

### 3 POSTAL SERVICES

#### 3.1 Universal service

CTT is obliged to provide the universal service under the terms of the Universal Postal Service Licensing Contract<sup>19</sup> (Concession), with the changes introduced on 9 September 2003<sup>20</sup> and on 26 June 2006<sup>21</sup>. The Universal postal service includes a postal service of sending of correspondence (including addressed publicity), books, catalogues, newspapers and other periodicals weighting up to 2 kilograms, and of postal parcels weighting up to 20 kilograms, as well as a service of registered sendings and a money order service, both in the national and international scope.

It is reserved to CTT, under an exclusive regime, the provision of a sub-set of the mentioned services that integrate the universal postal service (in accordance with paragraph b) of no.1 of the clause 2 of the Concession). Until 31 December 2005<sup>22</sup>, the sending of correspondence weighting less than 100 grams, as long as its price was three times bellow the reference tariff (tariff of a 20 grams priority mail letter), was reserved to CTT. International outgoing mail and addressed publicity were included in the scope of the reserved area, within the mentioned weight and price limits.

After 1 January 2006, the sending of correspondence weighting 50 grams or more, or which price was equal or above two and a half times the reference tariff, was liberalized. International outgoing mail and addressed publicity continued to be included in the scope of the reserved area, within the mentioned weight and price limits.

It is ICP-ANACOM's duty, as the postal regulatory entity, to monitor the quality and the price of the postal services included in the US (according to paragraph c) of no. 2 of article 18 of the Basic Law for Postal Services<sup>23</sup>).

The rules for setting the prices of each of the services that make the US are set in an agreement signed between ICP-ANACOM and CTT (no. 3 of clause 24 of the Concession and no. 2 of article 14 of the Basic Law).

---

<sup>19</sup> Celebrated under the terms of the Basis for the Universal Postal Service Concession, approved by Decree-Law no. 448/99 of 4 November.

<sup>20</sup> Following the changes to the basis for the concession introduced by Decree-Law no. 116/2003 of 12 June.

<sup>21</sup> Following the changes to the basis for the concession introduced by Decree-Law no. 112/2006 of 9 June.

<sup>22</sup> Decree-Law no. 116/2003 of 12 June.

<sup>23</sup> Law no. 102/99 of 26 July, as amended by the mentioned Decree-Law no. 116/2003 of 12 June.

The US quality parameters and minimum levels that CTT is obliged to provide (clause 12 of the Concession and no. 5 of article 8 of the Basic Law) are also set by agreement between ICP-ANACOM and CTT, on a negotiation process that is simultaneous to that resulting from the universal postal service prices regime.

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

On 21 April 2006, the Universal Postal Service Price Convention was signed between CTT and ICP-ANACOM, to be in force between 1 January and 31 December 2006, which regulates and defines the rules for setting prices of the services that make up the universal postal services provided by CTT.

The following stands out from Prices Convention:

- a) US prices must obey to principles of cost orientation (made progressively, in order to make it possible to rebalance the tariffs and to guarantee price accessibility), transparency, non-discrimination and uniformity in application (article 2);
- b) The weighted average variation of the reserved postal services cannot outdo, in real terms, CPI-0.3%. For this purpose, CPI is the inflation expected for each year that is officially estimated by the Government and thus included in the State Budget each year (paragraph k) of article 3). Since the value stated in the 2006 State Budget was 2.3 per cent, the average price variation of the reserved postal services allowed in 2006 was 2 per cent.
- c) The prices of the non-reserved services that make part of the US enter into force on the foreseen date. ICP-ANACOM may, at any time, determine changes to each of those prices, duly supported in terms of the fulfilment of the tariff principles and considering the quality levels observed (no. 5 of article 5)

Since none of the parties (ICP-ANACOM and CTT) terminated the Price Convention signed in 21 April 2006, it is still in force.

Following the signature of the mentioned Price Convention, ICP-ANACOM decided, by a determination of 21 April 2006, not to oppose the entry into force of the universal postal service prices proposed by CTT to be in force after 1 May 2006, since they were in accordance with the applying rules.

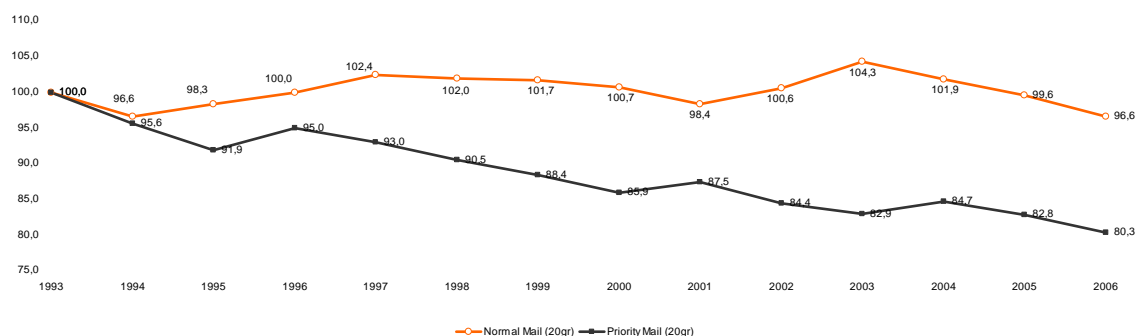
Also in 2006, by determination of 14 December, ICP-ANACOM decided not to oppose the entry into force of the universal postal service prices proposed by CTT to be in force after 1 January 2007. The weighted average variation of the reserved postal services in 2007

cannot outdo CPI-0.3%, i.e., 1.8 per cent<sup>24</sup>. The average variation of the prices of the reserved postal services proposed by CTT for 2007, was 1.8 per cent.

In 2006 the price of the basic tariff (tariff of a 20 grams letter, national) for normal mail decreased, in real terms, 3.4 per cent in regards to 1993<sup>25</sup> (Graph 18). Regarding 2003, on registers a real reduction of 7.7 per cent.

The price of the national priority mail's basic tariff decreased 19.7 per cent in real terms, between 1993 and 2006 (Graph 18).

**Graph 18.** Evolution in real terms of the basic tariff (1993 = 100): normal and priority mail, national



Source: ICP-ANACOM.

These figures stand favourably besides the European Union's average in 2006<sup>26</sup> (Graph 19 and Graph 20):

- a) the price of a 20 grams national priority mail sending ("blue mail" in Portugal) is 13.2 per cent bellow the UE 15<sup>27</sup> average and equal to the UE 24<sup>28</sup> (does not include Cyprus) average;
- b) the price of a 20 grams national non-priority mail sending ("normal mail" in Portugal) is 30 per cent bellow de average of the EU countries that provide an equivalent service<sup>29</sup>.

<sup>24</sup> Considering that the inflation foreseen in the State Budget for 2007 is 2.1 per cent.

<sup>25</sup> Year in which the first Price Convention, signed between ICP-ANACOM, CTT and the former Direcção-Geral do Comércio e da Concorrência (Directorate-General of Commerce and Competiton), entered into force.

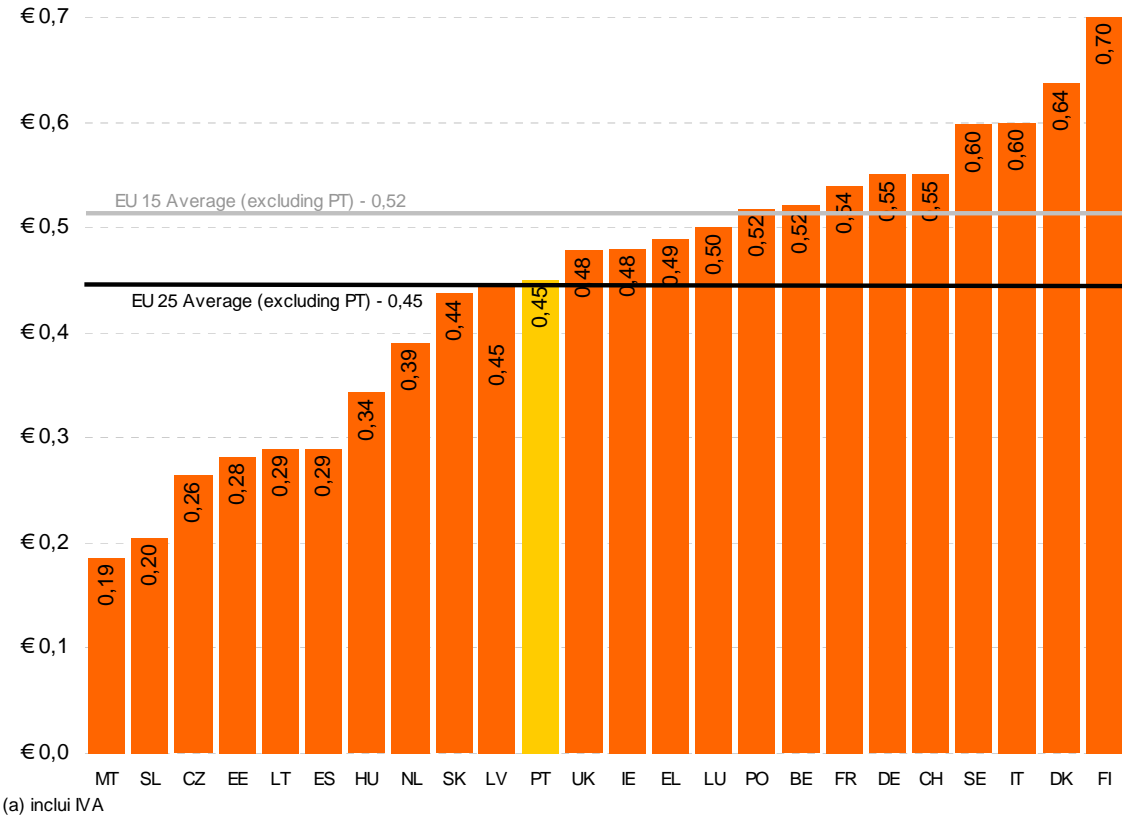
<sup>26</sup> According to the collection of prices made by ICP-ANACOM, directly from the websites of the universal postal services providers, on 20 October 2006.

<sup>27</sup> Average without Portugal.

<sup>28</sup> Average without Portugal.

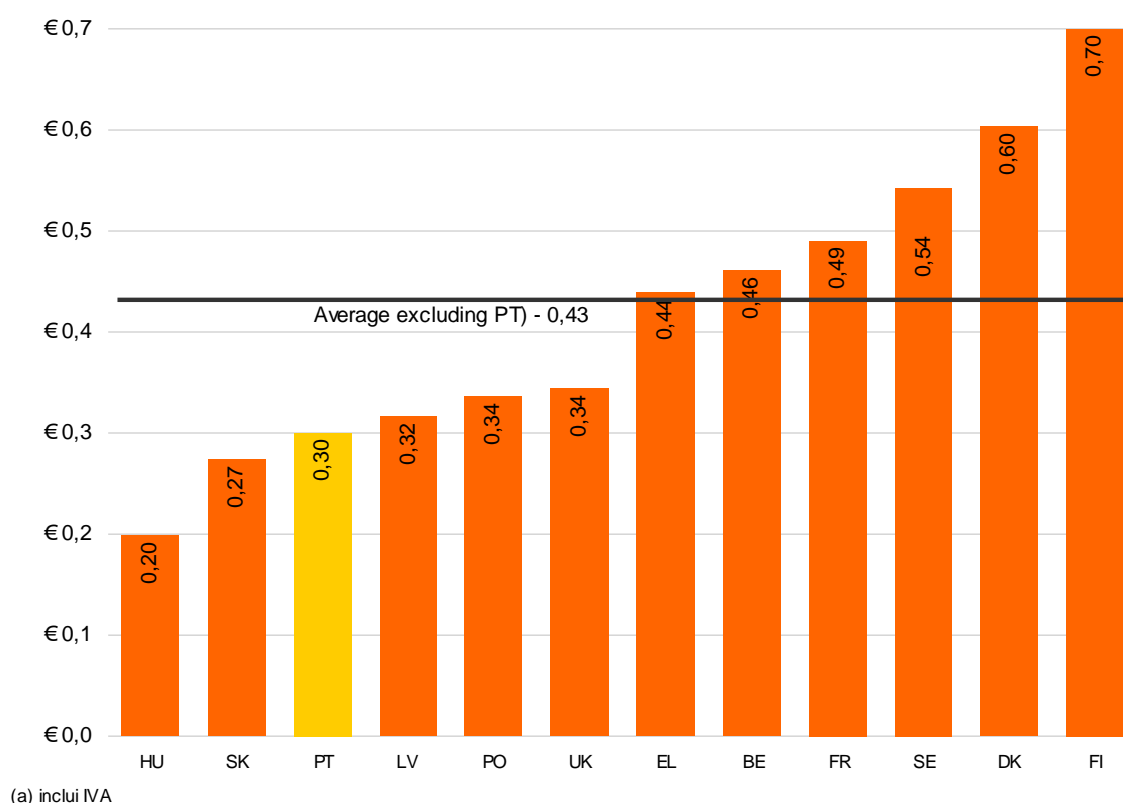
<sup>29</sup> Average without Portugal.

Graph 19. Basic tariff of the domestic priority mail



Source: ICP-ANACOM

**Graph 20. Basic tariff of the domestic non-priority mail**



Source: ICP-ANACOM

CTT was required to keep a cost accountancy system that makes it possible to determine the costs associated to each service, in accordance with article 19 of the Basic Law and with clause 12 of the Concession. Keeping this system will also make it possible to assure the principle of cost orientation of prices (no. 3 of article 2 of the Price Convention)

Within this framework, on 23 October 2006 ICP-ANACOM approved a declaration of conformity of CTT's cost accountancy system regarding fiscal year 2004.

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

On the date when the Price Convention was celebrated (21 April 2006), the Universal Postal Service Quality Convention was also signed, to be in force from 1 January to 31 December 2006. It set and publicized the quality of services parameters and minimum levels in connection with the provision of the universal postal service, which CTT is obliged to comply with.

The Quality Convention sets the quality of service indicators (QSI) for i) delays in routing normal mail, priority mail, newspapers and periodicals, intra-Community mail and parcels, ii) lost normal and blue mail, and iii) waiting time at postal stations. A minimum level and a

target level for the quality of service is defined for each QSI. The target level corresponds to the quality that CTT should achieve, each year, while the minimum level corresponds to the minimum quality that CTT must assure.

The Quality Convention in force in 2006 established, vis-à-vis 2005, higher quality levels for the universal postal service, in all parameters set, with the exception of the intra-Community mail (QSI7 and QSI8), which maintain the levels in force in 2005 (Table 9).

**Table 9.** Comparison of the QSI defined in the 2006 Price Convention and in the 2004-2005 Price Convention

Quality of service indicators		2004-2005 Convention			2006 Convention			Evolution	
		RI (%)	Minimum	Target	IR (%)	Minimum	Target	Minimum	Target
QSI1	Transit Time for Non-Priority Mail (D+3)	46,0	95,2	96,0	45,0	95,5	96,3	0,3	0,3
QSI2	Transit Time for Priority Mail - Mainland (D+1)	15,0	93,0	94,0	15,0	93,5	94,5	0,5	0,5
QSI3	Transit Time for Priority Mail - CAM (D+2)	4,0	82,0	85,0	4,0	84,0	87,0	2,0	2,0
QSI4	Non-priority mail not delivered within 15 working days (per each thousand letters)	5,0	2,5	1,5	5,0	2,3	1,4	0,2	0,1
QSI5	Priority mail not delivered within 10 working days (per each thousand letters)	3,0	2,6	1,6	3,0	2,5	1,5	0,1	0,1
QSI6	Transit Time for for Newspapers and Periodicals (D+3)	15,0	95,0	96,0	11,0	95,5	96,3	0,5	0,3
QSI7	Transit Time for Intra-Community Cross Border Mail (D+3)	3,5	85,0	88,0	3,5	85,0	88,0	=	=
QSI8	Transit Time for Intra-Community Cross Border (D+5)	3,5	95,0	97,0	3,5	95,0	97,0	=	=
QSI9	Transit Time for Non-Priority Parcels (D+3)	3,0	90,0	91,7	5,0	90,5	92,0	0,5	0,3
QSI10	Waiting time at Post Establishments (% of occurrences < 10min)	2,0	70,0	80,0	5,0	75,0	85,0	5,0	5,0

Source: Universal Postal Service Quality Conventions of 20 January 2004 and of 21 April 2006

As with the Price Convention, none of the parties (ICP-ANACOM and CTT) terminated the mentioned Quality Convention of 21 April 2006, which is thus in force until 31 December 2007

The Quality Convention also sets a global quality of service indicator (GI)<sup>30</sup>, which is reckoned according to the quality of service levels reached by CTT for the aforementioned QSI.

<sup>30</sup> The OQSI is reckoned the following way: Firstly, each QSI defined in the Quality Agreement is given a classification in accordance with the following methodology: i) given the value set for each QSI, the target value is given the value 100 ii) non-fulfilment of the minimum value = 0; iii) proportional value from 0 to 100 for values situated in the interval between the target and the minimum; iv) for values above the target, the classification will also be above 100, in proportion to the positive variation regarding the target. Secondly, sum of the classifications given to each QSI, weighted by their corresponding relative importance. Thirdly, should de GI be: i) 100 or above 100, there is no application of the subtraction associated to the GI; ii) bellow 90, one fully applies the maximum deduction foreseen, of 1 per cent; iii) between 90 and 100, one applies the subtraction

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

The Quality Convention also establishes that, should extraordinary situations occur or other phenomena which start and evolution are clearly outside CTT's control and that have impact on CTT's quality of service performance, CTT may request the removal from the records of the periods of time and geographical flows which suffered that impact, for the purpose of reckoning the QSI stated in the Agreement.

In this scope, CTT requested ICP-ANACOM to subtract the records that suffered from CTT workers' strike on 28 April 2008. On a determination of 9 November 2006, ICP-ANACOM refused CTT's request, since it considered that the situations called upon by that operator were not extraordinary situations or phenomena which start and evolution were clearly outside CTT's control, and thus could not be used to justify the activation of the mentioned subtraction mechanism foreseen in no. 1 of article 6 of the Quality Convention.

Regarding the monitoring of the QSI reached by CTT in 2006, it was registered that the values of some indicators did not reach the minimum and/or target values applying to that year.

CTT did not reach the minimum values on the following QSI:

- Transit time for non-priority mail (D+3);
- Transit time for priority mail – Mainland (D+1);
- Transit time for newspapers and periodicals.

On the other hand, although it reached the minimum value for “priority mail delivered until 10 days”, CTT did not reach the target value.

The remaining QSI, listed bellow, exceeded the target value:

- Transit time for priority mail – CAM (D+2);
- Normal mail not delivered until 15 working days;
- Transit time for intra-community cross border mail (D+3);

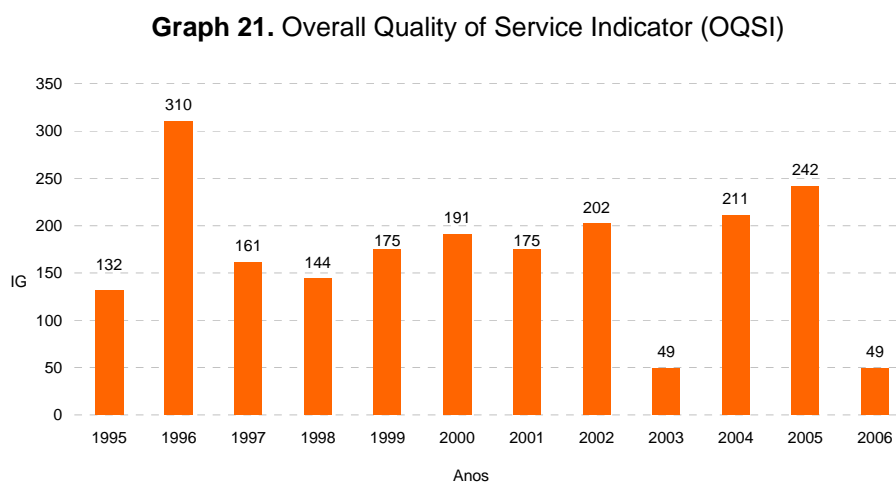
---

proportionally, The subtraction corresponds to deducting up to 1 per cent to the price variation of the reserved services allowed for the year following the year of the non-fulfilment.

- Transit time intra-community cross border mail (D+5);
- Transit time non-priority parcels (D+3);
- QSI10 – Waiting time at post establishments (percentage of occurrences up to 10 minutes).

In this context, the OQSI reached the value 49.

The graph below shows that the OQSI had a positive evolution from 1997 to 2002, reaching however values bellow 100 points in 2003 and 2006



Source: ICP-ANACOM's reckoning.

### 3.1.3 Postal stations network

According to no. 3 of clause 20 of the Concession, it is the concessionary's duty to:

- Create and close down postal stations;
- Change the opening hours of postal stations considering the needs of the service and demand.

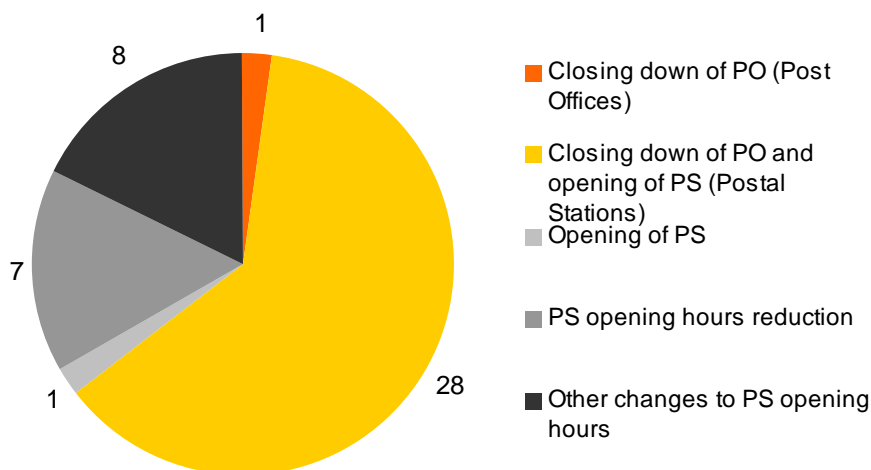
Due to changes to the Basis for the Concession of the Universal Postal Service, there have been changes to the procedure underlying CTT's determinations aiming to close down postal stations or to change their opening hours.

While in the previous regime any CTT determination on that subject depended on a previous positive opinion by ICP-ANACOM, this Authority decreased its intervening capacity following the changes to the basis of the concession. In the framework currently in force (Basis XXX, no. 4), CTT is only obliged to inform ICP-ANACOM of the determinations that it adopts on that matter, and to support their decision in the cases of closing down postal station or changing

their opening hours, namely regarding service need, demand levels and level of satisfaction of the population's and economic activities' need for communication.

In this scope, forty five communications were received from CTT in 2006, as shown in the following graph:

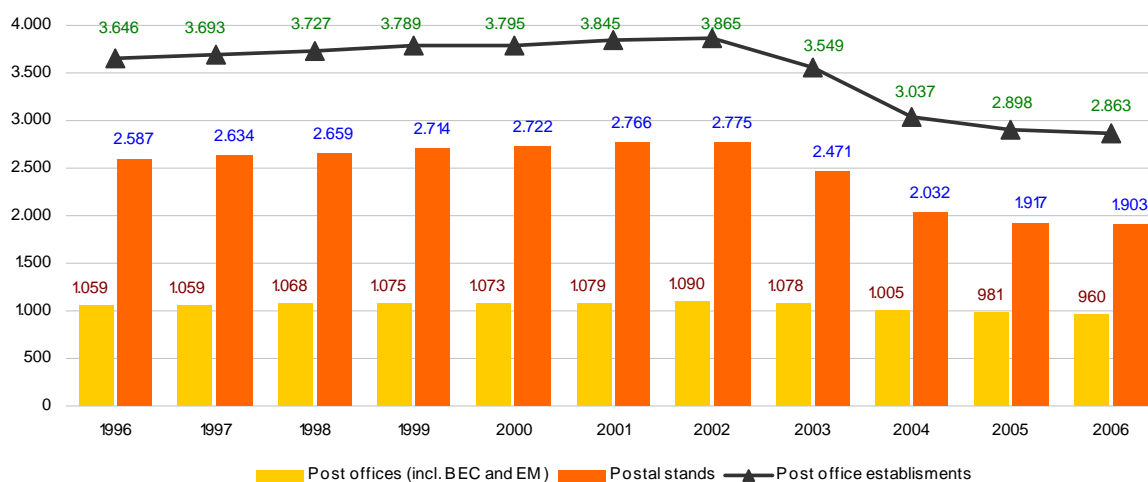
**Graph 22.** Communications from CTT in the scope of Basis XX, no. 4 of the Concession



Source: CTT

One registers a decrease in the number of postal stations since 2002, mainly resulting from a decrease in the number of post office stands<sup>31</sup>.

**Graph 23.** Evolution in the amount of postal stations



Source: 1996 – 2005: CTT Report and Accounts; 2006: CTT.

Following the entry into force of the mentioned Decree-Law no. 112/2006 of 9 June, the regulatory procedure regarding the draft regulation that aimed to set rules for ICP-

<sup>31</sup> According to CTT, post office stands are stations which operation is of the responsibility of third parties, following a contract. All of them provide postal services that make part of the US.

ANACOM to evaluate CTT's communications of the closing down or the reduction of opening hours of postal stations<sup>32</sup> was ended.

### **3.2 Postal services liberalization**

Following the regulatory framework in force since the publication of Decree-Law no. 116/2003 of 12 June, the schedule for the progressive liberalization of the postal services markets is maintained, with a change to the scope of the reserved services, but at the same time maintaining the guarantees needed to provide the US, according to the terms foreseen in the community framework, having in mind the European common market.

In the meanwhile, on 18 October 2006 the EC presented a draft Directive that changes Directive 97/67/EC regarding the full accomplishment of the Community's postal services internal market, which main purpose is to open the postal market to competition in 2008, while guaranteeing at the same time the provision of the universal postal services to all users, regardless of their location in the EU. The analysis of that proposal was started during Finland's Presidency (second half of 2006), while the first exchange of viewpoints on the draft Directive, which negotiations are still ongoing at the European Council and Parliament, took place at the Council of Ministers of Transports, Telecommunications and Energy (TTE) on 11 December 2006.

To better support ICP-ANACOM's intervention in the framework of its powers, a study on the development of competition on the Portuguese postal market was conducted in 2006, with specific objectives such as to characterize the market and its evolution, to identify and characterize the operators in the market, and to identify possible effects on the sector resulting from potential liberalization sceneries.

---

<sup>32</sup> Approved by ICP-ANACOM on 4 October 2005.