national and international outgoing) for the purposes of Article 11, and (ii) of the reserved universal service for the purposes of Article 13;

Q_{n-2} - total traffic in the 12-month period ending in June of the year $n-2$ (i) of the non-reserved universal service (national and international outgoing) for the purposes of Article 11, and (ii) of the reserved universal service for the purposes of Article 13.

Statistical indicators of postal services reported every quarter by CTT to ANACOM are used as traffic information source. Should there be difficulties in calculating this value, ANACOM is responsible for undertaking corresponding clarification or establishing an alternative source of information deemed to be appropriate.

- d) Occasional segment - segment of users covering any natural or legal person that uses or requests CTT for the provision of a postal service on a case-by-case basis, without entering into a written contract with CTT for the purpose.

Article 6

Tariff principles

1. The pricing of postal services that form part of the universal service provision, referred to in Article 4 will comply with the following principles:
 - a) affordability for all users;
 - b) cost-oriented pricing, so as to encourage an efficient provision of the universal service;
 - c) transparency and non-discrimination.
2. Prices of items of correspondence in the national service category weighing less than 50 g, sent by users in the occasional segment, as well as the prices of the registered mail service for serving summons and notifications weighing less than 50 grams, will comply with the uniform tariff principle, where a single price is applied throughout the national territory.
3. For the purposes of applying the uniform tariff principle contained in the preceding paragraph, the following services are considered, in their various forms, formats and weight classes:
 - a) priority/blue mail service;
 - b) non-priority/standard mail service;
 - c) green mail service;
 - d) registered mail service;
 - e) registered and insured mail service;

- f) registered legal summons and notifications service.

Article 7

Disclosure and publication

1. CTT shall publish in an appropriate manner and regularly supply users and postal service providers with accurate and up-to-date information on prices, discounts and conditions associated with the services that form part of the universal service provision covered by this decision.
2. The language used in the said publication shall be clear, allowing any user to understand and calculate the price payable, irrespective of the service and forms of mailing available.
3. The disclosure and publication shall be undertaken, at least, at a specific address on the CTT website, and they must also be available at any location where these services are provided (including all post offices), and be provided on request at the concessionaire's user information services.
4. CTT shall notify ANACOM of the specific Internet address where universal service prices and associated conditions are published.
5. ANACOM can create a direct electronic link to that address on its website.
6. It is incumbent on CTT to keep the information mentioned in point 1 permanently updated on the respective webpage.
7. Any alterations to prices, discounts and relevant conditions shall be disclosed by CTT to users prior to their entry into force.
8. ANACOM can, in the context of its decisions issued under Article 14(5)(6) of the Postal Law, determine a minimum period of advance notice of any price alterations, as well as the terms of such disclosure.

Article 8

Application of prices

1. In compliance with Article 14(4) of the Postal Law, CTT shall notify ANACOM each year of prices (including discounts) and relevant conditions to be applied to the postal services that form part of the universal service provision, including any alteration thereto, at least 30 days ahead of the date on which such prices take effect.
2. Together with the notification referred to in the preceding paragraph, CTT shall send ANACOM a document attesting that the tariff principles and pricing criteria defined in this decision have been complied with.
3. The document referred to in the preceding paragraph shall include provisional information on costs and traffic for (the) year(s) in which CTT intends notified prices to be in force, with an appropriate level of breakdown to enable the verification of the application of pricing principles and criteria, which must, however, at least include provisional information according to service form, in the various destinations (national and international) and, where appropriate, according to segment, by tariff and geographic taxation area.
4. All forecasts and estimates must be duly substantiated.
5. The information to be sent by CTT under points 1, 2 and 3 of this Article, including data on prices, costs, traffic and revenues, must be accompanied by the respective files used as source, in a spreadsheet format.
6. In compliance with Article 14(5) of the Postal Law, where, by the specified 30-working-days deadline, ANACOM deems that the prices presented fail to comply with principles and criteria set out to in this decision, it shall notify CTT of this fact, based on a substantiated decision, so that company can revise them within 15 working days.
7. If the document attesting compliance with tariff principles and pricing criteria is not attached to the notice communicating the prices and relevant conditions, or if ANACOM considers that the document presented by CTT does not contain sufficient information, ANACOM shall request CTT to supply the missing information within 10 working days from the date

of receipt of the notification of the prices and relevant conditions, or of the flawed document. In this situation, the specified deadline for this Authority to assess the prices notified by CTT shall be suspended until an attesting document without flaws is received.

8. Under point 6 above, where prices submitted by CTT have been subject to revision, ANACOM shall assess the new prices and their conditions contained in the new notification within no more than 15 working days from the date of reception thereof (Article 14(6) of the Postal Law). The new price notification must be accompanied by additional information demonstrating that tariff principles and pricing criteria are complied with.
9. If ANACOM has not sent any communication by the deadline specified in points 6 or 8, CTT can charge the notified prices (Article 14(7) of the Postal Law).
10. Without prejudice to the above, if ANACOM requests clarification or additional information from CTT, the time limits referred to in points 6 and 8 will be suspended on the date CTT receives the request for clarification or additional elements, and will only be resumed on the day after the receipt of CTT's reply.

Article 9

General principle of cost orientation of prices

1. In the application and verification of the general principle of cost orientation of prices ANACOM will consider, *inter alia*:
 - a) proposals for significant annual average price changes (paying particular attention to price increases of more than 10% or price reductions of more than 10%);
 - b) price proposals resulting in estimates of significant margin changes (with particular attention to increases or reductions in the relative margin value of more than 10 percentage points).
2. Under the analysis of the situations referred to in the preceding paragraph, this Authority shall take into account, in particular and insofar as applicable:
 - a) the forecasts of traffic and costs trends of the service in question;

- b) the value of the margin (whether it is close to zero) and its estimated variation (if the relative margin estimated for the year of application of the new prices is very close to the relative margin of the current year);
 - c) the importance of the service in question in terms of revenues and traffic, within the framework of the universal service and the price proposal under consideration.
3. In the evaluation of significant price changes, as referred to in paragraph 1(a), the analysis at the level of the single product will be preferred (e.g., the price for sending a non-priority mail item weighing between 50 and 100 grams, in the national service, applicable to the occasional/"basic price" tariff segment).
 4. In the evaluation of the significant margin changes referred to in paragraph 1(b), analyses at the level of each service and destination will be preferred (e.g. national non-priority mail) and at the level of service modalities and destination (e.g. subsidized national editorial mail), also taking into account segmentations that are applicable at the tariff level (e.g. occasional segment *versus* contractual or other).
 5. The margin to be considered is the relative margin (in percentage) against revenues.
 6. ANACOM will take into account the verification of non-recurring effects that may have a significant impact on the analysis of the checking of compliance with the cost orientation of prices, excluding those effects from the analysis whenever necessary.
 7. The price proposal of each service/form of service, in their various formats and weight bands, must reflect only the service form's underlying costs, calculated and reported by CTT's cost accounting system, according to cost allocation rules which arise from the Postal Law, save where a different rule is defined by ANACOM under Articles 15 and 16 of the Postal Law:
 8. For the purposes of the previous point, ANACOM will take as reference the relationship between the prices of each service/form of service and the total cost underlying the service, as well as the relationship between these prices and the sum of: (i) costs directly allocated to the service (direct costs); (ii) a part of the commonly designated common costs

associated with the service/form of service; and (iii) a reasonable remuneration (thus covering a part of the capital cost allocated to the service/form of service).

9. If there are situations in which the second relationship, mentioned in the preceding paragraph, is negative, together with the price proposal CTT will provide detailed and reasoned information justifying this situation, including any additional information on relevant costs. This information shall be included in the document referred to in Article 8(2).
10. The provisions of this Article shall not prejudice compliance with the pricing rules set out in Articles 11, 12 and 13.

Article 10

General principle of affordability for all users

1. In the application and verification of the general principle of affordability for all users, ANACOM will consider, specifically:
 - a) family expenditure on postal services;
 - b) information collected by ANACOM in the context of postal service consumption and satisfaction surveys (for example residential and business customers), as well as studies on the needs of postal service users;
 - c) price increases that, while required under the application of the principle of cost-oriented pricing, may jeopardize the commercial viability of users (companies) of the service, if the service is a critical input to their activity and service expenses play a relevant part in their financial position;
 - d) the need to prevent price increases from provoking sharp traffic falls, particularly due to the elasticity of demand and/or its transfer to electronic communications media, with a subsequent increase in avoidable costs, which could lead to a spiral effect, thereby jeopardizing the economic and financial viability of the universal service provision.
2. The provisions of this Article shall not prejudice compliance with the pricing rules set out in Articles 11, 12 and 13.

Article 11

Maximum price change of the correspondence, editorial mail and parcels basket of services

1. Prices of the correspondence, editorial mail and parcels basket of services shall be subject to a maximum annual price change.
2. The average weighted change in the prices of these services shall not exceed, in 2019 and 2020, $CPI + CPICF - 1.33\% + TCF$, in nominal terms.
3. The average weighted price variation is obtained using as weight of the price change of each service, in its various formats and weight bands, the proportion of the gross invoicing associated with each format and weight band, in the total gross invoicing of the services covered by this basket of services, both concerning the second calendar year preceding the one for which the change is being determined.
4. For the purpose of applying the pricing rules set out in this Article, the following services are taken into account, in their various forms, formats and weight bands:
 - a) priority/blue mail service;
 - b) non-priority/standard mail service;
 - c) green mail service;
 - d) registered mail service;
 - e) registered and insured mail service;
 - f) editorial mail service;
 - g) postal parcel services.
5. Where forms of postal service forming part of the provision of the universal service are created or altered, their inclusion in this regime will be subject to a decision by ANACOM.

For this purpose, the creation or alteration of forms of postal service must be communicated by CTT to ANACOM in advance.

Article 12

Maximum price variation of non-priority/standard mail up to 20 g

1. In 2019 and 2020, the average annual price change of non-priority/standard mail weighing up to 20 g, in the national service, paid for with stamps and franking at postal establishments, may not exceed the maximum price change defined in point 2 of the preceding Article.
2. If the application of the maximum price change allowed for these mail items, under point 1, leads to a price increase of less than 1 cent in a given year and thus does not allow the application of a price rounded up to the next cent, it shall be assumed that this unused price change in that year may be used in the next year, and in any case the maximum price change set for each year in Article 11 (2) shall be respected.

Article 13

Minimum price reduction for reserved services

1. In 2019 and 2020, the minimum price reduction of reserved services shall not exceed $CPI + CPICF - 4.4\% + TCF$, in nominal terms.
2. The minimum price reduction is obtained by using as the weight of the change of price for each reserved service, in their various formats and weight bands, the proportion of the gross invoicing associated with each format and weight band, in the total gross invoicing of services covered by this basket of services, both concerning the second calendar year preceding the one for which the variation is being determined.
3. The reserved postal services to which the rules set out in this article apply are the serving of summons and notifications by registered post service, in their various forms, formats and weight bands.

4. Where forms of postal service forming part of the provision of the universal service are created or altered, their inclusion in this regime shall be subject to a decision by ANACOM. For this purpose, the creation or alteration of forms of postal service must be communicated by CTT to ANACOM in advance.

Section III - Common provisions

Article 14

Failure to comply with quality of service levels

1. In the event of non-compliance with the performance objectives related to the provision of universal service established by ANACOM under Article 13(1) of the Postal Law, the compensation mechanism provided for in Article 47 of the same Law, implemented in ANACOM's decision on the parameters of quality of service and performance objectives for the provision of the universal postal service shall be applied in the 2018-2020 triennium.
2. In the event of a failure to comply in 2017, the compensation mechanism defined in ANACOM's determination of 30 December 2014 is applied to the price change implemented in 2018.

Article 15

Duration

1. The pricing criteria set out in this Decision shall apply between 1 January 2018 and 31 December 2020.
2. Without prejudice to the penalties provided for, the compensation mechanism mentioned in the previous article can only be applied from 2021, inclusive, if CTT remains as the company providing the universal postal service.
3. In the event that CTT remains as the universal postal service provider after 31 December 2020, the criteria to be met by the pricing of postal services that make up the universal service in 2019 and 2020 shall remain in force until the approval by ANACOM of a new

decision on pricing criteria, in the context and for the purpose of paragraph Article 14(3) of the Postal Law.