

**CHALLENGES FACING THE POSTAL SECTOR
AS IT MOVES TO FULL LIBERALISATION**

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1. EXECUTIVE SUMMARY

This report summarises the current state of postal services in Portugal and the main challenges facing the sector as it moves to full liberalisation.

After an introduction to the study, a brief summary is given of the sector's regulatory framework, at European Union (EU) and national level, particularly with regard to the designation of the universal service provider (USP), the calculation of any net costs of the universal postal service (UPS), the compensation of these net costs and conditions of network access.

Subsequently, in Chapter 4, a perspective is given of the post economy in Portugal, using the key indicators of the postal activity and examining the characteristics of postal consumption (business and residential).

Postal services play an important part in Portugal's national economy; since 2002, its revenues have consistently totalled 0.6% of Gross Domestic Product (GDP) (slightly above the EU average) and it has provided about 0.33% of the country's employment (about 0.17 percentage points below the EU average).

The bulk of postal traffic comprises traffic originated by companies – while the volume of traffic originated by consumers remains marginal.

The services which are used most often by consumers are *correio azul* (priority mail) and *correio normal* (non-priority mail) (ICP-ANACOM, 2008). About a quarter of the population uses the parcel service and 15% of the population uses the express mail service¹. In general, individuals who use postal services most often are those aged 25 to 34 years², with higher education and belonging to higher social classes³.

In the corporate segment, the most frequently used services are, in order, correspondence, parcels, express mail, direct mail, catalogues/newspapers periodicals

¹ Postal services are characterized by acceptance/collection, handling, transport and distribution, with increased speed, of items of correspondence and parcels, being differentiated from basic postal services by a set of supplementary characteristics, possible through the agreement of contacts with clients: Pre-set delivery time; Registration of items; Liability guarantee from authorised provider by way of insurance or other means whereby the sender has prior knowledge of the formula for damage compensation; Routing control through the operating circuit of the authorised service provider, enabling the identification of the status of items and information to the client.

² With the exception of priority mail, where the age group that uses this service most is between 55 and 64 years (albeit with a only slight difference compared to the 25 - 34 age group).

³ With the exception of C1 and C2 with respect to the parcel service.

and unaddressed correspondence (KPMG, 2008). The first three services are also the most used by the residential segment.

In the postal sector, we are seeing a shift away from the "traditional" value chain towards a "contemporary" value chain. The first comprises five stages: acceptance, processing at origin, transport, processing at destination and distribution (where the bulk of the costs are associated with acceptance and with distribution). The second comprises seven stages: market and customer segmentation, definition of content, production (printing / finishing), collection/processing/transport/distribution, response handling, logistics and payment processing (KPMG, 2008).

From 2005 to 2010 there was a reduction in the volume of total postal traffic (about 12.5% accumulated over these years), which cannot be explained simply by business cycle fluctuations, but, increasingly, by the substitution of post by electronic means of communication (e.g. e-mail and social networking) and by development of media as evidenced by the decline in postal traffic comprised by newspapers and periodicals.

In this context, between 2005 and 2010⁴, there was a slight decrease (about 1%) in the sector's revenues. This decline is explained mainly by the significant reduction reported in the revenues of the reserved area, while revenues from liberalised post and, above all, from express mail saw evident growth over this period.

Nevertheless, according to the analytical accounting system employed by CTT, between 2005 and 2009, the company saw positive margins and strong growth in the UPS, while the non-universal service (which, compared to the UPS, represents a much smaller part of this provider's revenues) had negative margins.

Since 1993, users of postal services have benefited from a very favourable trend in the base tariff of *correio normal* (non-priority mail) and especially in the base tariff of *correio azul* (priority mail), which saw a decline of about 20 percentage points in real terms. This is mainly explained by the application of a regulatory "price-capping" regime. In both categories of mail, prices are below the EU average.

Meanwhile, since 1995, overall levels of quality of service (QoS) have come in above the targets established under the *Convénio de Qualidade do Serviço Postal Universal* (Quality Convention of the Universal Postal Service) (except in 2003 and 2006 - where CTT reports that service was affected by strikes and computer problems). In contrast, the

⁴ Revenues for 2010 were estimated as amounting to double the revenues reported for the first half of 2010.

number of access points⁵ to the postal network fell between 2002 and the first half of 2010, by about 4.5%⁶.

Nevertheless, according to data from ICP-ANACOM (2010b), the number of complaints related to the postal sector, which include all the complaints received by the regulator⁷, increased by 22% between the first half of 2009 and the first half of 2010, with about half of these associated with the correspondence service and with most complaints stemming from situations associated with problems in customer service, lack of effort to deliver at home, loss, delivery to wrong address and delayed delivery.

Moving on, Chapter 5 examines the activities of the major postal service providers operating in Portugal, identifying the main segments in which they operate and their relative weighting.

At the end of 2010, 63 undertakings were eligible to provide express mail services and 13 undertakings were eligible to provide non-express mail services. The latest information, dating from the third quarter of 2010, indicates that 58 of these undertakings were active. Of the 57 undertakings which responded to ICP-ANACOM's questionnaire about their activities during 2009⁸, 10 covered all market segments and provided services throughout the national territory, 35 covered all segments of the market, but only operated in part of the country, one company offered national coverage but only for some market segments and 11 only provided services in certain market segments and in certain regions of the country.

The postal service providers operating in only part of the country tend to operate mostly in the urban areas of Lisbon and Porto, although there are exceptions.

⁵ Physical locations where users can deposit items in the postal network, covering post offices, postal agencies and post boxes, whether or not located on the public highway.

⁶ CTT does not consider the postal network as essential infrastructure for the delivery of services, giving priority to the efficiency of handling correspondence, as set out in the document available at <http://www.ctt.pt/fectt/export/download/grupoctt/comimagens/Aposta79.pdf>

⁷ The presentation of this data considers the total number of requests addressed to this Authority by end-users of communications services and by the general public, sent directly or through other entities. Meanwhile, analysis of the data focuses only on the universe of complaints and requests for information, with a distinction made in this analysis between complaints received in writing - letter, fax, e-mail, online forms and complaints book - and complaints made over the telephone and/or in person at the public attendance services.

⁸ Most recent available information, from annual questionnaire sent to companies at the beginning of 2010.

Among the 12 largest companies in the postal sector, in terms of total revenue, 10 provide express mail services only, the exceptions being CTT and Seur (which also provide express mail services themselves or through companies in the same economic group).

The largest express mail company in terms of market share measured in revenues is CTT Expresso.

In non-express liberalised mail (comprising correspondence and parcels), CTT faces competition from providers of services such as Vasp Premium, SDIM, Notícias Direct, Urbanos Express, Iberomail, Lordtrans, Meest and Celeris. Nevertheless, CTT continues to retain a dominant position in liberalised correspondence not covered by express mail. Behind Seur and Urbanos, CTT is the third largest company in parcels not covered by express mail, in terms of market share measured in traffic.

Seeking lessons from abroad, Chapter 6 presents and examines case studies taken from some of the countries where full liberalisation of the postal service has already been accomplished - namely Germany, the United Kingdom and Sweden.

However, when deciding on the lessons that can be drawn from these case studies, the idiosyncratic characteristics of each national market must be taken into account, notwithstanding their inclusion in the same European space. In particular, consideration should be given to differences in terms of market size, tax and employment laws, population density, urbanization and *per capita* income.

The case studies show that the USP of the countries examined have retained dominant positions after full liberalisation, except in very specific situations and sectors, for example, city express mail in Sweden.

Secondly, the USP have streamlined their postal operations, in particular through automation⁹, the reduction in the number of postal establishments and the adjustment of staff numbers.

Another important trend among the USP of these countries is their move to diversify into non-traditional areas of the postal activity (such as, for example, logistics and hybrid mail) and their drive to launch innovative services¹⁰.

⁹ This includes the introduction of new technologies such as RFID and optical readers.

¹⁰ Examples of services considered innovative by the providers are: collection from the home, definite day delivery, choice of delivery route that minimizes the service's carbon footprint and the introduction of solutions specific to a particular sector.

The internationalisation of the postal business, with operations in markets outside the USP's country of origin, is also worth noting, particularly in the case of Germany and Sweden.

Meanwhile, the growing importance given by the USP to the environmental sustainability of their businesses should also be emphasised, as this is something considered crucial to their development and future profitability.

Based on the combination of these factors, it is expected that the USP will remain economically viable in a scenario of full liberalisation, especially in situations where there is a mechanism in place to compensate the net costs of the UPS if and when applicable.

The specific challenges facing the postal sector's service providers (especially the USP) are discussed in Chapter 7, which also examines the challenges faced by the sector's regulator.

These challenges include, in the case of service providers, the current and expected decline in correspondence traffic, reducing the "carbon footprint" and the extent to which their strategy is geared to possible changes in the application of VAT to services provided as part the UPS. In the particular case of CTT, note is made of the reconciliation of an increasingly competitive environment with the goal of safeguarding the economic sustainability of providing the UPS and, possibly, the extent to which their management competence is ready to face this new environment.

In terms of the challenges facing the regulator, the report highlights the evaluation of the net costs of the UPS, the drive to improve the SCA used by CTT, the continued adaptation of regulatory practice to international best practice and a global redefinition of the role of regulation, focusing on three fundamental objectives: to ensure provision of the UPS; to promote competition; and to protect the interests of users of all types of postal services, while maintaining its natural relationship with AdC - Autoridade da Concorrência (The Competition Authority).

2. INTRODUCTION

With full liberalisation, the Portuguese postal market is about to enter a new phase of development, and so it was considered fitting to draw up a picture of the sector, properly set in the context of European legislation and of the experience gathered from countries that have already moved ahead to a fully liberalised market.

Accordingly, this report seeks to present a descriptive submission, in summary form, on the evolution of the postal service in Portugal, identifying the main challenges facing providers of postal services and facing ICP-ANACOM, as the sector moves to full liberalisation.

After a brief outline of the sector's regulatory framework at EU and national level, a perspective is given in Chapter 4 on postal economics in Portugal, using the key indicators of the postal activity and with an examination of the characteristics of postal consumption (business and residential).

Chapter 5 outlines the characteristics of the activities of the main postal service providers operating in Portugal, identifying the main segments in which they operate and their relative weighting.

Chapter 6 presents and discusses case studies from some of the countries where total liberalisation of the postal service has already been accomplished - namely Germany, the United Kingdom and Sweden - seeking to draw lessons for Portugal.

The challenges facing the postal sector, in particular, those facing the regulator and the USP are discussed in Chapter 7.

3. REGULATORY FRAMEWORK

3.1 EUROPEAN REGULATORY FRAMEWORK

The main objectives of European policy for the postal sector are (EC, undated):

- a) Define a UPS at Community level, conceived as the right of users to access postal services, comprising a minimum set of services with specified quality and affordable prices, regardless of their geographical location;
- b) Establish a common limit for the reserved postal area that each EU Member State can reserve for its USP in order to ensure the economic and financial viability of UPS provision;
- c) Bring about the gradual and controlled opening of the market, while safeguarding provision of the USP in a sustained manner;
- d) Improve Quality of Service (QoS) by setting a common level of QoS for cross-border intra-community mail and by publishing QoS levels achieved for national mail;
- e) Have cost-orientation of prices and ensure that financing of the UPS is transparent and in accordance with EU legislation;
- f) Encourage the harmonisation of technical standards, serving the interests of users;
- g) Ensure that there are conditions of fair competition outside the reserved area.
- h) Encourage the postal sector to adapt quickly and effectively to changes in demand and to technological development;
- i) Coordinate Community postal policy with other Community policies, ensuring a consistent approach to overlapping issues;
- j) Adopt an approach to international postal traffic which is consistent with the above objectives and priorities, in cooperation with third parties and international organizations.

The implementation of these objectives has been taking place based on a legislative framework centred on EU Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service¹¹

¹¹ [Directive 97/67/EC of the European Parliament and of the Council, of 15.12.1997.](#)

(Amended by Directive 2002/39/EC of 10 June¹² and by Directive 2008/6/EC of 20 February¹³). This directive, among other things:

- a) Defined the minimum requirements of the UPS to be guaranteed by each Member State in its territory;
- b) Established common limits for the services reserved to the UPS and a gradual timetable for their liberalisation;
- c) Affirmed the principles underlying the allocation of authorisations governing the provision of non-reserved services;
- d) Specified principles governing UPS tariffs along with the rules determining the transparency of USP accounting;
- e) Set out the QoS standards for the national service and the cross-border intra-community service;
- f) Confirmed mechanisms to encourage technical harmonisation in the postal sector;
- g) Required the creation of national regulatory authorities (NRA) which were independent of postal operators.

Directive 2002/39/EC set out additional steps towards the gradual liberalisation of the postal sector - which it was expected, *id temporis*, may occur in 2009 - whereby only items of correspondence could be included in the reserved area as follows:

- a) From the beginning of 2003, items weighing less than 100g and costing less than three times the base tariff (which corresponded to the liberalisation of an estimated 9% of the EU postal market);
- b) From the beginning of 2006, items weighing less than 50g and costing less than 2.5 times the base tariff (which corresponded to the liberalisation of an estimated further 7% of the EU postal market);

In addition, under Directive 2002/39/EC, all outgoing cross-border mail was to be liberalised on 01.01.2003 (which is estimated to correspond, *per se*, to the liberalisation of 3% of the EU postal market), safeguarding exceptions which Member States might require in order to finance the provision of UPS or to enable further adjustment to the specific characteristics of the postal service in certain Member States.

Finally, Directive 2008/06/EC established 31/12/2010 as the deadline for opening the postal sector up to full competition, with the exception of eleven Member States¹⁴

¹² [Directive 2002/39/EC of the European Parliament and the Council, of 10.6.2002.](#)

¹³ [Directive 2008/6/EC of the European Parliament and of the Council, of 20.2.2008.](#)

(Representing only about 5% of the EU postal market) for which the date was fixed for 31.12.2012. In any case, it should be noted that six out of 27 Member States already have fully liberalised postal services: Finland (1991), Sweden (1993), the United Kingdom (2006), Germany (2008), Netherlands (2009) and Estonia (2009).

3.2 NATIONAL REGULATORY FRAMEWORK

The regulatory framework for the postal sector in Portugal establishes the general conditions to be respected for the establishment, management and operation of postal services within its national territory¹⁵, as well as international services originating or terminating within its national territory.

In particular, note should be made of the provision of the UPS, which in Portugal, according to the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services), corresponds to the permanent offer of postal services of a specific quality, provided throughout national territory at prices accessible to all users, whose aim is to satisfy the communication needs of the population and those of economic and social activities.

The UPS encompasses a postal service for the sending of correspondence, books, catalogues, newspapers and other periodicals weighing up to 2 kg and postal parcels of up to 20 kg, as well as a service of registered items and service of insured items, on a national and international basis.

The designated USP in Portugal is CTT - Correios de Portugal, S.A. under the concession agreement made with the Portuguese State, which is referred to below in more detail.

Also under *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services) - and to ensure the economic-financial viability of the provision of UPS - a reserved area was established in Portugal (as in other EU Member States at the time, except Sweden and Finland) comprising services to be provided exclusively by the USP. This reserved area includes services detailed in the upper left quadrant **Figure 1**, whereas non-reserved

¹⁴ Cyprus, Czech Republic, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania and Slovakia.

¹⁵ In accordance with article 4 of the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services), available at [Law no. 102/99, of 26 of July](#), the postal service is understood to be the activity encompassing the operations of acceptance, processing, transport and distribution of postal items, whereas postal item is understood to be an addressed object in definitive form, which complies with the physical and technical specifications that allow it to be handled by the postal network.

services included in the UPS are listed in the right upper quadrant and those not included in the UPS and not reserved are listed in the lower right quadrant of the figure.

Figure 1 Classification of services according to UPS and reserved area

	RESERVED AREA	NON-RESERVED AREA
US	<p>Postal service of delivery of items of correspondence, including direct mail whether by express delivery or not, the price of which is lower than two and a half times the public tariff for sending first weight category correspondence of the fastest standardised category, provided that the weight thereof does not exceed 50 g, both at national and international level.</p> <p>Postal service of delivery of registered items and insured items, including services concerning legal summons and notification by post, within the same price and weight limits referred to in the preceding point, both at national and international levels.¹⁶</p>	<p>Postal service of delivery of items of correspondence, including direct mail, whether by express delivery or not, where the weight thereof is not less than 50 g, or where the price is equal to, or more than, two and a half times the public tariff for sending first weight step correspondence of the fastest standardised category, both at national and international levels;</p> <p>Postal service of delivery of books, catalogues, newspapers and other periodicals not exceeding 2 Kg.</p> <p>Postal service of delivery of postal parcels not exceeding 20 Kg.</p> <p>Postal service of delivery of registered items and insured items, including services concerning legal summons and notification by post, outside the price and weight limits of the reserved area.</p>
NON-UNIVERSAL SERVICE		<p>Express Mail.</p> <p>The operation of document exchange centres.</p> <p>Other services covered by the definition of postal service and which are not comprised by the UPS.</p>

Source: ICP-ANACOM

The provision of non-reserved services is subject to different formats for the granting of authorisations for the exercise of activity, depending on whether or not such services fall within the UPS¹⁷. If comprising the non-reserved area of the UPS, an individual licensing system applies. Otherwise, a less demanding regime applies (in terms of obligations imposed), based on a general authorisation scheme (covering express mail services; the operation of documents exchange centres and other postal services not covered by the UPS, especially those which, due to technological development, differ from traditional services).

¹⁶ The issue and sale of stamps and other postal products, such as the issue of postal orders and the placing in public space of post-boxes for the collection of postal items are services /activities which, while reserved to the USP, and not included within the scope of the US.

¹⁷ According to Decree-Law No. 150/2001, as amended by [Decree-Law No. 116/2003](#).

The *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services) also established, in particular, the principles of pricing (which in the universal service must comply with the principles of cost orientation of prices, non-discrimination, transparency and affordability for all users) – specifically as governed by the *Convénio de Preços* (Price Convention) concluded between ANACOM and CTT - Correios de Portugal, S.A. (CTT); the current Convention¹⁸ was concluded on 10.07.2008. The *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services) also establishes the rules for assessing any net costs of the UPS and corresponding compensation. Meanwhile, legislation transposing Directive 2008/6/EC is not yet in force, and the rules of the Convention remain temporarily applicable.

At the same time, this piece of legislation establishes rules for QoS in the context of the US, establishing in particular that provision of UPS must fulfil basic requirements, such as (Article 8, paragraph 1):

- a) Compliance with the appropriate quality standards, especially in terms of delivery deadlines, density of access points, regularity and reliability of service;
- b) Provision of the service under equal and non-discriminatory conditions;
- c) Continuity of service, except in cases of force majeure;
- d) Progressive development of the service, with respect to the technical, economic and social environment and the users' needs;
- e) Respect of the obligations inherent to the provision of universal service, deriving from international obligations, and which the State shall in future transpose to internal law;
- f) Supply of information to the public on the conditions and prices of services.

In this context, the USP shall ensure collection and home distribution, at least once a day, on all working days. When this is not possible, due to exceptional geographical conditions or circumstances, recognised as such by the postal regulatory body, these services shall be provided on specific premises to be defined in the implementing provisions.

The parameters and minimum levels of QoS for the UPS are established through a *Convénio de Qualidade* (Quality Convention) concluded between ICP-ANACOM and CTT; the current Convention¹⁹ was concluded on 10.07.2008.

¹⁸ [Universal postal service price convention, of 10.7.2008](#) .

¹⁹ [Universal postal service quality convention, of 10.7.2008](#).

The USP is also bound to properly advertise and regularly provide users with updated and accurate information on the characteristics of the UPS, particularly with regard to the conditions governing access to and use of the service, prices and levels of QoS.

The functions of ICP-ANACOM, as regulatory authority of the postal sector, are defined in the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services) (Article 18, paragraph 2), in addition to the statutes approved by Decree-Law no. 309/2001 of 7 December²⁰, specifically:

- a) Representation in intergovernmental organisations within the scope of postal services;
- b) The granting of licences for the exercise of postal activities in competition;
- c) Monitoring the quality and prices of postal services included in the UPS;
- d) Overseeing of postal service operators' compliance with the legal and regulatory provisions associated with the activity and application of respective sanctions.

The current concession contract²¹ - as amended on 09.09.2003²² and on 26.07.2006²³ - was concluded on 09/01/2000 between the State and CTT (conceding provision of the UPS to this company for an initial period of 30 years, renewable for successive minimum periods of 15 years); this contract has as its object:

- a) The setting-up, management and operation of the public postal network²⁴;
- b) Provision of the following reserved services and activities:
 - 1) Postal service for sending correspondence, including mailings, whether by accelerated delivery or not, which price is lower than 2.5 times the public tariff for sending first step weight correspondence of the fastest standardised category, provided that its weight is lower than 50g.
 - 2) The postal service for sending registered correspondence and correspondence insured for a specific amount, including services to notify and service legal summons by post, within the same price and weight limits referred to in the previous paragraph above;

²⁰ [Decree-Law no. 309/2001, of 7 of December.](#)

²¹ [Concession contract signed on 1.9.2000.](#)

²² [Amendment to the Universal Postal Service licensing agreement.](#)

²³ Subsequent to the amendments to the concession bases enacted by [Decree-Law no. 112/2006.](#)

²⁴ Set of human and material resources allocated to the provision of universal postal service, namely those to be found in the following operating units; Postal items processing centres; Postal items distribution centres; and Post offices.

- 3) The issue and sale of postage stamps and other postage products;
 - 4) The issue of postal orders;
 - 5) The provision, in areas of public access, of boxes or other receptacle for the collection of postal items.
- c) The provision of the following non-reserved postal services comprised by the UPS:
- 1) The postal service for items of correspondence not covered by the price and weight limits set out in sub-point 1) of paragraph b), books, catalogues, newspapers and periodicals up to 2 kg;
 - 2) Postage of parcels up to 20 Kg in weight;
 - 3) The postage of registered mail, not covered by the price and weight limits set out in sub-point 1) of point b);
 - 4) The postage of insured items not covered by the price and weight limits set out in sub-point 1) of point b);
- d) The public service of non-reserved electronic mail boxes.

Finally, on 10/01/2011, the government concluded a public consultation on a legislative proposal which transposes EU regulation with regard to the full liberalisation of the postal sector²⁵, including regulation related to establishing the scope of the UPS, its fundamental requirements (particularly in terms of pricing and QoS), calculating its net cost and the designation of the USP.

According to this draft legislation, following an initial period of CTT's designation as USP for a period of 15 years, the UPS may be provided alternatively or cumulatively, through the efficient functioning of the market or through the designation of one or more postal service providers to provide different components of the UPS or covering different parts of the national territory.

In terms of the net cost of the UPS, calculation should take into account (according to the methodology established by ICP-ANACOM) the tangible and intangible benefits of its provision, the right of the USP to derive a reasonable profit and incentives for the economically efficient provision of the USP.

The same legislative proposal establishes that any net costs of the UPS could be compensated using public funds or a compensation fund financed through contributions

²⁵ See

http://www.governo.gov.pt/pt/GC18/ConsultaPublica/Pages/20101228_Concurrencia_Servicos_Postais.aspx
x

from all postal service providers (although smaller providers may be exempted) providing one or more services covered by the UPS and or from users of services covered by the UPS.

Besides the issues associated with the UPS, other relevant provisions set out in this draft legislation relate to the principles governing access to networks and postal infrastructure components, in particular those owned by the USP.

In this context, the USP are bound to provide access to their networks according to conditions which are transparent and non-discriminatory, by establishing agreements with the postal service providers who request such access. Nevertheless, ICP-ANACOM may determine, where it sees fit and in order to ensure effective competition or uphold the interests of users, that:

- a) The USP advertise, in a suitable manner, the terms and conditions for network access, including pricing;
- b) In a specific situation, in the absence of agreements between the parties, access to the US network and the terms and conditions thereof.

Additionally, under the same legislative draft, all postal service providers may negotiate and make arrangements among themselves as to access to elements of their postal infrastructure or to services which they provide, notwithstanding - where this is necessary to protect the interests of users and promote effective competition - that ICP-ANACOM may impose access to these elements on postal service providers according to transparent and non discriminatory conditions.

Finally, ICP-ANACOM may, when there are several USP with postal networks that on their own do not cover the entire national territory, impose conditions that ensure the interoperability of the various networks.

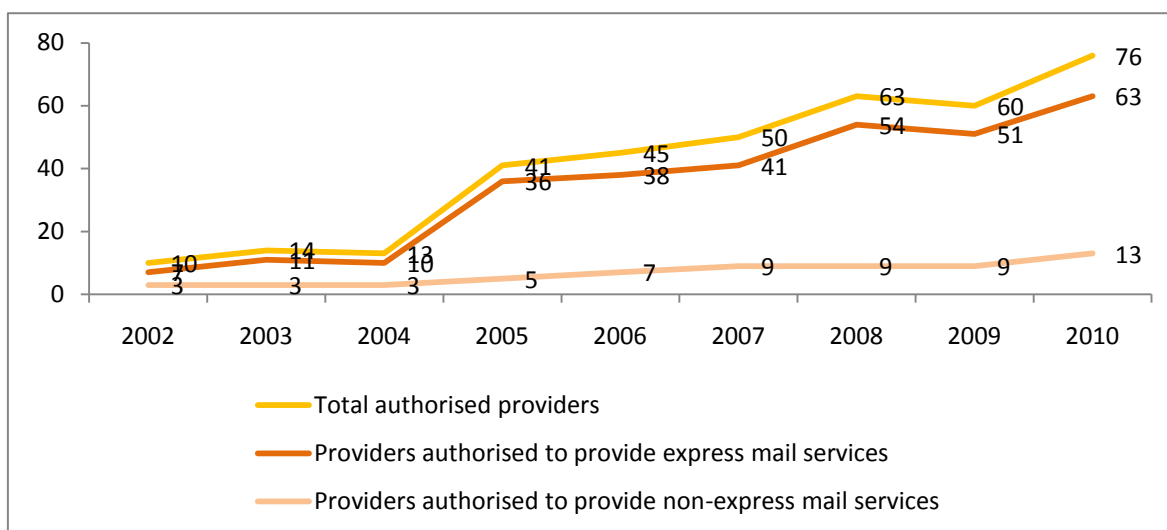
4. POSTAL ECONOMICS IN PORTUGAL

Despite the unfavourable development of some types of postal traffic and the challenges encountered in recent year, including the widespread use of electronic media, postal services remain an important means of communication, offering an important contribution to social cohesion and to the country's economic development.

This chapter sets out the postal sector's contribution to the national economy and describes, from the standpoint of its economic structure, the functioning of the sector, using the key indicators available.²⁶

Figure 2 shows the growing number of providers, registered between 2002 and the end of 2010, with 76 entities authorized to provide postal services at this time. Since many of these entities work under franchise relationships, these 76 entities account for only 27 different brands.

Figure 2 Number of providers (2002 - 2010)



Source: ICP-ANACOM

Among these entities, 63 were authorised to provide express mail services²⁷ and 49 entities which actually engaged in this activity. There were 13 licensed providers of

²⁶ The lists of providers of express mail services and providers of non-express mail services, operating in the third quarter of 2010, are available respectively at [List of active operators and service providers > Postal](#).

²⁷ Authorised entities are eligible to provide express mail services. These services are characterized by the acceptance/collection, handling, transport and distribution with increased urgency of mailed correspondence and orders, distinguished from the respective basic services by a set of supplementary characteristics contracted with clients:

- a) Pre-set delivery deadline;

services not covered by the express mail category²⁸ of which 10 were actually operating. One of these providers is the UPS concessionaire (CTT), which operates according to the respective *Contrato de Concessão* (Concession Contract).

The latest information, dating from the third quarter of 2010, indicates that 58 undertakings were operational. Of the 57 undertakings which responded to ICP-ANACOM's questionnaire about their activities during 2009²⁹, 10 covered all market segments and provided services throughout the national territory, 35 covered all segments of the market, but only operated in part of the country, one company offered national coverage but only for some market segments and 11 providers only provided services in certain market segments and in certain regions of the country.

Postal services have an important weighting in the national economy, and their revenues have consistently totalled at least 0.6% of GDP since 2002 (see Figure 3). According to the latest data available from Eurostat, with reference to 2007, the EU average for this indicator is about 0.5%, slightly below that recorded in Portugal, with the highest weighting reported in Sweden (0.8%).

b) Registration of sent mail;

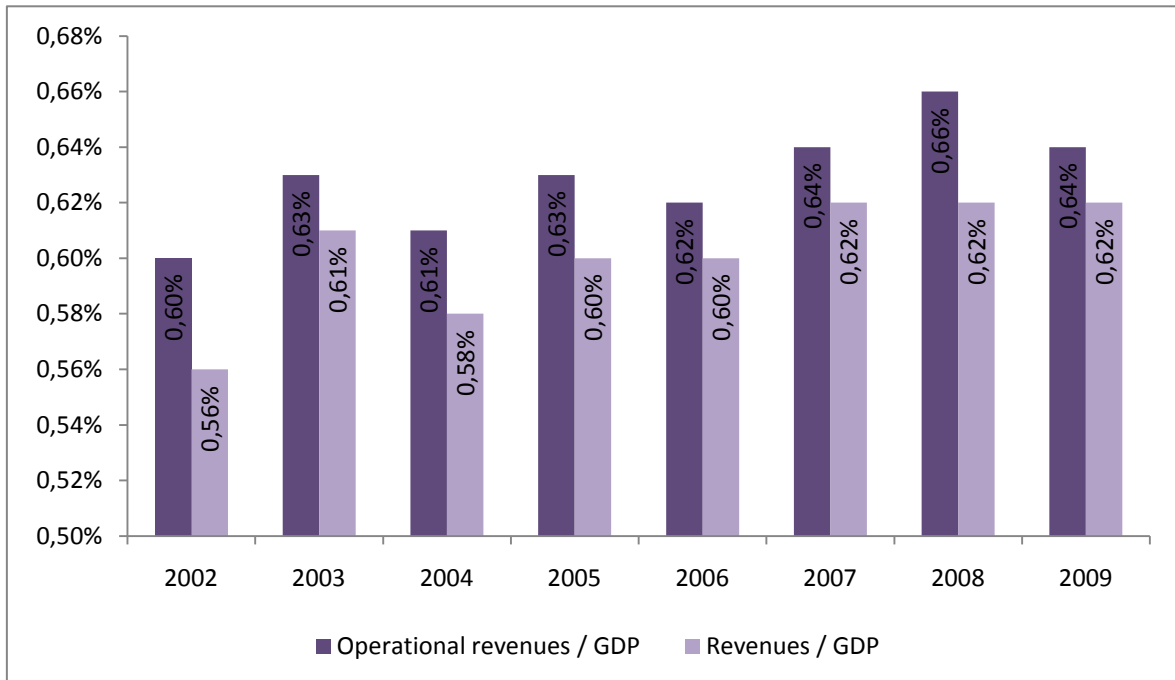
c) Guarantee of responsibility of the authorised provider by insurance or other means by which the sender knows the formula for compensation for damages in advance;

d) Control of mail route by operating circuit of the authorized provider, allowing identification of the status of deliveries and customer information.

²⁸ Licensed undertakings are authorised to provide non-reserved services, even where covered by the weight and price limits of the UPS, including correspondence, books, catalogues, newspapers and other periodicals and postal parcels provided they are not encompassed by the express mail category

²⁹ Most recent information from annual questionnaire sent to companies at the beginning of 2010.

Figure 3 Evolution of operating income and revenues of the companies in the postal sector as a percentage of GDP (2002-2009)



Source: ICP-ANACOM, based on data from postal operators and the Bank of Portugal

The weight of the postal sector in the Portuguese economy in terms of employment amounted to about 0.33% in the period 2002-2009. According to the latest data available from Eurostat, with reference to 2007, the EU average as regards the weight of the postal sector in total employment was 0.5%, with the highest value reported in France (1%), followed by Finland, Denmark and Hungary (all exceeding 0.8%).

Meanwhile, according to data from ICP-ANACOM, employment in the postal sector in Portugal fell by 12% between 2002 and the end of 2010, which seems to follow the trend in Europe.

As such, at the end of the first half of 2010, there were about 16,000 people employed in the postal sector. Grupo CTT is by far the largest employer, making up about 4/5 of jobs, followed by Chronopost Portugal.

The vehicle fleet as a whole reached a total of 6,114 vehicles in the first half of 2010, with Grupo CTT owning about two thirds of this fleet (in 2002 they owned more than four fifths of the total fleet).

4.1 MARKET SEGMENTATION

There are several alternative possibilities for market segmentation, according to the various dimensions, in particular, according to factors such as (AdC, 2010, KPMG, 2008):

- a) Product;
- b) Meeting the needs of customers;
- c) Volume / frequency of sending;
- d) Geographical area;
- e) Type of customer.

In terms of **product**, segmentation can be performed, for example, focusing on correspondence (including subdivision according to "*correio normal*" (non-priority mail), "*correio azul*" (priority mail) or other), Direct mail³⁰, postal parcels³¹, express mail, non-addressed mail and newspapers/books/periodicals.

With a focus on the fulfilment of **customer needs**, classification is possible based on the segments of communication (associated with the sending of correspondence), advertising, transportation (connected, as a rule, to postal parcels) and media (newspapers, books and other publications). It is also possible to divide the communications segment into segments of transactional mail (generated by companies in financial transactions, such as bank statements) and social mail (originating from households, such as greetings cards) (Hooper *et al*, 2008a).

In terms of **volume and frequency**, a clear distinction can be made between "bulk mail" and the sending of individual mail items, with the first aggregating various similar postal items (especially in terms of direct mail).

At geographical level, it is possible to make a distinction between national mail (which can also be subdivided into urban and extra-urban) and cross-border mail (which can be subdivided by groups of countries and/or as incoming mail³² and outgoing mail³³).

³⁰ Correspondence bearing an identical message sent to a significant number of addressees, exclusively for the advertising purposes of marketing or dissemination (article 4, paragraph 3, point c) of the Lei de Bases dos Serviços Postais (Basic Law for Postal Services).

³¹ Small volumes containing merchandise or objects, with or without commercial value, whose weight does not exceed 20 kg. (Article 4, paragraph 2, point b) of the Basic Law for Postal Services).

³² mail originating abroad and delivered in Portugal.

³³ mail originating in Portugal and delivered abroad.

With regard to segmentation by **type of customer**, the relevant segments are business-to-business (B2B), the business-to-consumer (B2C), the consumer-to-business (C2B) and consumer-to-consumer (C2C) - see **Figure 4**.

Figure 4 Segmentation by customer type

From / To	Company	Consumer
Company	B2B	B2C
Consumer	C2B	C2C

Source: ICP-ANACOM

The bulk of postal traffic comprises B2B and B2C traffic, with C2C and C2B traffic having residual volume. Meanwhile, according to available information, in most European countries, B2C traffic exceeds B2B traffic in terms of volume.

With reference to the survey on the use of postal services by the residential population (ICP-ANACOM 2008), the services most used by residential consumers were *correio azul* (priority mail) (used by about half the population) and *correio normal* (non-priority mail) (used by about 4/10 of the population), whereas a ¼ of the population used the parcel service, and express mail and *correio verde* (pre-paid mail) were each used by about 15% of the population (see **Figure 5**).

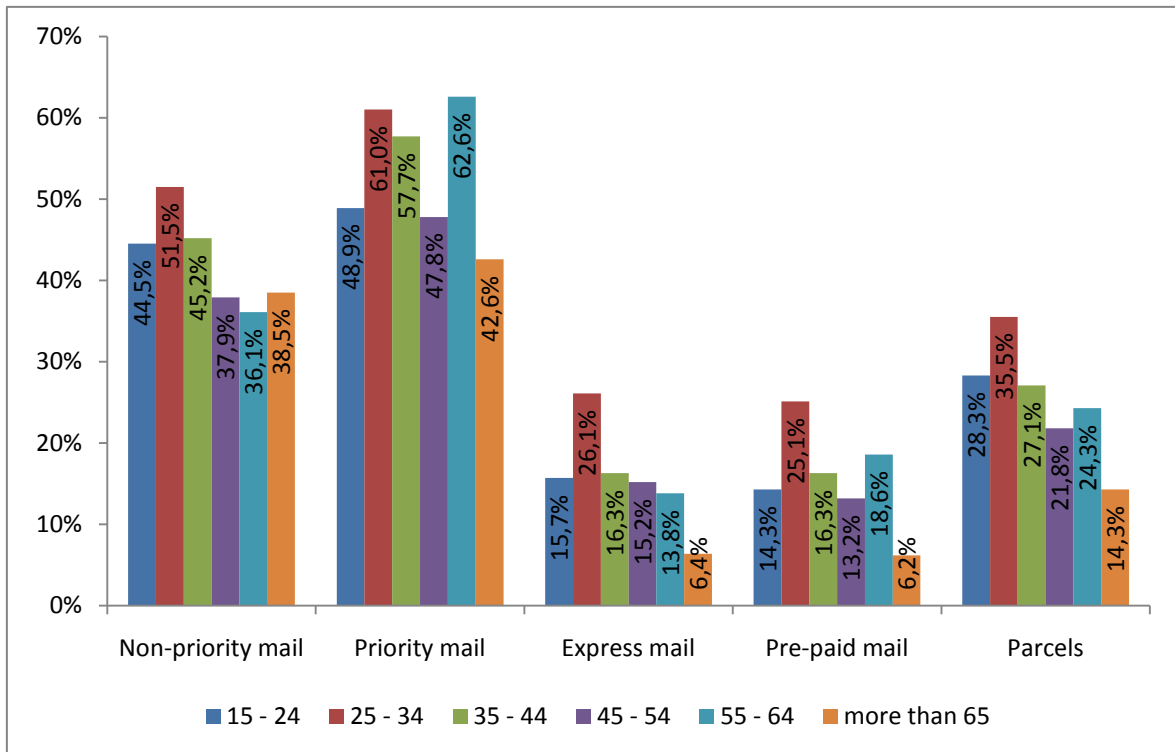
Figure 5 Percentage of population who used the postal services by type of service (residential consumers - 2006 and 2008).



Source: ICP-ANACOM (2008)

Figure 6 shows the use of postal services according to the age group of consumers, as in 2008. It is noted that, for the various postal services indicated, the age group that uses them most often is 25 and 34 years, except for *correio azul* (priority mail), which is most used by the people from 55 to 64 years (albeit with a only slight difference compared to the 25 - 34 age group).

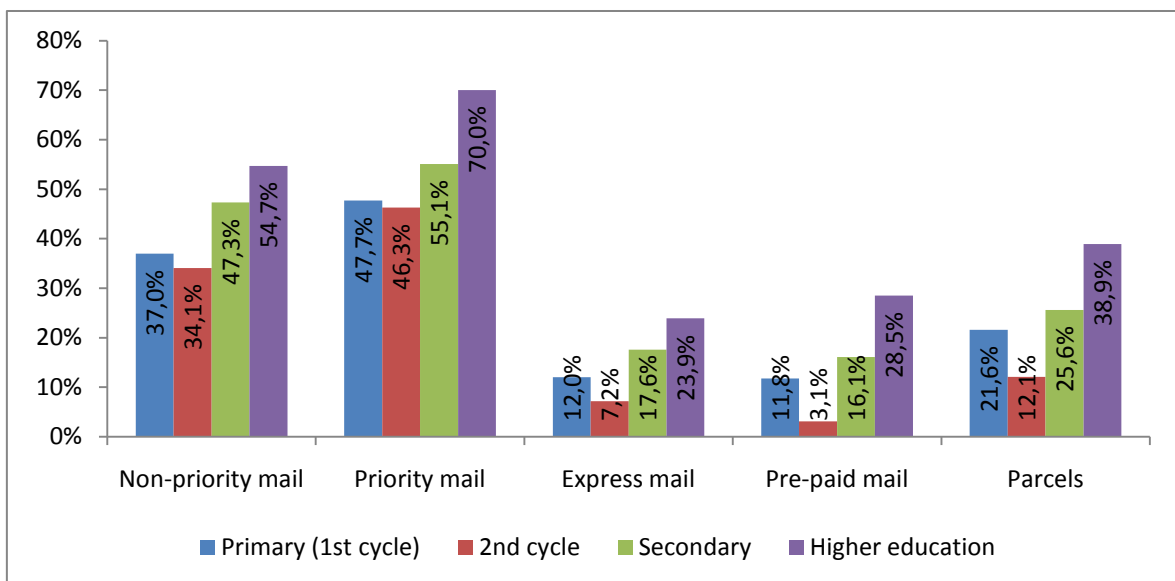
Figure 6 Percentage of population who used the postal services by age group (2008)



Source: ICP-ANACOM (2008)

In terms of level of education, **Figure 7** shows that, overall, statistically individuals with a higher level of education tend to make greater use of the various postal services indicated.

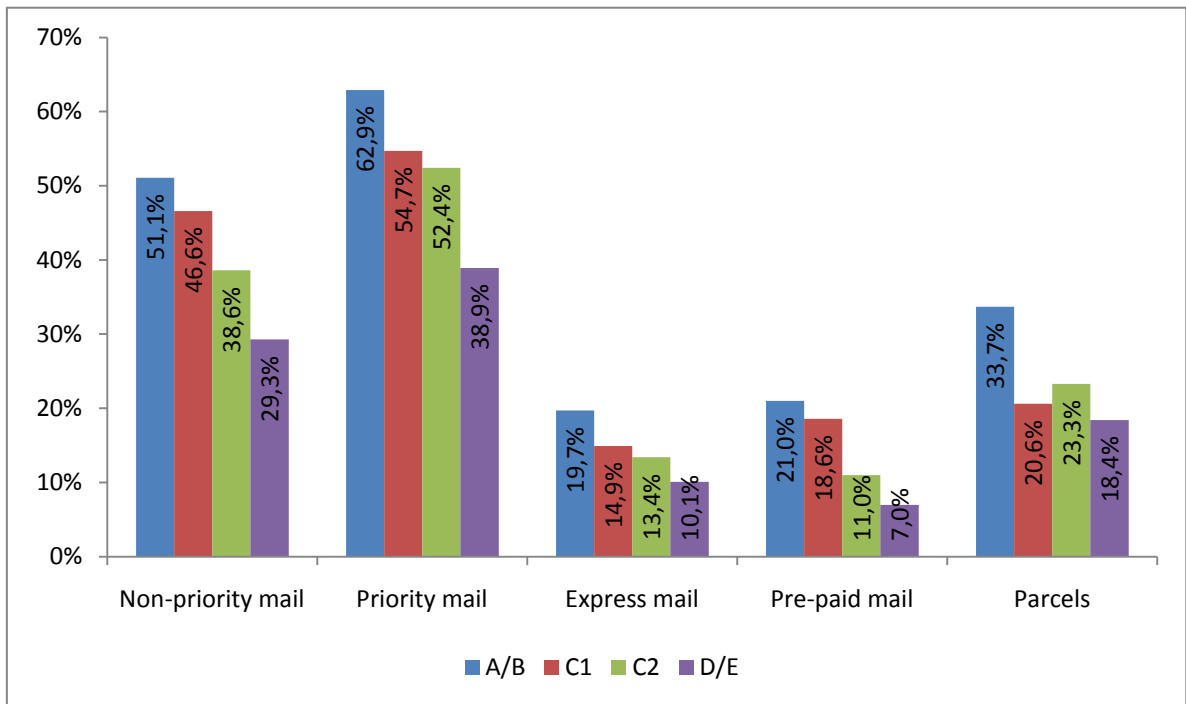
Figure 7 Percentage of population who used the postal second by level of education (2006 and 2008)



Source: ICP-ANACOM (2008)

With regard to the social class of the individuals, **Figure 8** shows that, as a rule (with the exception of C1 and C2 when it comes to parcels), individuals belonging to higher social classes use postal services more often.

Figure 8 Percentage of population who used post services according to social class



Source: ICP-ANACOM (2008)

The types of mail most commonly used by the business segment are, in order, correspondence, parcels, express mail, direct mail, catalogues/newspapers/periodicals and non-addressed correspondence (KPMG, 2008).

According to survey data from KPMG (2008), correspondence represents the overwhelming majority of business expenditure on postal services (representing 85% of spending), followed by parcels and express mail services (which together represent 13% of spending).

Also according to the same survey data, about 60% of business customers spent less than one thousand euros annually on postal services, about one third spent between one thousand and ten thousand euros on postal services and only about 1% spent more than fifty thousand euros on postal services.³⁴

³⁴ About a quarter of companies surveyed did not answer the question about how much they spent on postal services, probably because, in these cases, postal services are predominantly seen as support services and the related costs, small in size, are grouped with the other supporting activities (KPMG, 2008).

4.2 VALUE CHAIN

It is possible to consider two value chains, one more in line with the traditional view of the postal business and a more contemporary chain, associated with new value generating businesses, resulting from a new set of customer needs.

The traditional value chain is represented in **Figure 9**.

Figure 9 Traditional value chain of the postal sector



Source: ICP-ANACOM

Acceptance consists of the set of operations involved in the entry of postal items into the postal network³⁵, including the collection of postal items at the respective access points (Article 4, paragraph 7, point a) of the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services)).

Processing consists of the preparation of postal items on the operator's premises for conveyance to the distribution centre of the area to which it is addressed (article 4, paragraph 7, b) of the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services)).

Transport consists of the movement of postal items by appropriate technical means from the access point to the postal network and thus to the distribution centre of the area to which it is addressed (article 4, paragraph 7, c) of the *Lei de Bases dos Serviços* (Basic Law for Postal Services)).

Distribution consists of the operations effected from the sorting of postal items at the distribution centre of the area to which it is addressed to delivery to the addressees (article 4, paragraph 7, d) of the *Lei de Bases dos Serviços Postais* (Basic Law for Postal Services)).

According to estimates by NERA (2004), with reference to an unidentified group of countries for which information had been obtained, the distribution stage of the value

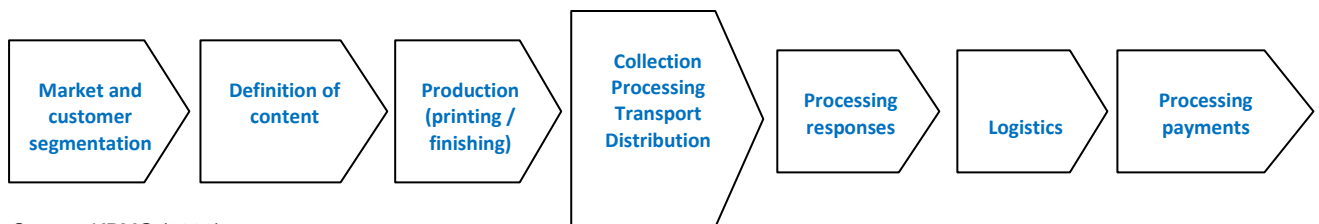
³⁵ Understood to be the set of human and material resources, owned, organised and operated by an entity that provides postal services, ensuring the operations of acceptance, processing, transport and distribution of postal items.

chain represents the largest share of costs, both with respect to correspondence (50% of total costs) and parcels (39% of total costs). Acceptance represents 12% and 10% of total costs in the case of correspondence and parcels respectively. Processing constitutes 15% of the total costs of correspondence and 17% in the case of parcels. Transportation costs have a much greater weight when it comes to parcels (21%) compared to correspondence (7%). Finally, the common costs to these activities represent 16% of total costs for correspondence and 13% of the total cost for parcels.

Available information regarding CTT, affirms that, in Portugal, distribution is also the stage of the value chain which represents the largest share of costs, followed by acceptance, processing and transport.

Figure 10 illustrates the contemporary value chain of the postal sector, comprising - in addition to traditional activities - a set of additional activities related to market/customer segmentation, with the definition of content and with production and downstream activities associated with the processing of responses, logistics and payment processing.

Figure 10 Contemporary value chain of the postal sector



Source: KPMG (2008)

4.3 KEY INDICATORS

4.3.1 TRENDS IN REVENUE AND MARGINS

Overall revenues for the sector between 2005 and 2010 show a slight decrease (about 1%). This is mainly explained by the significant reduction in revenues derived from the reserved area, whereas revenues derived from mail in the liberalised area, and especially express mail, saw evident growth over the same period.

Revenues from the reserved area are less than half of total revenues, and in the liberalised area, express mail and non-express mail have levels of revenue which are relatively close to each other.

The trend in CTT's UPS revenues and revenues from the non-universal service show a decrease over the period 2005-2009. Within this trend, revenues from the UPS decreased

slightly, in line with the decrease in sector revenues between 2005 and 2009 (mainly due to a reduction in revenues from the reserved UPS, since significant positive change has not reported in UPS revenues), while revenues from the non-universal service over the same period saw reasonable growth (mainly due to an increase in revenues from the non-reserved universal service).

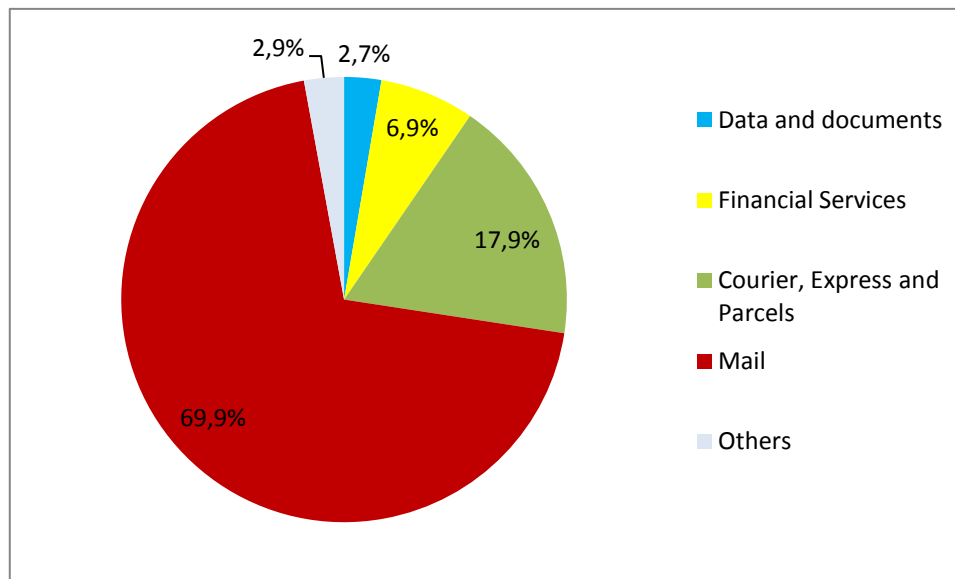
These trends are reported in a context where, by virtue of legislative developments and as detailed above, there was a reduction in the reserved area in 2006. Furthermore, according to CTT, there was a marked decrease in the volume of correspondence sent by its largest customers in 2009 (representing 46% of total correspondence revenues). Customers in the banking and insurance sectors reduced their postage by 7%, publishers by 9%, mass market retail by 7% and online sales by 3%. A decrease was reported in the total derived from key accounts of 28 million items compared to 2008. The number of items sent by the State fell by 7%, with a transfer of traffic reported from registered mail to normal mail, negatively impacting the revenues derived from this important customer (CTT, 2010).

The vast majority of income earned by CTT in 2009 came from the provision of services included in the universal service. More than half of this revenue was derived from the UPS of the reserved area and the remaining revenue from the UPS of the non-reserved area.

Looking at the distribution of CTT revenues among the different service families, it is reported that, in 2009, correspondence represented more than three quarters of revenues, followed by financial services and direct marketing. It is also reported that correspondence revenues grew marginally between 2005 and 2009, while revenues from other service families (except "miscellaneous" services)³⁶ declined over the same period. This distribution is in line with the distribution observed in the consolidated operating income of Grupo CTT (see **Figure 11**).

³⁶ The family of "miscellaneous" services corresponds to the set of the following services: post office boxes, certification services, public payphones, telegrams, electronic date stamping, message delivery, telecommunications products, sale of transport tickets and passes, merchandising, EBPP Project, other products, air transport allowance, seconded staff, Distri Mais, PICK & GO, Digital Mailroom, VIA CTT; Mailmanager, Postalnet, Banco Postal, Phone IX.

Figure 11 Consolidated operating income of Grupo CTT by business area in 2009



Source: ICP-ANACOM, based on data from CTT (CTT 2010)

Given the weight of correspondence in CTT's revenues, it is useful to look at the distribution of revenues according to each specific type of correspondence. It appears that about half of revenues are derived from the provision of national non-priority mail, whereas national *correio azul* (priority mail) makes up a very small part of revenues.

The UPS has a positive margin, with extremely strong growth reported between 2005 and 2009. The margin in the non-universal service was negative throughout the same period, and this deficit increased slightly between 2005 and 2009.

Looking at the trend in margins between 2005 and 2009, and at the different families of services, particularly strong margin growth is seen for correspondence and for direct marketing (which moved from a negative margin to a very positive margin) with substantial reductions seen in other families of service, particularly financial services.

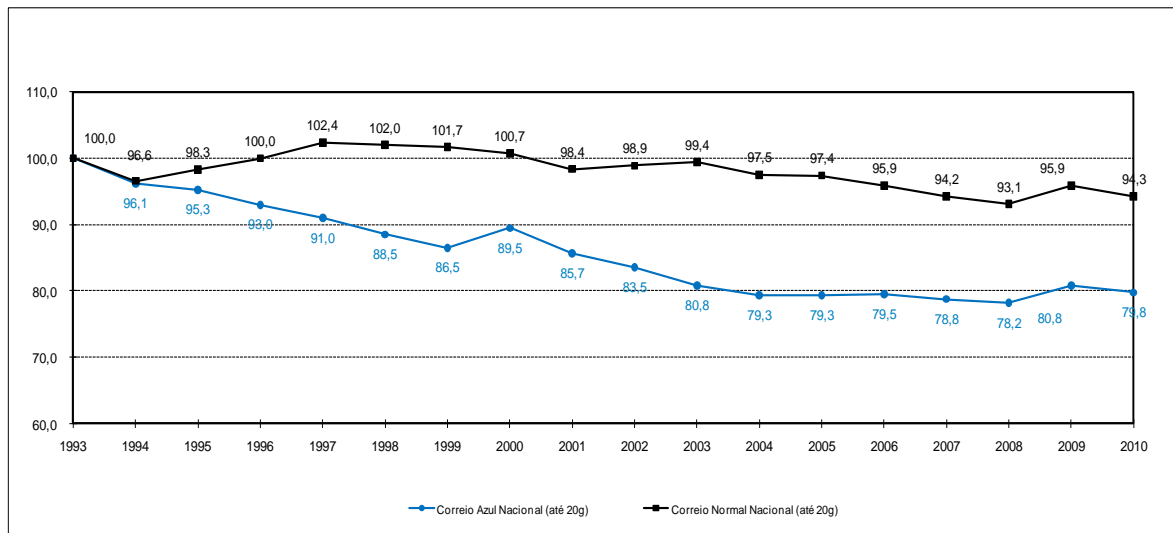
Given the weight of the correspondence service in CTT's activity, it is also worth examining the margins of the different types of correspondence. The type of correspondence which contributed most to the company's profits are those comprised by national *correio normal* (non-priority mail), followed at a considerable distance, by those comprised by national simple registered mail, registered mail with acknowledgment of receipt and non-priority international mail. In contrast, types of correspondence which

were most negative in 2009 were national *correio azul* (priority mail), national editorial mail and home collection of correspondence.

4.3.2 PRICE TRENDS

Figure 12 illustrates the trends in base tariffs for *correio normal* (non-priority mail) and *correio azul* (priority mail), with a very favourable trend reported for customers, particularly with regard to *correio azul* (priority mail), where the base tariff fell by about 20 percentage points between 1993 and 2010.

Figure 12 Trend in the average annual value of base tariffs in real terms (*correio normal* (non-priority mail) and *correio azul* (priority mail)) for the period 1993-2010



Source: ICP-ANACOM

Regulation of prices in the reserved area has been implemented, in the context of the *Convénio de Preços* (Price Convention) referred to above, through "price capping". In particular, under Article 8 of the current *Convénio de Preços* (Price Convention), the average weighted variation in prices of reserved postal services may not exceed, in nominal terms:

- a) $CPI + CPIAF^{37} - 0.3\%$, in 2008;

³⁷ The CPI adjustment factor (CPIAF) corresponded, in 2008, to the difference between the inflation value for 2007, published by the INE (Statistics Portugal), and the level of inflation officially expected for 2007 by the Government and referred to as such in the State Budget Report for 2007. In subsequent years, this corresponds to the difference between the inflation value foreseen in the State Budget Report of a given year for the previous year and the inflation value expected for the previous year pursuant to point k). In

b) CPI + CPIAF -0.4%, in 2009 and 2010.

Figure 13 shows a European comparison of priority national mail (*correio azul*), at current exchange rates.

Figure 13 European comparison of the price of priority national mail



Source: ICP-ANACOM

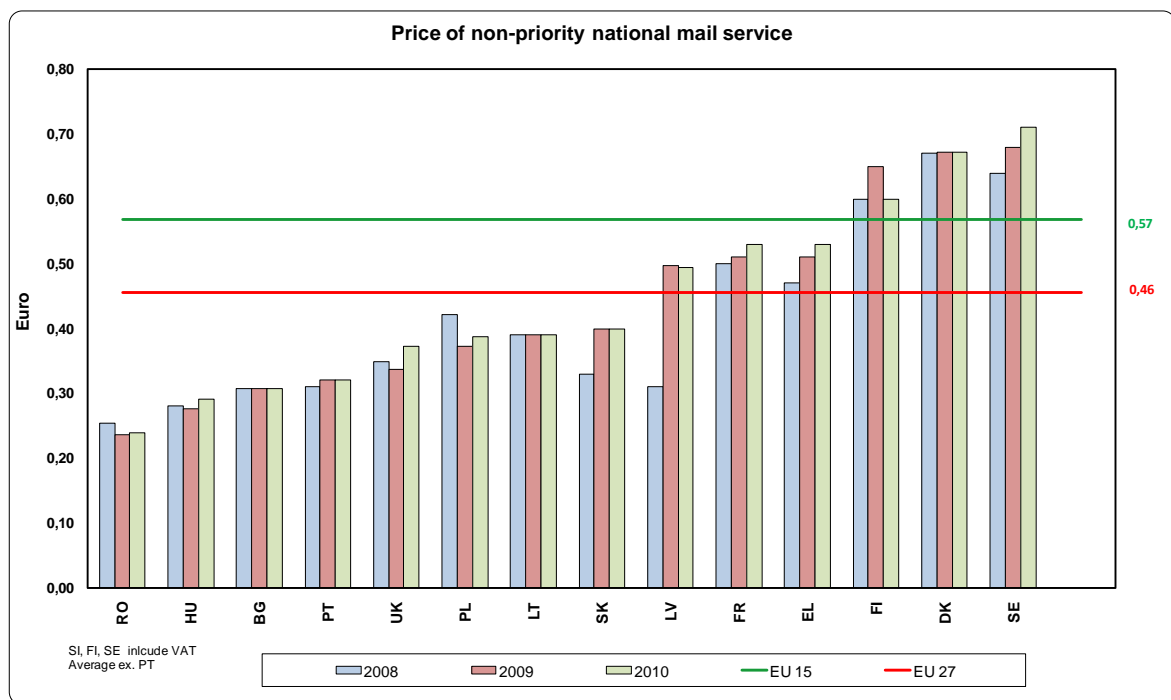
The average price (excluding Portugal) of priority national mail in the EU27 increased by 3.3% (0.02 euros) in 2010 compared to 2009, with a current value of 0.51 euros. The average of the EU15 (excluding Portugal) increased by 3.0% (0.017 euros) over the same period to stand at 0.59 euros. Of all EU countries, 13³⁸ have prices below the EU27 average (excluding Portugal), Portugal among them. In 2010, the difference between the highest and lowest prices in the EU27, found respectively in Sweden and Malta, was 0.59 euros.

case the State Budget Report of a given year fails to mention the inflation value foreseen for the previous year, this value shall be replaced by the value, in September of the referred previous year, of the average variation of the consumer price index in the last twelve months, published by the INE (Statistics Portugal). The value forecast for inflation in the State budget Report from one year to the previous year is considered zero in the event that, in this report, a rate of inflation is forecast which is below zero and, cumulatively, a positive value for inflation had been forecast for the previous year under the terms of k).

³⁸ Malta, Slovenia, Cyprus, Spain, Estonia, Hungary, Romania, Czech Republic, Netherlands, Lithuania, Portugal, United Kingdom and Poland.

A European comparison of the price of non-priority national mail (*correio normal*), at current exchange rates, is shown in Figure 14. The average price (excluding Portugal) of non-priority national mail in the EU27 maintained at the same value as in 2009 (0.46 euros). The EU15 average (excluding Portugal) increased by 1.6%. Of the 14 EU countries under review, eight countries, including Portugal, had prices below the EU27 average (excluding Portugal)³⁹, with the remaining six above this average.

Figure 14 European comparison of the price of non-priority national mail



Source: ICP-ANACOM

Since 2008, the average price in the EU15 (excluding Portugal) has been higher than the average price (excluding Portugal) in the EU27. The difference between the average price (excluding Portugal) in the EU15 and in the EU27 increased by 11.6% between 2009 and 2010.

In 2010, the difference between the highest and lowest price in the EU27 was 0.47 euros⁴⁰, higher than reported in 2009 (0.44 euros). The maximum price is about three times the lowest price.

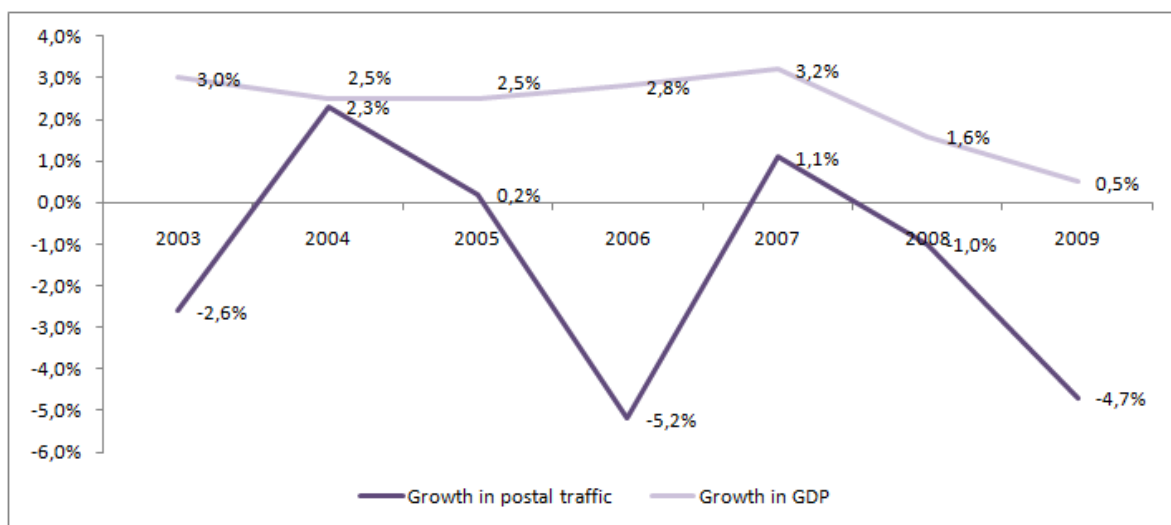
³⁹ Romania, Hungary, Bulgaria, United Kingdom, Poland, Lithuania and Slovakia.

⁴⁰ In 2008 this same difference was reported at 0.42 euros.

4.3.3 TRENDS IN TRAFFIC

Historically, a strong and significant correlation can be seen between GDP growth and growth in postal traffic. However, more recently, it is possible to see, as already discussed, the effect of substitution of postal traffic by electronic mail and by media and alternative channels, so that the growth of postal traffic growth has been lagging the national economy (see Figure 15).

Figure 15 Postal traffic growth and GDP growth in Portugal (2003-2009)⁴¹



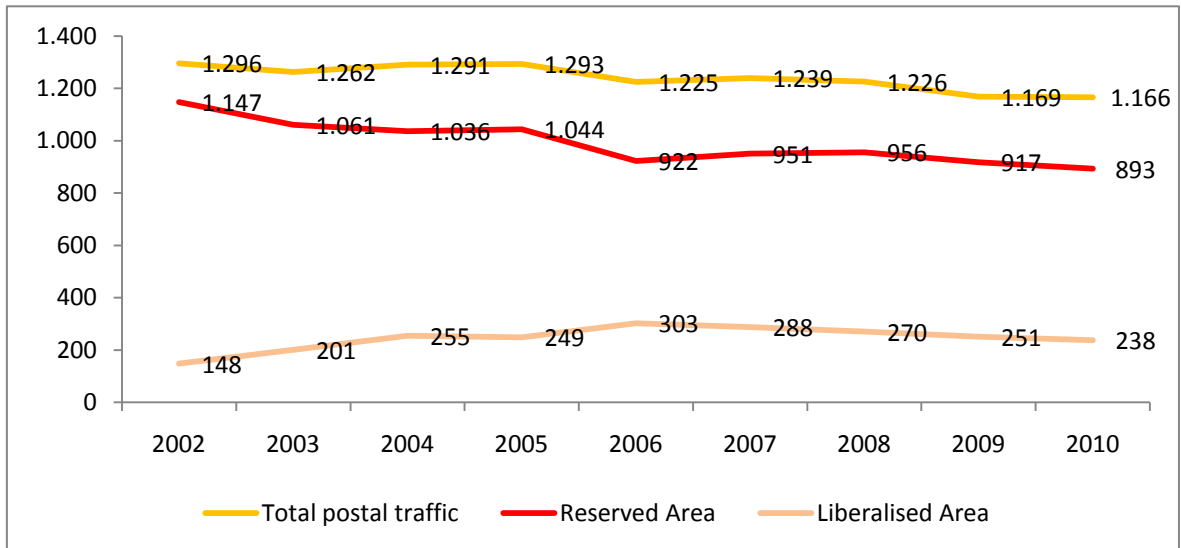
Source: ICP-ANACOM, based on data from INE (Statistics Portugal) and postal operators

There are other reasons, however, that help to explain why the growth of postal traffic tends to lag global economic growth (ITA Consulting and WIK-Consult, 2010). One such reason is the decline in editorial mail, as more and more people prefer to read online versions of newspapers, as evidenced by the decline in postal traffic made up by newspapers and periodicals. Another factor stems from the fact that companies which send out correspondence on a large scale are becoming increasingly price-sensitive and are therefore reducing the frequency with which they send out mail.

Figure 16 illustrates the trend in total postal traffic, in postal traffic of the reserved area and of postal traffic in the liberalised area between 2002 and 2010. Over this period, there was an estimated drop of around 12.7% in total postal traffic, explained by a reduction of more than 22% in traffic of the reserved area, while traffic in the liberalised area grew by about 60% over the same period (despite a downward trend from 2006).

⁴¹ Gross domestic product at market prices (price change rate; annual); 2009 data is preliminary.

Figure 16 Trend in postal traffic (including traffic of the reserved area and the non-reserved area) over the period 2002-2010

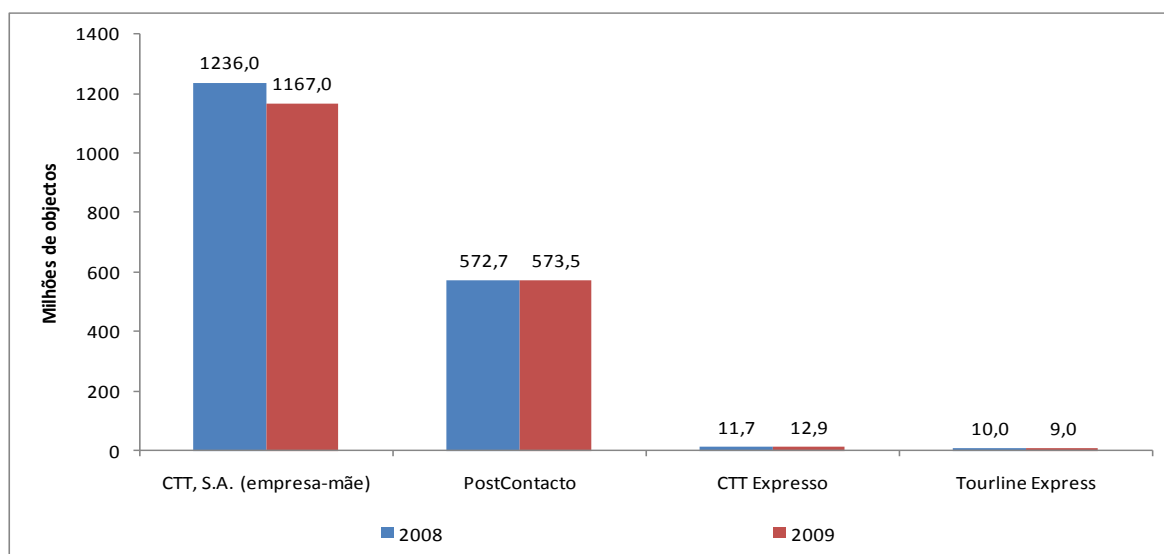


Source: ICP-ANACOM

It is further noted that, at the end of 2010, the volume of postal traffic in the liberalised area represented 21% of total postal traffic.

Looking at the trend in addressed traffic of Grupo CTT as a whole, it is clear that the incumbent's addressed traffic declined by 5.5% in 2009 over 2008. Over the same period, CTT Expresso's traffic grew by 10.3% and CTT Group's non-addressed traffic grew 0.1% (see Figure 17).

Figure 17 Grupo CTT traffic (millions of items)



Source: ICP-ANACOM, based on data from CTT (2010b)

The trend in the volume of international correspondence traffic of the UPS - in 2009 this correspondence represented less than 10% of the total correspondence (national and international) of this provider - shows a very sharp reduction between 2002 and 2009, whereas the decrease between 2008 and 2009 was itself very significant, resulting from a decline in international mail sent and received. UPS traffic from national parcels is now residual. Furthermore, international UPS parcel traffic remains at residual levels, having seen significant declines in the period 2002-2009, both in terms of outgoing and incoming international parcels.

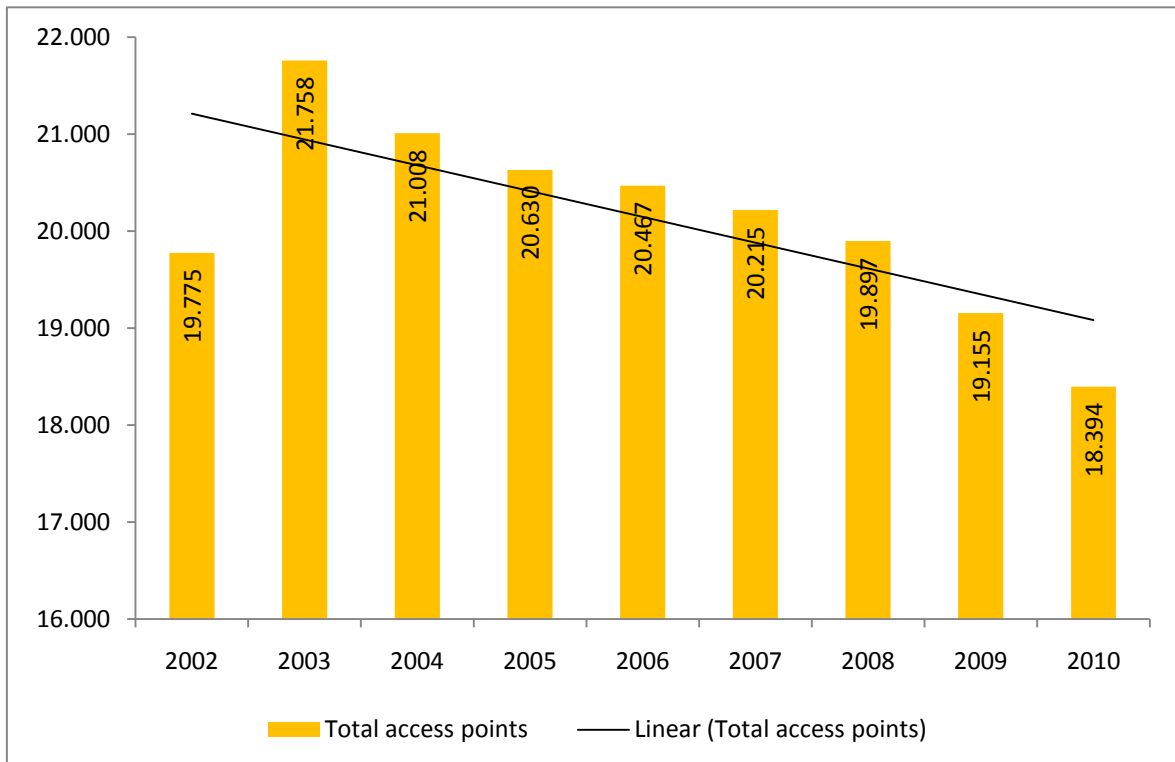
Despite the evident overall downward trend in the volume of postal traffic, KPMG (2008) predicted that use of postal service in Portugal by business customers would either remain at current levels or would increase.

Since there are no current statistics on postal traffic with a relevant geographical breakdown, the most recent statistics, with reference to 2000, suggested that Lisbon and Porto are the areas with the greatest volume of postal traffic *per capita* (Costa, 2010), a situation that appears to persist today (AdC, 2010). As such, given the relevant economies of density, entrants should find it easier to provide services in these areas, throughout the value chain (AdC, 2010).

4.3.4 TRENDS IN NUMBER AND DENSITY OF POSTAL ESTABLISHMENTS

The number of access points to the postal network declined by about 7% between 2002 and the end of 2010, when the number of access points was reported at 18,394, as seen in **Figure 18**. In 2010, 99.3% of access points belonged to CTT.

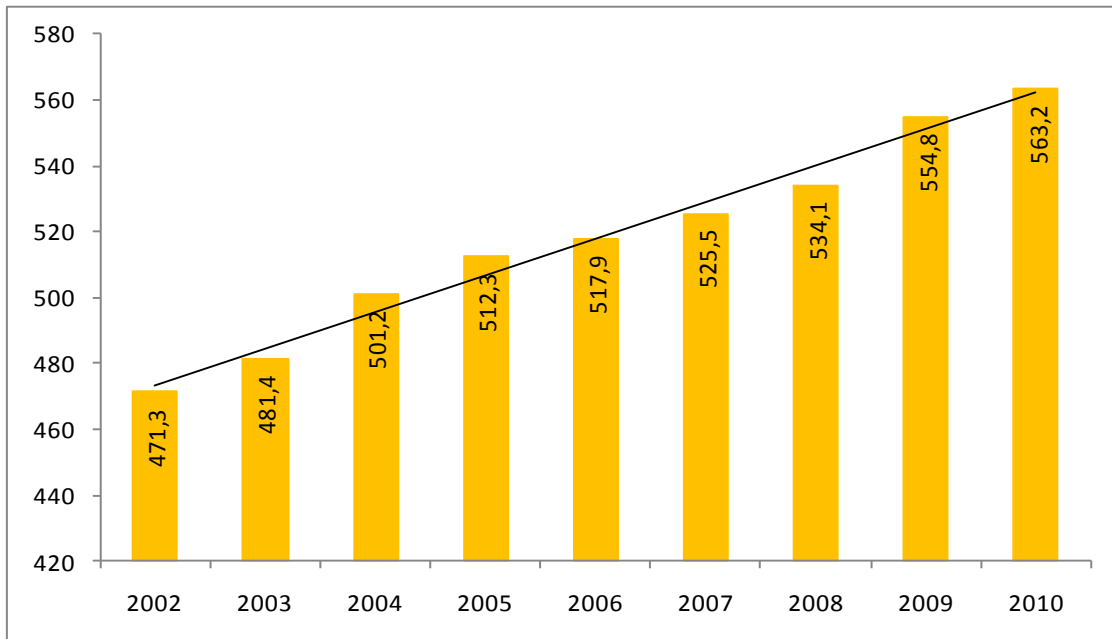
Figure 18 Total access points to the postal network



Source: ICP-ANACOM

This trend is reflected in the significant increase in the average number of inhabitants served by each access point (see **Figure 19**).

Figure 19 Average number of inhabitants per access point to the postal network.



Source: ICP-ANACOM

Looking at long-term trends between 1979 and 2009, a significant increase is reported in the weight of post offices in relation to the total number of postal establishments, representing about 30% of postal establishments in 2009, compared to only 9% in 1979. This has occurred in a context of a gradual liberalisation in the postal service from the end of the 1990s, with CTT totally free to open and close establishments⁴².

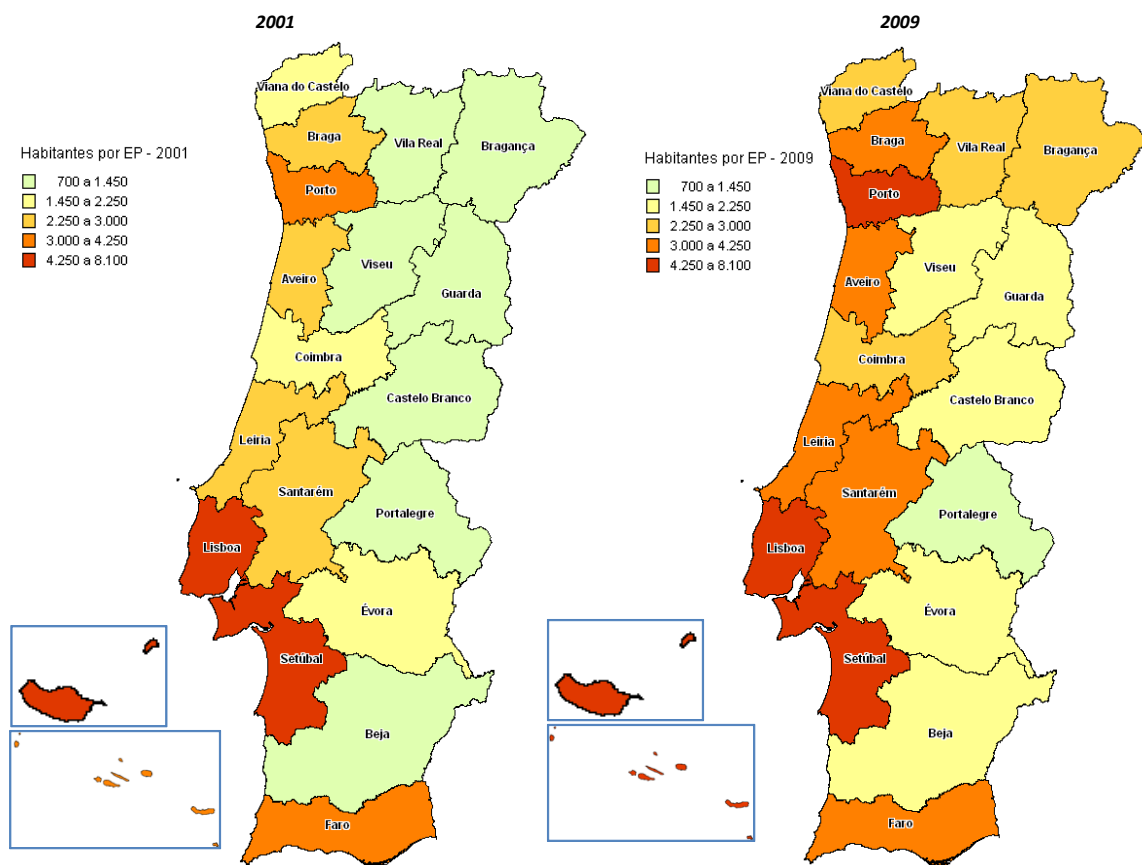
This trend is reported in parallel with a visible tendency to reduce the number of postal establishments. This reduction in the number of postal establishments likely stems from the application of criteria of economic efficiency in the operation of the postal network and an increase in the productivity of capital and labour, without forgetting that the resident population of Portugal grew by about 24% between 1970 and 2009.

⁴² In accordance with paragraph 3 of Base XX of the UPS Bases da Concessão (Concession Bases), CTT is responsible for the establishment and closure of postal establishments and for the alteration of their working hours, bearing in mind service needs and levels of demand. By amendment to the Bases da Concessão (Concession Bases) approved by Decree-Law No. 448/99 of 4 November, enacted firstly by Decree-Law No. 116/2003 of 12 June and subsequently by Decree-Law No. 112/2006 of 9 June, the procedure supporting decisions of CTT to open and close establishments or to change their opening hours was modified. Under the previous regime, any decision taken by CTT in this regard was subject to a favourable opinion by ICP-ANACOM (Paragraph 2 of Base XX, as amended by Decree-Law No. 448/99 of 4 November). With the amendments of Decree-Law No. 116/2003, ICP-ANACOM is only able to oppose decisions of CTT on the closure of post offices and on the reduction of post office working hours. Currently, CTT is obliged to notify ICP-ANACOM as to decisions which it takes on this matter, and is required, in cases of post office closures or reductions in opening hours, to give basis to its decision, particularly in terms of service need, levels of demand and fulfilment of the communication needs of the population and economic activities (paragraph 4 of Base XX, as amended by Decree-Law No. 112/2006 of 9 June).

Meanwhile, the density of postal establishments per inhabitant in Portugal was, according to the most recent data available - reported in 2008, with the exception of Belgium (2005) - significantly higher than the EU average (3,686 inhabitants per postal establishment versus the EU average of 4,696 inhabitants per postal establishment) (ICP-ANACOM, 2010).

According to the results of ICP-ANACOM's Survey on the Use of Postal Services of November 2006 (ICP-ANACOM, 2007), the postal establishments receiving most use are primarily those which are "close to home" (according to 65.8% of respondents). This suggests that the ratio between the number of postal establishments and residents in a given region is a good measure for assessing the conditions of provision of the universal service. As such, **Map 1** offers a perspective on the trend reported in the density of inhabitants per postal establishment by region in the period 2001-2009.

Map 1 Trend in the density of inhabitants per postal establishment by region (2001-2009)



Source: Costa (2010)

Inhabitants per PE

The average number of inhabitants served by postal establishment tends to be higher in coastal regions (whereby there is a greater density of industrial and service activities and greater population density).

This reflects a long-term upward trend in the average number of inhabitants served per postal establishment (corresponding to all the post offices and post offices) in coastal regions. For example, in 1936, each postal establishment in the districts of Lisbon and Setúbal served, respectively, 6,146 and 4,848 inhabitants on average, while in 2009 they served 7,533 and 7,472 inhabitants respectively (Costa, 2010).

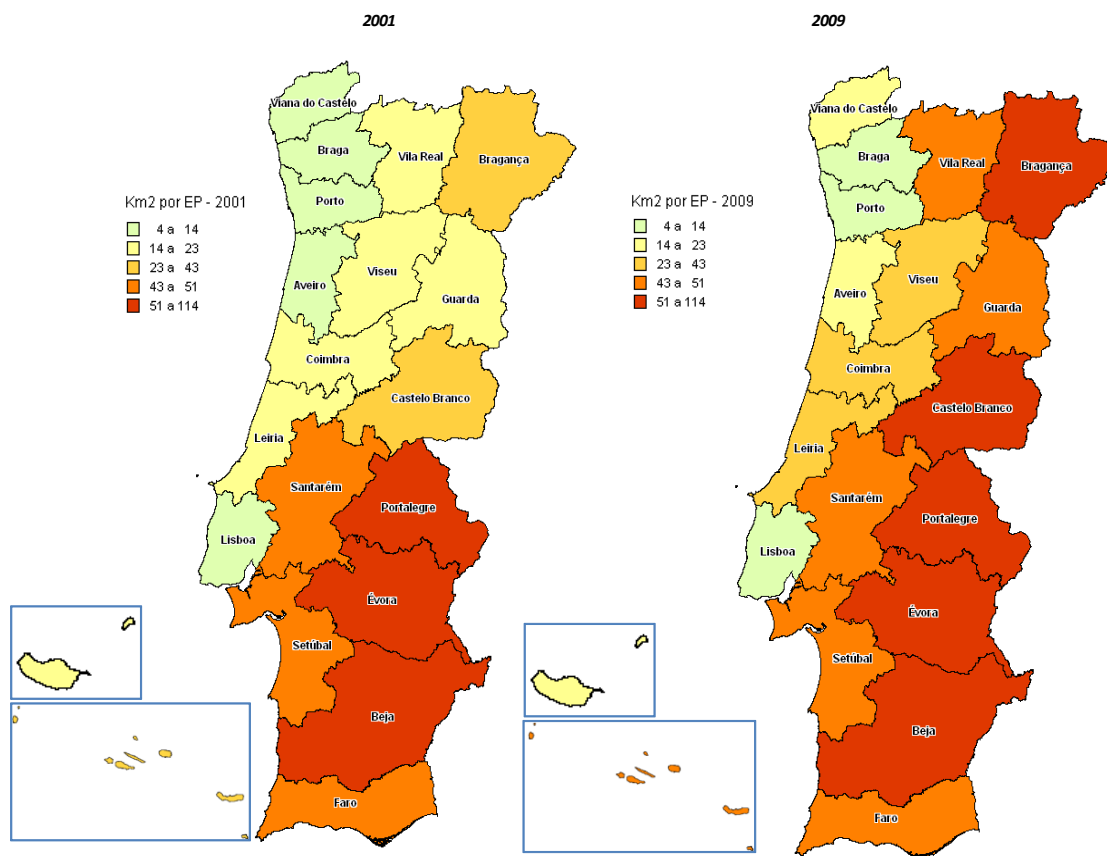
Meanwhile, in the regions of the country's interior, the trend of depopulation (as a result of emigration and migration to coastal regions) more than offset the downward trend in the number of postal establishments, so as a rule, the average number of inhabitants served by each postal establishment decreased between 1936 and 2009. For example, in the districts of Beja, Castelo Branco and Viseu, each postal establishment in 1936 served, on average, between 2,740 and 3,200 inhabitants, while in 2009 they served, on average, between 1,450 to 2,250 inhabitants. In the districts of Portalegre and Guarda each postal establishment in 1936 served on average, 2,798 inhabitants and 2,076 inhabitants, respectively, while in 2009 they only served 1,409 inhabitants and 1,535 inhabitants respectively (Costa, 2010).

In terms of long-term trend - and notwithstanding a general tendency in recent years to reduce the density of postal outlets per Km², evident in the districts of Aveiro, Bragança, Castelo Branco, Coimbra, Guarda, Leiria, Viana do Castelo and Vila Real - besides the District of Viseu, the regions of the North Coast and Central Coast are those with higher densities of postal establishments per Km², specifically the districts of Viana do Castelo, Aveiro, Coimbra, Leiria and, especially, Lisbon, Porto and Braga (see **Map 2**).

In 2009, these last three districts were reported as having average coverage per postal establishment of 9 km², 6 km² and 10 km² respectively. In 2009, the districts with the lowest density of postal establishments per km² were Bragança, Beja, Évora and Portalegre, with average coverage per postal establishment reported respectively at 114 km², 100 km², 75 km² and 74 km².

Looking at the ratio between area and the number of postal establishments, the value reported for Portugal (31.9 km²) in 2008 was significantly below the EU average (41.3 km²), showing greater geographical coverage of the postal network in Portugal (ICP-ANACOM, 2010).

Map 2 Trend in the average area covered per postal establishment by region (2001-2009)



Source: Costa (2010)

4.3.5 TRENDS IN QUALITY OF SERVICE

Under the current UPS *Convénio de Qualidade* (Quality Convention) quality of service indicators (QSI) are defined for:

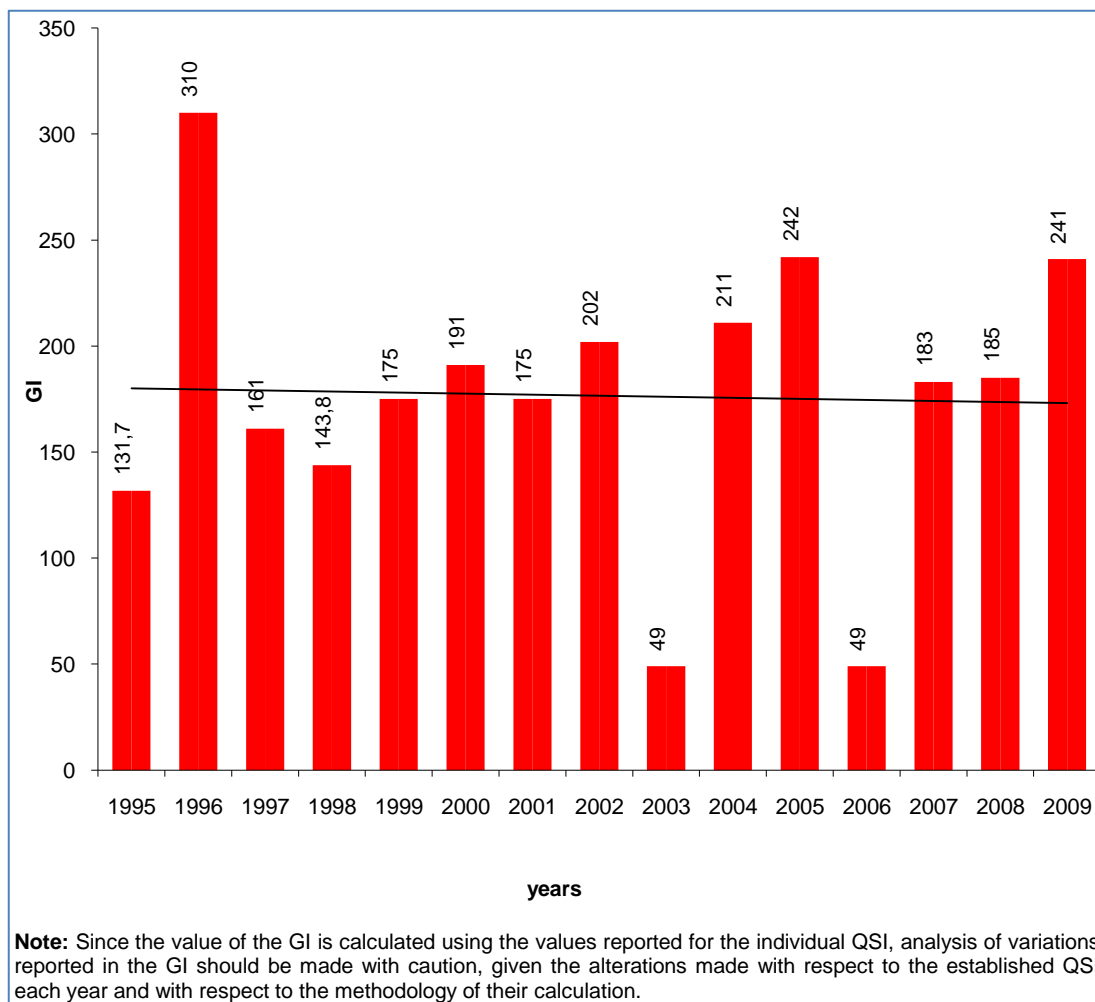
- Transit time for *correio normal* (non-priority mail), *correio azul* (priority mail), newspapers and periodicals, cross-border intra-community and parcels;
- Losses reported in *correio normal* (non-priority mail) and *correio azul* (priority mail);
- Queuing times in postal establishments.

For each QSI, a minimum level is determined (i.e., the minimum quality that the USP is bound to accomplish) and a target level (i.e. the level which the USP seeks to accomplish), whereas the USP is penalized for failing to meet the agreed levels of quality of service (Castro and Franco, 2008). In 2009, CTT achieved the established target levels,

with the exception of *correio normal* (non-priority mail) not delivered within 15 business days and *correio azul* (priority mail) not delivered within 10 working days (which, in any case, exceeded the minimum levels).

There is also a global indicator of quality of service, calculated on the basis of a weighted combination of the results achieved by the USP; the trend reported in this global indicator over the period 1995-2009 is shown in **Figure 20**. The sharp falls reported in 2003 and 2006 resulted essentially from strikes by USP employees and in 2003 from difficulties in the deployment of IT systems.

Figure 20 Trend in the global indicator of quality of service (1995-2009)



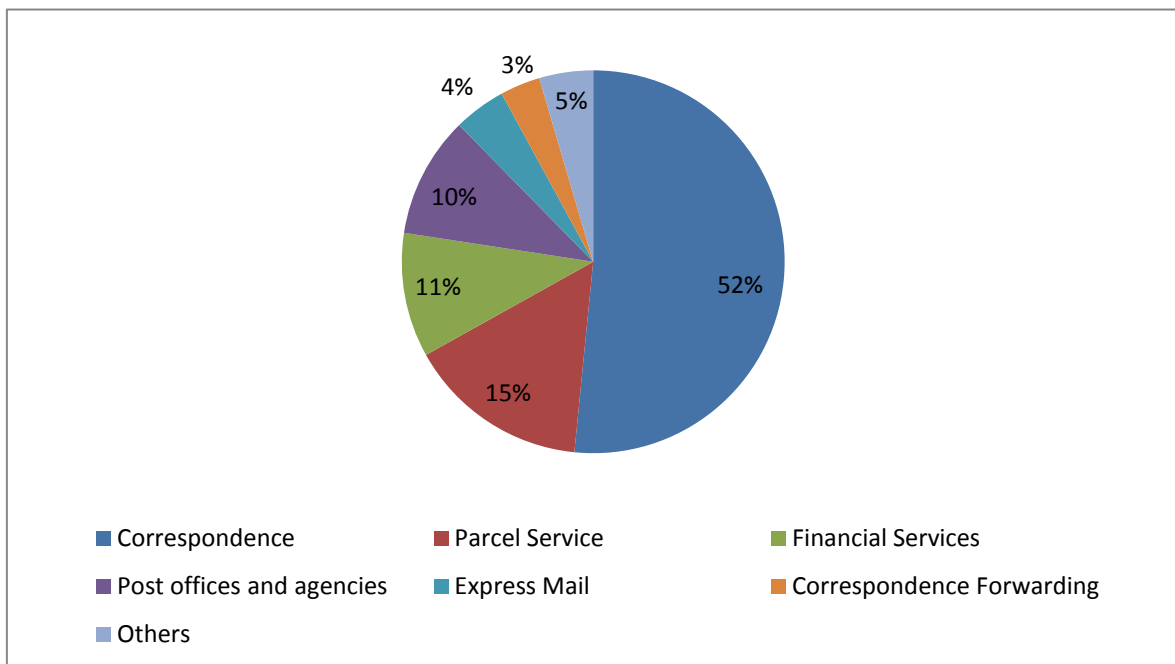
Source: ICP-ANACOM

Another interesting indicator related to QoS refers to complaints. In this respect, it can be said that, according to figures from ANACOM (2010), the number of complaints about the postal sector increased by 22% between the first half of 2009 and first half of 2010 (which

compares, over the same period, with zero growth in complaints about electronic communications services and an increase of 26% in complaints related to information society services).

The largest number of complaints received in the first half of 2010 referred to the correspondence service (see Figure 21), followed by the parcel service, financial services and complaints about post offices and agencies.

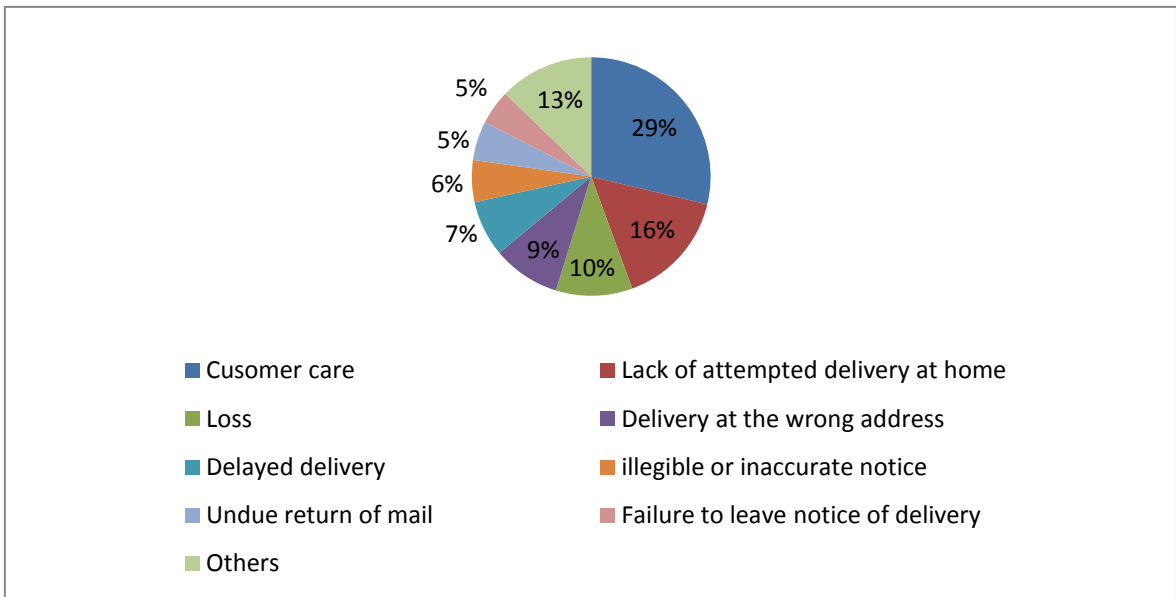
Figure 21 Distribution of complaints about postal services by type of service (1H 2010)



Source: ICP-ANACOM (2010)

The situations giving rise to most complaints were mainly related to problems associated with customer care services, lack of attempted delivery at home, loss, delivery at the wrong address and delayed delivery (see Figure 22).

Figure 22 Distribution of complaints about postal services by subject (1H 2010)



Source: ICP-ANACOM (2010)

5. CHARACTERISATION OF THE MAIN OPERATORS

In the table below an outline is given of the characteristics of Grupo CTT and the main alternative service providers operating both non-express mail services and express mail services.

In each of these two areas, wherever possible, available statistical information is given, following the traditional definition of postal activity in which the offer is divided up (e.g. by weight, content and transit time) according to the three types of main products: correspondence services, books, catalogues, newspapers and other periodicals and postal packages (see Table 1).

Table 1 Characteristics of the postal market offer by type of object

Correspondence services⁴³	Written communication on a physical support of any type, to be transported and delivered to the address indicated on the object itself or on its envelope. This category includes direct mail (<i>direct mail</i> , registered items and insured items).
Books, catalogues and editorial mail (newspapers and other periodicals)	Includes print media published on a regular basis and distributed by post and books
Postal parcels	Small volumes whose weight does not exceed 20 kg.

Source: ICP-ANACOM

At the end of the third quarter of 2010, there were 58 postal service providers operating in the liberalised area in Portugal (48 in the express mail area and 10 in the non-express mail area), and of these, about 2/3 were franchised entities. Grupo CTT's position in the market stands out in terms of revenues generated.

Classifying the 12 largest companies, in descending order, in terms of their market share in relation to total revenues of the postal sector, CTT (parent company) ranks first, followed by CTT Expresso. The following six places are occupied by the franchisees of express mail multinationals.

With the exception of CTT (parent company) and Seur - which also offers express mail - there are no other express mail company among the 12 largest undertakings in terms of total revenue share. Iberomail, which only provides non-express mail postal services, is

⁴³ There are also non-addressed correspondence services, which legislation does not include in postal services.

only the 15th largest company in the general classification in terms of market share measured in total revenue volume.

The largest courier company, in terms of market share measured in total revenue volume, is CTT Expresso, followed by United Parcel Service, DHL and Chronopost Portugal.

In terms of access points, CTT has the largest number, followed (with a substantially lower number) by CTT Expresso. MRW (although it is found in last place among the 12 listed undertakings, in terms of market share measured in total revenue volume), ranks third with several dozen access points, explained by the brand's large number of franchisees.

From the data above, there appears to be no relationship between the number of access points to the postal network of the entities in question and their activity throughout the national territory, since for example, TNT and Rangel, with national coverage, have a comparatively small number of access points. Additionally, United Parcel Service is the second largest express mail company in terms of revenues, but only has two access points (only operating in mainland Portugal).

Meanwhile, there are 13 licensed non-express mail providers in Portugal, with ten of them licensed to operate in the segment of books, catalogues, newspapers and other periodicals. In the first half of 2010, 10 of the licensed providers not included in the express mail category, report revenues to the regulator⁴⁴ (see Table 2)⁴⁵.

CTT and the company Lordtrans (Seur Group) are the only providers that offer the full range of parcel services and correspondence and editorial mail (national, outgoing international and incoming international), with regard to postal services not included by the express mail category.

⁴⁴ In the first half of 2010, CTT Expresso, Post 21 and Door-To-Door did not declare their revenues.

⁴⁵ The first authorisation was granted to CTT Expresso in 2001, which appears not to have provided this service. Between 2002 and 2007, two licenses were awarded each year and one license per year from 2008.

Table 2 Postal traffic flows reported by the different non-express mail postal operators

	CORRESPONDENCE AND EDITORIAL MAIL			PARCELS		
	National	International outgoing	International incoming	National	International outgoing	International incoming
CTT	✓	✓	✓	✓	✓	✓
POSTCONTACTO	✓	⊗	⊗	⊗	⊗	⊗
CELERIS	✓	⊗	⊗	⊗	⊗	⊗
LORDTRANS (SEUR)	✓	✓	✓	✓	✓	✓
NOTÍCIAS DIRECT	✓	⊗	⊗	⊗	⊗	⊗
S.D.I.M.	✓	⊗	⊗	⊗	⊗	⊗
URBANOS (ex-TEX)	⊗	⊗	⊗	✓	✓	⊗
VASP PREMIUM	✓	✓	⊗	⊗	⊗	⊗
IBEROMAIL	⊗	✓	⊗	⊗	⊗	⊗
MEEST	⊗	✓	⊗	⊗	✓	⊗
TOTAL NO. OF OPERATORS	7	5	2	3	4	2

Source: ICP-ANACOM

Among the 58 providers of postal services operating in the liberalised area (where it was possible to collect information and with the exception of GIGANTEXPRESS), 45 were active in all market segments (B2B, B2C, C2C and C2B), while only 12 were active in some of the market segments.

Of the 58 postal service providers acting in the liberalised area, at the end of 2009, only 11 were active throughout the national territory. Of these 11 providers, only one was not active in all market segments and covered B2B and B2C only.

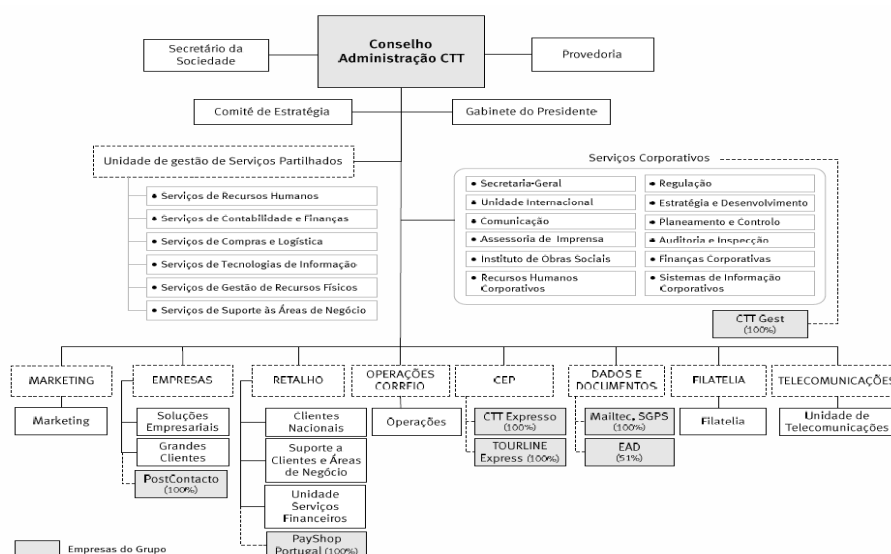
Although there are some exceptions, the postal service providers which operate in the liberalised area and which do not operate throughout the national territory, tend to operate mostly in the urban areas of Lisbon and Porto and their suburbs, although there are exceptions.

Due to its importance, encompassing the UPS and also with significant operations in the liberalised area, Grupo CTT's position should be examined with particular detail. Grupo CTT is present in a range of market segments operating in the postal distribution of mail, the express mail service, logistics, document production and management, in the publicity market, in financial products and in the area of electronic services. In addition, it has the largest distribution and sales network in terms of coverage of the Portuguese population.

CTT's business units are represented in Figure 23, especially, given their relevance, the number of post offices, CEP (encompassing courier, express parcels), financial services, data and documents and telecommunications.

In 2009, Grupo CTT had sales, in terms of operating income, exceeding 820.3 million euros, with 20.6 million related to financial services and 10.1 million euros related to philatelic activities. The net results for the same period were reported at 50.6 million euros (CTT, 2010b). In this year, the incumbent operator handled 1.167 billion addressed items and 574 million unaddressed items (CTT, 2010b).

Figure 23 Organigram of Grupo CTT









Source: CTT (2010b)

Furthermore in 2009, a reduction was reported in the volume of mail sent by large customers (which represent 46% of total correspondence revenues). Compared to 2008, the banking and insurance sector reduced the number of items sent by 7%, publishers by 9%, large retailers by 7%, distance selling by 3% and the State by 7%. A decrease was reported for 2008 in the total traffic associated with strategic clients amounting to 28 million items. Likewise, there was a transfer of traffic from registered mail to standard mail with a negative impact on revenues (CTT, 2010b).

Addressed traffic (including correspondence, direct mail and parcels) declined to 1.167 billion objects (5.5% less than in 2008). In particular, correspondence traffic fell by 4.9% compared to the previous year, stemming from the overall negative trend in various products: *correio normal* (non-priority mail) (-3.3%), *correio azul* (priority mail) (14.3%), registered mail (-6.2%), editorial mail (-6.9%), *correio verde* (pre-paid mail) (-8.8%), outgoing international mail (-6.5%) and incoming international mail (-14.2%) (CTT 2010b).



CTT also occupies a leading position in terms of the number of employees and vehicle fleets, as shown above. **Table 3** characterizes Grupo CTT in terms of its areas and entities (CTT, 2010b).

Table 3 Characterisation of Grupo CTT

Companies of Grupo CTT	Description	Grupo CTT stake	Operating Income (thousands of euros)	Postal traffic (thousands of objects, except*)	No. of staff ⁴⁶
			820 329	---	14 752
CTT, S.A. (parent company)			653 730	1 167	12 907
CTT Gest	Company of Grupo CTT, dedicated to providing services to other companies of Grupo CTT.	100%	7 644	---	103
	Company specialising in courier, urgent mail and transport services.	100%	96 894	13	737
	Company specialising in Archive Custody and Management, acting in areas of Scanning, Custody, Tape Rotation and Secure Documentation Recycling.	51%	5 436	---	93
	Company that enable the payment of various services and mobile phone charging, with a national network of over 3800 Agents.	100%	14 868	Transactions*-53	32
	Company focused on the provision of services related to the distribution of publicity mail.	100% ⁴⁷	13 430	574	33
	Company based in Spain specialising in the courier express mail transport service.	100%	54 813	Items sent*-9	428

⁴⁶ Includes permanent staff and staff on fixed-term contracts.

⁴⁷ Postcontacto is owned 95% by CTT Correios de Portugal and 5% by CTT Expresso.

Companies of Grupo CTT	Description	Grupo CTT stake	Operating Income (thousands of euros)	Postal traffic (thousands of objects, except*)	No. of staff ⁴⁶
Grupo Mailtec	The Mailtec group consists of four companies and specializes in the production of physical and hybrid mail and in the management of electronic documents.	100%	23 640	---	419
Mailtec, SGPS	Company specialising in the production of physical and hybrid mail and in the management of electronic documents.			---	---
 Mailtec	Company focusing on the provision of mail, particularly in the areas of printing and packing.	100%	19 603	---	---
 DSTS	Company focusing on the development of information systems and the provision of related services, in the context of Integrated Enterprise Content Management	100%	5 061	---	---
Equipreste - Sociedade Técnica de Serviços, Lda.	Company focused on the operational management of the <i>mailmanager service</i> and on processing the mail of CTT's business customers (<i>pre-sorting</i>).	100%	2 139	---	---

Source: ICP-ANACOM based on data from CTT (2010b), DSTS (2010) and Equipreste (2010) and MailTec (2010).

In the area of **mail**, in addition to the parent company, Grupo CTT, there is PostContacto which is basically an operator of non-addressed publicity, operating throughout the national territory. It operates with its own distribution network in coastal areas with higher population density and with more competition and where there is greater business growth, subcontracting services to the CTT network in interior regions of the country.

PostContacto has diversified its range of services, in terms of deliveries of publicity by hand at pre-selected locations, of semi-addressed mail⁴⁸, mailing list distribution and distribution of magazines at convenient times.

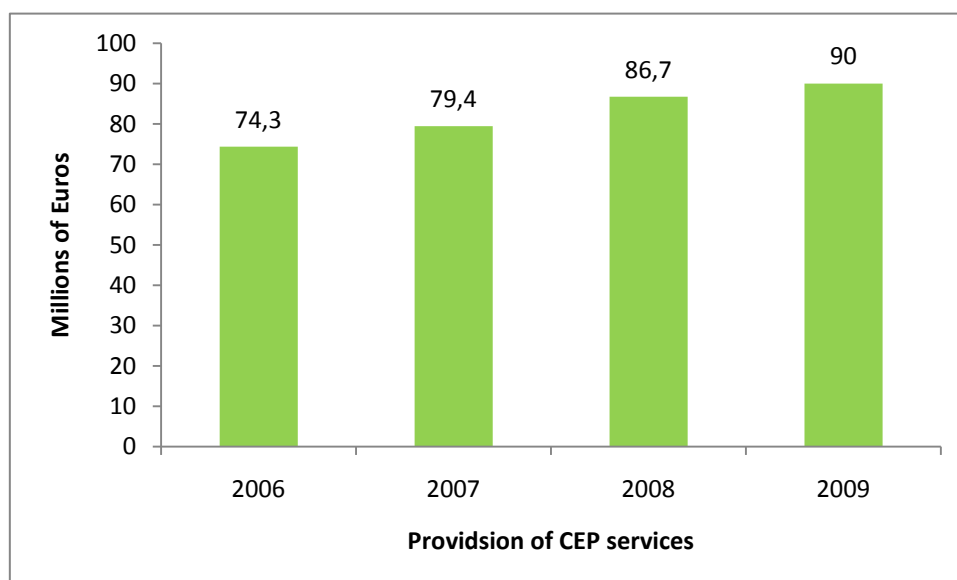
In 2009, PostContacto's turnover was reported at 13.4 million euros and its net profit totalled 2.2 million, with the distribution of 574 million objects (CTT, 2010b).

PostContacto's main customers include medium and large retailers and publishers (which in 2009 made up 70% and 12% of its turnover respectively) (CTT, 2010b).

In the area of **CEP**, the trend in the volume of revenues derived from the provision of CEP services by Grupo CTT's companies is shown in

Figure 24, with the incumbent operator making up a very large part of the Group's revenues. CTT's operations in the CEP market segment is equally important and with strong growth, especially through the operations of CTT Expresso⁴⁹, where the company achieved a market share of 24.2% in 2009 (CTT, 2010b).

Figure 24 Trend in the provision of CEP services by CTT Expresso



Source: CTT Expresso.

⁴⁸ Mail addressed to a group of addresses (e.g. post code, parish).

⁴⁹ This company, although acting only in the express segment, is also licensed to provide services not covered by the express category.

In the same year, CTT Expresso reported a turnover in the CEP market amounting to 90 million euros (or about 93% of CTT Expresso's total turnover), with growth of 3.8% compared to 2008. Net results amounted to 9 million euros (22% more than in 2008) (CTT, 2010b).

Tourline Express operates in the area of express mail and urgent parcels throughout the territory of Spain. In 2009 the company generated operating income of 54.8 million euros, declining 8.3% compared to 2008, following a 10% drop in traffic. Net profits totalled 498 thousand euros. (CTT, 2010b).

The **financial services** provided by the parent company generated turnover of 42 million euros in 2009 (-3.5% compared to the previous year), resulting from 54 million transactions and transacted turnover of 20.6 million euros. Compared to the previous year, the main variations were reported in terms of the transacted values and revenues, which declined by 14.4% and 3.5%, respectively, whereas the number of operations fell only slightly (-0.8%) (CTT, 2010b).

PayShop⁵⁰ helped consolidate Grupo CTT's position in the market of payment services, mobile phone payments (national and international), electronic public transport ticketing, virtual prepaid smart cards and integrated Internet payment solutions. In 2009 PayShop grew its portfolio of services and expanded its network of agents.

The bill collection service, in conjunction with transport ticketing, is the main focus of the company's growth. In 2009, Internet payment services began to contribute significantly to total revenues, usurping the position previously occupied by mobile phone payments.

At the end of 2009, PayShop had 3,831 agents (233 more than in 2008), and processed 53.2 million payment transactions (6% more than in 2008). This year, the company generated operating revenues of 14.9 million euros (6.6% more than in 2008) (CTT, 2010b).

The **data and documents** area is covered by Mailtec and EAD. Mailtec - Holding, SGPS, S.A. is a holding company comprising holdings of the companies: Mailtec TI, DSTS de Equipreste. Mailtec TI operates in the area of printing and envelope insertion, and in 2009 it had a turnover of 19 603 thousand euros and net profit of 715 thousand euros (27.9% more than in the previous year) (CTT, 2010b).

DSTS is seen as a reference supplier of information technology for integrated enterprise content management. Together with Mailtec TI, it operates in the area of document production solutions in the business areas of electronic content management and e-

⁵⁰ Payshop expanded outside Portugal in 2005 with the creation of PayShop Moçambique (Mozambique). In 2009, Grupo CTT decided to set up a trading company under Angolan law called PayShop Angola operating in the area of payments.

businesses, with customers of Grupo CTT and external customers. The company reported revenues of 5.061 million euros (2.3% less than in 2008). A net result was reported of 458 thousand euros, representing an increase of 48.7% over the previous year (CTT, 2010b).

Equipreste provides services to CTT (parent company), for the operational management of the *mailmanager* service⁵¹ and with the processing of the mail of CTT's business customers, referred to below as pre-sorting. In 2009, the company reported operating income of 2.139 million euros. Net profit was reported at 203 thousand euros. (CTT, 2010b).

EAD is a Grupo CTT company which provides integrated document management solutions, based on complementary archiving services. The EAD's fundamental business is the custody and management of intermediate archives of documentation in its original form and on its own premises equipped with appropriate technology, controlling the destruction of the documents when they reach the end of their useful life.

It has expanded its activity into the autonomous regions, with the opening of branches: in the Azores in January 2008 and Madeira in February 2009. In 2009, the company generated revenues of 5.4 million euros (13.1% more than in 2008). Net results were reported as 636 thousand euros (38.9% more than in 2008) (CTT, 2010b).

In the area of **telecommunications**, *Phone-ix*, launched by Grupo CTT in 2007, is a virtual mobile operator, which uses the TMN network. Phone-ix reported improvements in its key operating indicators in 2009 - average minutes per customer per month (MOU), average number of account credits per customer and average revenue per user (ARPU) - with increases reported between 29% and 48% over the previous year.

In preparation for postal liberalisation, Grupo CTT outlined a strategy based on three fundamental pillars, namely, efficiency (in terms of cost reduction and technology); diversification and expansion; and growth in financial value generated for the client (CTT, 2010b).

In terms of efficiency, with respect to cost reduction:

- a) Overall reduction in cost base, including staffing;
- b) Outsourcing of activities to give cost flexibility, turning fixed costs into variable costs;

⁵¹ The *mailmanager* service, centred on document scanning, enables customised solutions, adding a range of services including, scanning, cataloguing, information capture, processing of all mail and documents received by customers. The content and respective scanned documents are available in digital format, with the possibility of being directly integrated into the customer's information system, especially in document management systems.

In addition to the *mailmanager* solution and using the capabilities of Grupo CTT, it is possible to provide physical or digital archive solutions, and certified document destruction.

- c) Optimisation of distribution and processing networks, including a specific solution for large customers;
- d) New mail- processing centre in the north of Portugal;
- e) Leveraging operational and commercial synergies;
- f) Strategic shared services business unit.

In terms of technological efficiency:

- a) Expansion of the programme to mechanize mail processing operations, facilitating distribution and sequencing, following the evolution of the postal code;
- b) New "Track & Trace" (T&T) corporate solution⁵²;
- c) Use of Radio Frequency Identification (RFID) solutions⁵³ in monitoring the QoS and in certain domestic flows;
- d) Installation of a postal platform of geographic information systems to optimize operations and offer geo-marketing solutions;
- e) Use of "smart" technologies and green facilitators to enhance energy efficiency and reduce carbon emissions.

In terms of diversification and expansion:

- a) Development of new services, new business units and acquisitions;
- b) The success of the strategy involves hard work and prudence, given the capabilities and resources to be allocated;
- c) Business areas: CEP and logistics (B2B and B2C), publicity mail, hybrid mail⁵⁴ / preparation of mail and printing, electronic communications, electronic postmark, document management, mailroom services, financial services, electronic payments, geo-marketing solutions, etc;
- d) International investments in the relevant selected markets - of influence and interest.

In terms of customer "value for money":

- a) Offer of solutions for large clients and specific sectors;
- b) Segmentation of sales forces;

⁵² This is a system that uses bar code technology to determine the transit and delivery status of an article, usually in real or near-real time.

⁵³ This is a technology that uses devices which are attached to objects and which transmit data to a RFID receiver, an alternative to barcodes. Its advantages include its data storage capacity and its reading/writing potential.

⁵⁴ Hybrid mail (*hybrid mail*) - The customer sends a letter by e-mail to a postal operator who prints it, inserts it into an envelope and distributes it, both nationally and internationally. *Reverse hybrid mail*: service in which a physical shipment is scanned and its contents transmitted electronically to its final destination or to an intermediate destination where it is reprinted and reinserted into the mail stream.

- c) Managers of strategic customers, large accounts, small and medium enterprise (SME) and small or small office/home office micro-enterprises (SOHO), specialist customer service operatives;
- d) Permanent information to customers: T&T, mobile alerts, message delivery, proof of delivery;
- e) Written agreements with customers providing stable relationships;
- f) Adaptation of quality standards to their needs and improving the quality of their mail.

Accordingly, in 2009, Grupo CTT's investments were focused on the modernization of its operating facilities, including post offices and postal distribution centres, automation of processing, and the development of information systems to support businesses and operational management processes. In August 2009, construction of the new processing centre for Northern Portugal was started, and the centre opened in December 2010. Total investment was reported at 24.2 million euros, an increase of 3.9% over investment reported in 2008. This investment mainly took place in the parent company (90.3%) (CTT, 2010b).

5.1 NON-EXPRESS MAIL

In the area of non-express mail, CTT also acts through Postcontacto-Correio Publicitário, Lda, whose main objective is to manage the unaddressed mail business. This company is a market leader, providing distribution throughout Portugal with a portfolio of clients across different sectors of the economy⁵⁵.

In the area of non-express mail, CTT faces competition from providers of services such as Vasp Premium, SDIM, Notícias Direct, Urbanos Express, Iberomail, Lordtrans, Meest and Celeris.

Vasp Premium is a Grupo Vasp company⁵⁶ specialising in the distribution of postal publications on a national and international basis. Vasp is owned equally by Cofina, Controlinveste and Impresa, and currently distributes the publications of these groups and hundreds of other titles⁵⁷.

⁵⁵ It has a focus on innovation through the use of new technological tools which enable the company to control quality through vehicle and distributor geographic location systems, to employ geo-referencing systems in the preparation of campaigns and reporting and to computerize the overall operating model.

⁵⁶ Vasp was founded in 1974 and acts in the distribution of publications (newspapers and magazines) and other culture and leisure products (books, CDs and DVDs). The weekly Expresso and Tempo were the first products to be placed on national stands.

⁵⁷ See <http://www.vasp.pt/DesktopDefault.aspx?tabid=242>.

SDIM, Distribuidora da Madeira, is headquartered in Madeira and is owned by VASP (with a share of 40%) and by Diário de Notícias do Funchal, the largest regional daily newspaper in Madeira. It closed 2009 with a turnover of 3.8 million euros.

Notícias Direct is a company with two areas of activity, logistics operator and postal operator. As a logistics operator its business activities include processing and stock management, with good storage and distribution capacity. As a postal operator it undertakes acceptance, shipment, distribution and home delivery of periodical and non-periodical publicity items in full competition with CTT⁵⁸. It is 100% owned by Controlinvest, closing 2009 with a turnover of 2.8 million euros.

Urbanos Express is a company belonging to Grupo Urbanos which began operations in 1990 as an urban transport company, focusing on transportation systems. It has expanded operations into various sectors, and the Group's latest acquisition was TEX- Transporte de Encomendas Expresso, S.A. Today it covers business areas such as dedicated logistics, technology logistics, specialist logistics, logistics for works of art, and private and corporate moving, international relocation, document management and custody and express distribution⁵⁹.

Iberomail is a company specialising in mail distribution, at a national and international level, books, catalogues, newspapers and other periodicals. It works in the areas of distribution (mail, parcels and express mail), storage (stock management, order preparation, packing and shipping⁶⁰).

The non-express mail area is also served by Meest, Lordtrans⁶¹ (Grupo Seur) and Celeris.

For services not covered by the category of express mail⁶², Grupo CTT's share is very high, followed (with a substantially lower share) by Seur and Urbanos.

5.1.1 CORRESPONDENCE (NON-EXPRESS MAIL)

In the liberalised area, CTT has a highly dominant position in non-express mail correspondence, with a market share reported at the end of 2010, in traffic volumes, exceeding 94% in national correspondence and editorial mail.

⁵⁸ See <http://www.controlinveste.pt/Pt/OutrasAreas/Distribuicao.aspx?item=Not%EDcias%20Direct>

⁵⁹ See <http://www.urbanos.com/group/grupo-urbanos>.

⁶⁰ See <http://www.iberomail.com>.

⁶¹ See <http://www.seur.com/noticias.do>.

⁶² Correspondence and editorial mail and postal parcels.

This position is even stronger when it comes to international incoming editorial correspondence and mail (not covered by express mail). In this market segment, only Lordtrans (Group Seur) competes with CTT.

In terms of correspondence and outgoing international mail (non-express mail), as at the end of 2010, CTT's market share in terms of traffic volume was very high and the company already faces some competition, especially from Iberomail.

The evolution of correspondence market shares in volume shows, from 2006, a slight and gradual decrease in CTT's share.

There is no data on the correspondence market shares of the postal service providers (non-express mail) in terms of total revenue.

5.1.2 PARCELS (NON-EXPRESS MAIL)

In the non-express parcels market, trends in market share reported since 2003 and measured in traffic volume show CTT's weight in this market.

The entry of CTT's first competitor, Meester, into the market in 2005, resulted in a loss of only a small part of CTT's market share in volume of parcel traffic. In 2006, Urbanos became the second company to enter the market, but CTT saw only a moderate decline in market share in terms of traffic volume.

With the entry of Seur in 2007 as the third alternative provider, the decline in CTT's market share in traffic volume increased noticeably, with Urbanos also growing significantly over the previous year.

For the first time in 2008, the first alternative operator to enter the market saw a slight decrease in its market share of parcel traffic volume, while Urbanos and Seur grew very significantly in terms of market share measured in traffic volume (in contrast to CTT).

In 2009, Urbanos and Seur increased their market share in terms of parcel volume very significantly, while CTT reported a very steep decline.

Figures for the first half of 2010 indicate that all service providers experienced a loss of traffic volume.

As a result, at the end of 2010, Seur was the largest company in the non-express mail parcels segment, followed by Urbanos, CTT, and with a significantly lower share, Meest.

There is no data on market shares, measured in revenue volumes, for postal service providers with respect to parcels (non-express mail).

5.2 EXPRESS MAIL

In the express mail area, CTT mainly operates through CTT Expresso. The alternative service providers are generally small in size and are often franchisees of major international operators. In particular, MRW appears as the company with most active franchisees⁶³ in Portugal.

The first four authorisations to provide express mail services in the liberalised area were awarded in 2001, followed by two authorisations granted in 2002 and only one granted in 2003. In 2005, 20 authorisations were granted, followed by eight authorisations in 2006 and 13 in 2007. Between 2008 and the end of the first half of 2010 a total of 16 authorisations were granted.

Meanwhile, in 2001, there were five undertakings actually providing express mail services in Portugal (Postlog⁶⁴, Postexpresso⁶⁵, Chronopost Portugal, DHL and TNT Expresso). In 2002, the number of undertakings providing express mail services rose to six when Federal Express (FedEx) set up in Portugal through a partnership with Rangel Express. In 2003, four companies entered the market (GL Transportes, Guipuzcoana Coimbra, Guipuzcoana Porto and United Parcel Service), making a total of ten companies operating express mail services, a number that saw no change in 2004. In 2005, four new operators entered the express mail market: Nacex, MRW, Enviália and Seur, making this the year with the largest number of undertakings operating in the express mail segment (13 in total).

In 2006, there was a concentration of the companies operating in this segment of the postal market with DHL acquiring three companies (GL Transportes, Guipuzcoana Coimbra and Guipuzcoana Porto) - which had been in this market since 2003), with 11 undertakings now operating express mail. In 2008, of a new operator, Adicional, entered the market, although no new entries have been reported since.

At the end of 2010, there were 49 companies reporting revenues in the category of express mail, which grouped by franchise comprise 16 undertakings.

The largest service provider in terms of revenues is CTT Expresso, followed by six companies franchised by large multinational operators. Of these, United Parcel Service is the largest in terms of revenue share.

⁶³ MRW has a total of 30 franchisees (22 reporting revenues in the first half of 2010), Nacex has 22 franchisees (nine reporting revenues in the first half of 2010), Enviália has three franchisees (two reporting revenues in the first half of 2010) and Seur has two franchisees, both reporting revenues in the first half of 2010.

⁶⁴ In 2004, the company changed its name to CTT Expresso.

⁶⁵ This company became part of Postlog in 2004 which became CTT Expresso.

United Parcel Service⁶⁶ began operating in Portugal in 1993 and operates every weekday with its own Boeing 757 aircraft - between Porto and its European Air Hub in Cologne, Germany.

In 2005, the company opened a new operations centre in Porto's Sá Carneiro Airport with an area of about 2.5 million square metres and capacity for 3,000 packages and documents per hour, doubling the capacity of the old operations centre. Investment totalled 2 million euros.

In 2008, United Parcel Service foresaw (KPMG, 2008) continued strong growth in Portugal, both in the urgent segment (Next Day) and in the non-urgent segment between 2008 and 2012, with B2B making up the overwhelming majority of its customers. United Parcel Service considered that the impact of enhanced communications was a driver of electronic-commerce, increasing deliveries. One of the goals of the company in 2008 was to increase its visibility by accomplishing differentiation in quality, in terms of the reliability of its service.

The presence of an operator along the entire value chain was identified by United Parcel Service as being an important factor in terms of the price/quality ratio (with discounts according to the quantity of volumes transported) and reliability - the result of great tradition and know-how in this business. The company also emphasised the role of innovation in the use of information systems as a strong argument in the negotiation process with customers.

The third largest company in the express mail segment, in terms of generated revenues, is DHL, which has been present in Portugal since 1982 in the international express transport of parcels and documents in the C2X and B2X segments.

DHL aims to provide unique and integrated solutions with a focus on selected industry sectors, as a single supplier providing transportation, strategic storage and advice on customs procedures. DHL operates with several specialist divisions: DHL Express (urgent shipment of packages), DHL Freight (freight), DHL Global Forwarding services (freight and logistics services) and DHL Exel Supply Chain (acquisition logistics, storage and sales).

In 2008, DHL⁶⁷ expected a reasonable increase in turnover between 2008 and 2012 in the Portuguese market (KPMG, 2008). International express mail was referred to as the postal service that gave the best return, with an expected increase expected in this business,

⁶⁶ United Parcel Service was founded in the United States of America in 1907 to meet demand for private messaging and delivery services, and today the company is a global operator in all areas of the postal market, particularly in the parcels segment, positioned as a specialist in the global management of the flow of goods, funds, and information. United Parcel Service plans to increase its EU capacity with the development of a franchise network that began with the acquisition of *Mail Boxes Etc*, which is now called *UPS Store*.

⁶⁷ DHL Worldwide Express was founded in 1968 in the USA. DHL's capital was acquired in full by the German company - Deutsche Post World Net (DPWN). In recent years, Deutsche Post has embarked on a process of acquisitions to make the connection between the transport, post and logistics sectors.

corresponding in most part to services provided to the B2B segment. However, the B2C segment also began to have some expression.

DHL considered on the one hand, that the impact of the replacement of postal services by electronic communications would not be felt in terms of sales, with regard to parcels, and on the other hand, it saw electronic communications as a value driver for the company because electronically purchased products/services would require physical distribution.

Although it is not able to offer the full range of services, due to the existence of reserved areas, DHL affirms that it has capability to provide them.

DHL also reported that the main factor in being considered a reference service provider of express mail was to be a reliable company (especially in the provision of special delivery services) - in addition to being the only company that provided services in Africa⁶⁸. The company considered that the good relationship between quality, price and guarantee of service were key factors when negotiating with their customers.

The full liberalisation of the sector is viewed positively by DHL in all aspects, enabling greater competition in the sector, with more choice and better quality of service. In a market which is fully liberalised, DHL does not support the practice of geographically differentiated prices, but does support prices differentiated according to delivery time.

The fourth largest company in terms of revenue market share is Chronopost Portugal⁶⁹. This company, which has been present in Portugal since 1997, positions itself as an operator specialising in the urgent national and international transport of documents and small packages, mainly in the B2X segment.

Chronopost provides coverage nationally (through Chronopost Portugal) and internationally, covering around 220 countries. The overwhelming majority of shipments sent are B2B. Chronopost Portugal (KPMG, 2008) reported an increase in its turnover, despite a reduction in prices, and between 2008 and 2012, the company expected to obtain a reasonable increase in its turnover. In addition, it also expects stronger demand for its higher added-value services. Technological innovation was also a factor that the company considered essential to achieve expected growth.

⁶⁸ Portuguese-speaking countries represent about 8% of national exports.

⁶⁹ Chronopost International was founded in 1985 in France and became the international brand of the French post office (La Poste) in 1999. La Poste Group has a strategic alliance with FedEx in the parcel segment, and a set of alliances with several operators in other countries, including Spain, Sweden, Greece and Morocco.

Rangel Expresso operates incoming and outgoing international express transport services in the C2X and B2X segments. This company provides integrated services in partnership with FedEx⁷⁰ / Rangel and its own services⁷¹ independent of the partnership.

Rangel Expresso applies a local strategy while sharing global resources, with the goal of being among the market leaders in air and sea freight at a national level, offering an integrated and global logistics services (see Table 4). The franchise brand has a substantial weight in the group, in terms of total sales of all staff attached to the group.

Table 4 Characterisation of Grupo Rangel (data as of 31.12.2009)

	TURNOVER (THOUSAND OF EUROS)	SHAREHOLDER COMPOSITION	EMPLOYEES (Permanent and Fixed-term)*
RANGEL (GROUP)	26 179,5		212
Rangel Expresso, S.A.	15 459,7	Espera Investments BV - 100%	129
Rangel Expresso II, S.A.	10 719,8	Rangel Invest - 100%	83

Source: ICP-ANACOM, based on data from company's reports and accounts.

Rangel Express reported that the main customers of Rangel Express/FedEx belonged to specific segments of the industry sector and public sector (KPMG, 2008).

Seur⁷² has two franchised companies in Portugal, acting in the business segment (see Table 5), although only one of these (Lisespo) is a provider of express mail.

⁷⁰ FedEx was founded in 1973 in the USA. It is one of the world's largest air express shipping companies, providing a wide range of service in terms of transport and e-commerce, enabling urgent deliveries (24-48 hours) worldwide. FedEx International has four main divisions: FedEx Express (Express Transport), FedEx Ground (Delivery of small packages), FedEx Freight (Freight Services) and FedEx Kinko's (Document Solutions). FedEx advocates the concept "People First", integrating its staff in decision-making processes with the following philosophy: People-Service-Profit. The structure of FedEx global distribution is supported by a fleet of 669 aircraft, 43 thousand vehicles and 143 000 employees, which means it can provide urgent international shipments to more than 220 countries and deliver more than 3.3 million packages per day.

⁷¹ Through Rangel Expresso II (which obtained authorisation to provide express mail in 2009).

⁷² Seur emerged in 1942 as the first Spanish company to transport goods door-to-door with the intention of connecting the cities of Madrid and Barcelona. The company is currently an express transport and integrated logistics operator with a team of more than 8000 professionals, a fleet of more than 4000 vehicles, national coverage through its 85 branches, 10 interconnection points, 97 distribution points and 300 sales outlets, more than 45 million shipments and full operational international capability through Geopost networks. In 2008 it reported turnover of more than 625 million euros.

Table 5 Characterisation of the Seur franchise brand (data as of 31.12.2009)

	TURNOVER (THOUSAND OF EUROS)	SHAREHOLDER COMPOSITION	EMPLOYEES (Permanent and Fixed-term)*
SEUR (FRANCHISE BRAND)	21 132,6		134
Lisespo	12 529,2	1) Cansevi, SL - 24,5% 2) Laul Soc. de responsabilidade, Lda. 24,5% 3) Esther Internacional, SL - 24,5% 4) Bramo Inversiones, S.L. - 24,5% 5)	82
Lordtrans	8 603,4	Capital 100% nacional	52

Source: ICP-ANACOM, based on data from company's reports and accounts.

TNT Express⁷³ arrived in Portugal in 1994 and its main customers come from specific segments of the industrial segment. Its core activities are focused on the national and international transportation of goods, operating in the B2B and C2B segments, and logistics operations. The Portuguese subsidiary is integral to the Group's global strategy and shares the initiatives and resources of TNT's international network.

Adicional is a company focusing on logistics, transportation and distribution of parcels specialising in the residential sector. The company has 15 years of activity involved with B2C deliveries, positioning itself as a reference in the sector and providing services to Portugal's largest distance selling companies, delivering purchases made by telemarketing, catalogue or online to the home of the final customer. It complements its offerings with logistics for events and marketing activities.

Nacex⁷⁴ has nine franchises in Portugal, specialising in urgent B2B transport. The characteristics of Nacex in terms of its franchisees and their sales volumes, capital and number of employees (see **Table 6**) shows that Logista is the largest franchiser brand, both in terms of turnover and in terms of employees. The remaining franchisees have an average of six people connected to their activity, generating an average turnover of around 311 700 euros in 2009.

⁷³ TNT Express (a company of Australian origin) belongs to the TPG Group, which consists of TNT Group (acquired in 1996) and Royal TPG Post (former PTT - Post Office of the Netherlands). TPG Group is a holding company of the Dutch post office. The TNT Group is organized into three business units: TNT Post, TNT Express and TNT Logistics. TNT's strategy is based on the goal of becoming Europe's best postal operator in the specialist automotive, pharmaceutical and electronics logistics segment); and an express transportation company that is a reference in European and Asian markets. It has about 45,000 employees working across more than 200 countries.

⁷⁴ Nacex was founded in 1995 and since 2002, the company has been Nacex is part of the Grupo Logista. The company currently has over 310 franchisees and 29 centres throughout Spain, Andorra and Portugal with a fleet of 1,262 vehicles. The company closed last fiscal year, while undertaking a total of 14,335,035 shipments between October 2008 and September 2009. Turnover reported that year was 226 million euros.

Table 6 Characterisation of the Nacex franchise (figures referring to 31.12.2009)

	TURNOVER (THOUSAND OF EUROS)	SHAREHOLDER COMPOSITION	EMPLOYEES (Permanent and Fixed-term)*
NACEX (FRANCHISE BRAND)	12 942,5		153
Logista - Transportes Transitários e Pharma, Unipessoal, Lda.	10 448,8	Compañía de Distribución Integral Logista, S.A. - 100%	106
Overspeed - Transporte de Correio Expresso, Lda.	1 064,8	Capital 100% nacional	11
Urbexpress - Transportes Expresso, Lda.	322,6	Capital 100% nacional	6
Transalcainça - Transportes, Lda.	304,6	Capital 100% nacional	3
António Moreira, Unipessoal, Lda.	250,0	Capital 100% nacional	7
Vianicle Unipessoal, Lda.	199,5	Capital 100% nacional	5
Vasta Seleção - Comércio e Serviços, Lda.	153,5	Capital 100% nacional	4
Iberpeímetro, Lda.	119,5	Capital 100% nacional	8
Obik Express - Serviço de Transportes, Unipessoal, Lda.	79,2	Capital 100% nacional	3
Abastfrota	n.d.	Capital 100% nacional	n.d.
Palmilhar Trilhos - Transportes, Unipessoal, Lda.	n.d.	Capital 100% nacional	n.d.

Source: ICP-ANACOM, based on data from company's reports and accounts.

Ibercourier is the master franchiser of MRW⁷⁵ in Portugal and is responsible for overall management of the franchise network; it was ranked tenth in the express mail segment in terms of share of revenues.

The overwhelming majority of the company's turnover comes from B2B shipments. In 2008, the company foresaw that growth would continue in the period up to 2012 due to increased use of express mail services (KPMG, 2008).

MRW is the brand with the most franchisees in Portugal (see Table 7). Of the 22 franchised companies, Ibercourier stands out in terms of turnover and number of employees. The remaining franchisees have an average of seven people connected to their activity, generating an average turnover of around 227,300 euros in 2009. MRW, considered the fact

⁷⁵ MRW was founded in Barcelona in 1977 under the name Mensageiros Rádio. It currently has 1,300 franchise stores in Andorra, Gibraltar, Spain, Portugal and Venezuela. The company has more than 60 operating centres and a fleet of more than 4,700 vehicles and 4 aircraft. Around 13 thousand people are associated with this brand, and in 2009 it had sales totalling 585.9 million euros.

that their franchisees, some with a very low turnover, pay to ICP-ANACOM, the same rates⁷⁶ as companies with a high turnover, to be an obstacle to the national postal sector's development.

Ibercourier does not consider email to be a threat, since it considers that email does not compete with express mail and that full liberalisation of the postal sector would enable the range of available services to be extended. The company also considered that it was appropriate to differentiate prices geographically in a fully liberalised market, for reasons associated with the streamlining of processes which are internal to the companies within the sector and also of the customer relationship (KPMG, 2008).

According to Ibercourier, the market demands pricing which is not differentiated by geographical areas with the positioning of various companies competing in a liberalised market based on QoS and its relationship with pricing (KPMG, 2008).

⁷⁶ In accordance with Annex IX of Administrative Rule No. 1473-A/2008 of 17 December, the annual fee payable by authorised undertakings is calculated based on the amount of annual revenue related to postal Activities reported in respect of the year preceding the year in which the fees are settled, according to the Indicated levels: Scale 0 (up to 100 thousand euros) - applicable fee = 0 euros) and Scale 1 (more than 100 000 euros) - applicable fee = 2.5 thousand euros). See [Administrative Rule no. 1473-B/2008, of 17 December](#).

Table 7 Characterisation of the MRW franchise (data as of 31.12.2009)

	TURNOVER (THOUSAND OF EUROS)	SHAREHOLDER COMPOSITION	EMPLOYEES (Permanent and Fixed-term)*
MRW (FRANCHISE BRAND)	9 159,6		151
Ibercourier	5 294,8	FITMAN, S.A. - 100%	38
Globe Logistics	517,5	Capital 100% nacional	4
P.P. Expresso	465,7	Capital 100% nacional	7
Transworld Express	448,1	Capital 100% nacional	18
Ranexpress	332,4	Capital 100% nacional	9
António Carlos Santos	320,6	Capital 100% nacional	8
Levado à Letra	288,5	Capital 100% nacional	6
Portomail	242,6	Capital 100% nacional	4
Expresso Dão	225,0	Capital 100% nacional	7
Jáestá	198,7	Capital 100% nacional	7
Consigo pelo mundo	147,6	Capital 100% nacional	3
Princeps	133,7	Capital 100% nacional	8
Startjob	131,9	Capital 100% nacional	1
José Manuel Araújo Silva	93,2	Capital 100% nacional	2
Francisco e Silvana	91,6	Capital 100% nacional	4
Fozport	88,0	Capital 100% nacional	4
Ritmo Veloz	83,4	Capital 100% nacional	1
HMJ	78,3	Capital 100% nacional	4
Transportes António Garcia & César	n.d.	Capital 100% nacional	16
E.R.	n.d.	Capital 100% nacional	n.d.
Felcourier	n.d.	Capital 100% nacional	n.d.
Foxil	n.d.	Capital 100% nacional	n.d.

Source: ICP-ANACOM, based on data from company's reports and accounts.

The following is an assessment of the market shares of operators in the express mail segment of the liberalised area (encompassing express correspondence, express editorial mail and express postal parcels).

The market shares of CTT, Chronopost and Adicional stand out, and, taken together, they represent more than four fifths of this segment's total traffic.

In the international outgoing express mail segment, the main operators are United Parcel Service, DHL and CTT, which together account for almost 2/3 of the volume of this traffic.

In the international incoming market segment, the largest operators by volume of traffic are United Parcel Service, followed by Seur, Chronopost Portugal, Rangel and CTT.

The evolution in market shares of national and international express mail (incoming and outgoing), as measured in traffic volume, shows a decline of about 12 percentage points between 2007 and late 2010 in CTT's market share of national express mail, at the same time as the market share of Chronopost Portugal saw growth.

Meanwhile, the market shares of the different service providers in the outgoing international express mail segment remained relatively stable between 2004 and the end of 2010. With regard to the incoming international express mail segment, United Parcel Service has the largest market.

At the end of 2010, alternative providers had a combined market share in revenues of about 3/4 of the express mail segment. CTT was the express mail operator with the largest market share in terms of revenues, followed by United Parcel Service and DHL. The evolution reported in market shares between 2004 and the end of 2010 reveals some of the dynamics of this market that were first seen in 2001 with the entry of five express mail operators: Postexpresso⁷⁷, CTT Expresso, Chronopost, DHL and TNT.

CTT Expresso saw the most growth in its market share in terms of revenues between 2008 and 2010, as opposed to DHL. In 2010, around three-quarters of the companies saw their market share decline counter to CTT Expresso, Nacex and Adicional.

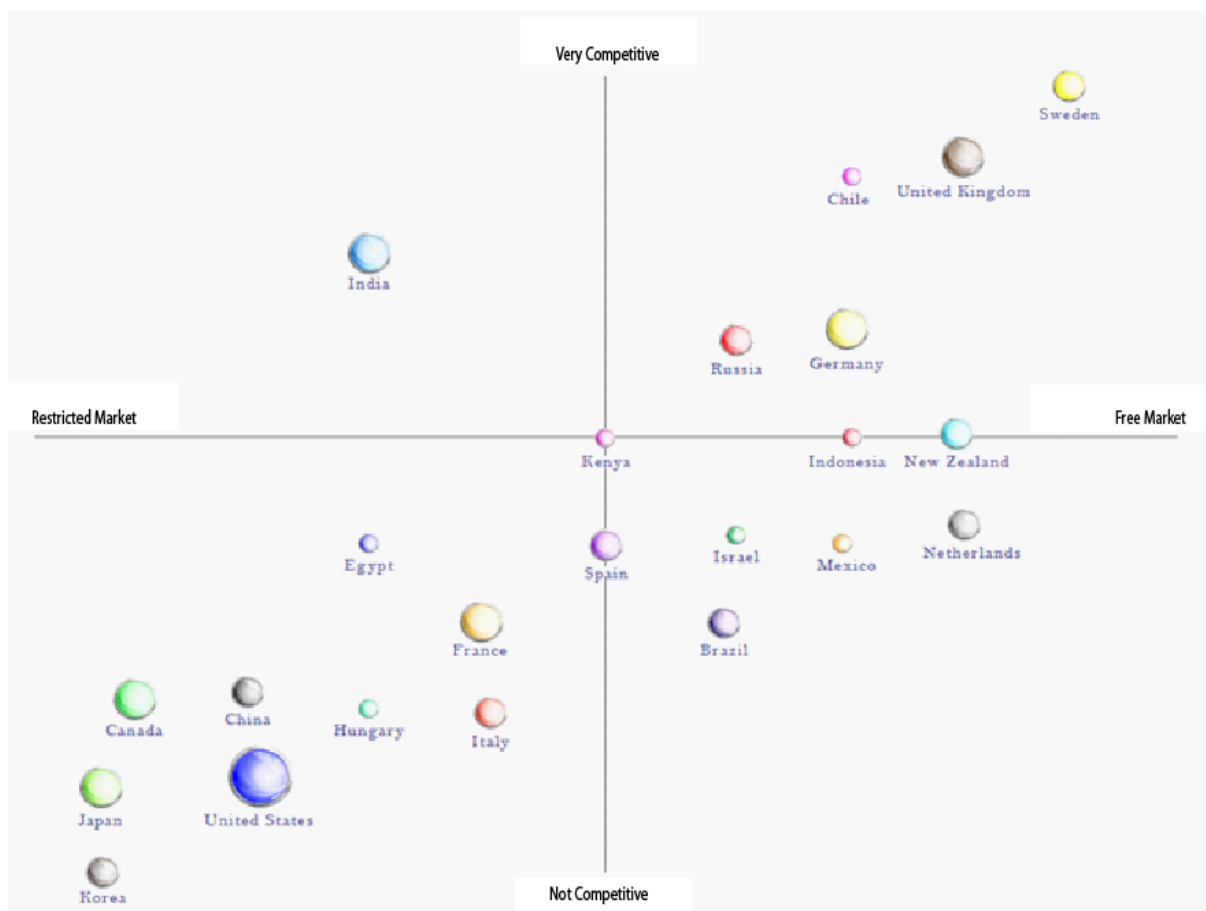
⁷⁷ Postexpresso was later incorporated into Postlog, a company that subsequently changed its name to CTT Expresso.

6. CASE STUDIES

A series of case studies is presented below looking at Germany, the United Kingdom and Sweden, countries that - along with Finland, the Netherlands and Estonia - are at the forefront of the move towards full liberalisation of postal services in Europe.

Indeed, the Consumer Postal Council⁷⁸, a non-profit organisation from the USA, periodically publishes the Index of Postal Freedom. This index has two axes, one related to the level of competition and the other showing the level of freedom in the postal market. The 2010 results suggest that the United Kingdom, Germany and Sweden are countries with a high level of competition and strong liberalisation (see Figure 25).

Figure 25 Postal Freedom Index in 2010



Note: Size of marker corresponds to size of postal market in number of pieces per year.
Source: Consumer Postal Council

When examining the lessons that can be drawn from these case studies, the idiosyncratic characteristics of each national market should also be considered, notwithstanding their inclusion in the same European area. The specific characteristics of each market include its

⁷⁸ See http://www.postalconsumers.org/postal_freedom_index/indexofpostalfreedom.shtml.

size (e.g. Germany and the UK are large markets, while Sweden is a medium-sized market - comparable to the Portuguese market), legislation (including tax legislation), population density, urbanization of the territory and *per capita* income.

Table 8 Postal markets characteristics

	Portugal	Germany	United Kingdom	Sweden
Size of the postal market	medium	large	large	medium
Per capita income 2009 (Euros)	15691	29950	25768	31988
Population 2010 (millions)	10.6	81.8	62	9.3
Population density (inhabitants per km²)	115	230	252	20.4
Urbanization rate	59.5%	73.6%	90.0%	84.5%

Source: IMF, Eurostat, ITA Consulting and WIK-Consult (2009)

In addition, the different range of activities, different levels of USP automation and the different requirements involved in satisfying different levels of demand in each country result in a very diverse work force for each USP. As such, Deutsche Post has 420,900 employees (in all geographic markets where the Group operates), Royal Mail (USP of the United Kingdom) has 193,000 employees, CTT has 15,300 employees and Posten Norden (USP of Sweden and Denmark) has 18,600 employees (counting only their operations in Sweden).

The experience that emerges from these case studies shows that the USP of the different countries have maintained clearly dominant positions, in spite of the full liberalisation of the postal sector, except in very specific situations and sectors, such as, for example, express city mail in Sweden.

Meanwhile, the USP have undertaken a rationalization of postal operations, in particular through the automation of operations, reducing the number of postal establishments and cutting staff.

Another important trend in the countries studied is the USP's diversification into non-traditional areas of the postal activity (such as, for example, logistics and hybrid mail) and their launch of innovative services.

The internationalization of the postal business, with expansion into markets outside the USP's country of origin, is also worth noting, with particular focus on the cases of Germany and Sweden.

Likewise, the USP covered are evidently giving increased relevance to the environmental sustainability of their businesses, considering it key to their evolution and future profitability.

From the combination of these factors, it becomes evident that it is perfectly possible for the USP to remain economically viable in a scenario of full liberalisation, even in situations where there is no functioning fund to compensate the net operating costs of the UPS.

6.1 GERMANY

The postal sector in Germany represents a market worth over 23 billion euros. While between 2008 and 2009 correspondence not covered by express mail saw a decline, in the period from 2006 to 2009, CEP revenues and traffic volumes in Germany showed definite growth.

Liberalisation of the postal sector began in 1998 and continued with successive limitations on the reserved area in Deutsche Post's license⁷⁹ until full liberalisation was accomplished on 01.01.2008.

Deutsche Post was privatized in 1995 and became a part of the Deutsche Post DHL Group, the largest postal operator in Europe, employing over 500 thousand people worldwide.

Currently, this group appears to be enjoying a stable financial position, with estimated pre-tax profits for 2010 to the order of 2 to 2.1 billion euros, of which about half will come from business-related mail.

Between January and September 2010, about one third of total revenues (worth 37.6 billion euros) were generated in Germany, which also accounted for three fifths of the Group's investments (Deutsche Post, 2010a). By the end of 2010, this operator planned to expand its network in Germany to over 4,000 sales outlets, 2 thousand postal addresses and 150 parcel offices.

Deutsche Post has not yet faced sustained and significant competition in the correspondence market (where in 2009 it had a market share in revenues of about 90%, and the remaining 750 service providers made up only about 10%). This is due, among other factors, to the reluctance of major clients, particularly banks and insurance companies, to use alternative service providers (ITA Consulting and WIK-Consult, 2009).

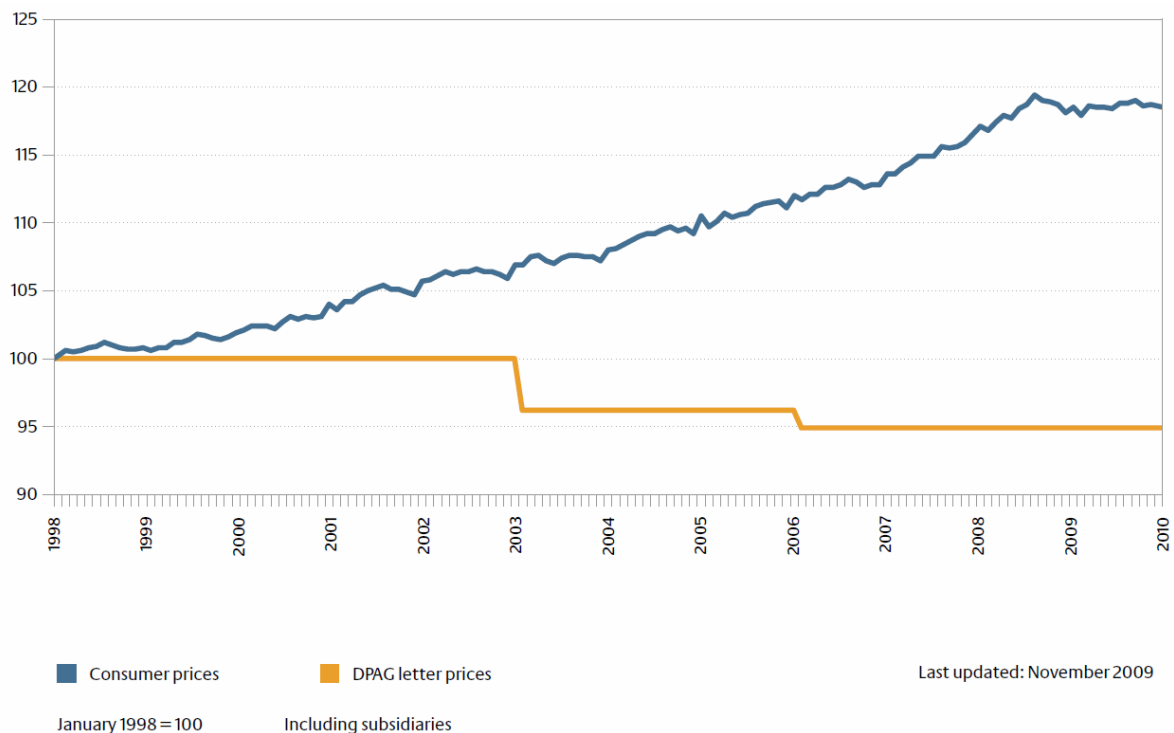
On the other hand, according to the German regulator (BNetzA), in the CEP market (with total revenues in 2008 of around 17.4 billion euros) strong competition has resulted in a high level of QoS with stable pricing (BNetzA, 2010). Indeed, one of Deutsche Post's

⁷⁹ This operator is no longer the legally designated USP, although in practice it continues to undertake provision of universal service. It is also the only German operator eligible for exemption from VAT, following the changes made in the application of this tax on 1 July 2010.

competitors⁸⁰, Hermes Logistik Gruppe, already has a network with national coverage in the CEP market.

Meanwhile, there was notable decrease in the real retail prices charged for correspondence, falling more than 20% between 1998 and 2009 (see Figure 26). This is explained by regulatory price-capping, which is applied to the prices charged by Deutsche Post and also takes account of the costs of effective service delivery and productivity gains (BNetzA, 2010).

Figure 26 Consumer prices and prices of letters of Deutsche Post (including subsidiaries) between 1998 and 2009



Note: Last updated: November 2009.

Source: BNetzA (2010)

To stimulate competition, Deutsche Post was required to provide access to its network (at handling centres) to alternative operators (and also to end users) - with equal terms and conditions - in a process called "work sharing", whereby alternative operators are only charged for the network components which they actually use. "Work sharing" agreements are subject to approval by the BNetzA, and at the end of 2009 there were 309 "Work sharing" agreements in place governing network access at handling centres and 20,696

⁸⁰ Other strong competitors are the Dynamic Parcel Distribution, General Logistics Systems and United Parcel Service.

other type of "work sharing" agreements (e.g. franking postal items and cooperation in the exchange of information).

In addition, Deutsche Post is required to provide its competitors with access to their PO boxes, with the applicable prices subject to approval by BNetzA, in accordance with the principle of orientation of prices to efficient costs.

A major factor, cited by alternative operators as potentially leading to distortion of competition, stems from the federal government's adoption of the minimum wage law in the postal sector. This law sought to extend the minimum wage agreed between Deutsche Post and the unions to all postal operators whose main activity was the distribution of correspondence, resulting in a significant increase in these operators' personnel costs. However this law was deemed illegal in 2008 by an Administrative Court of Berlin, which decision was confirmed in January 2010 by the Federal Court.

A further complaint - presented by the EC before the European courts, following an action filed by United Parcel Service in 1994 - stemmed from an alleged misuse of state subsidies in the offer of potentially anti-competitive trade discounts in the parcel delivery service.

However, a decision of the European Court of Justice, dated 02.09.2010, upheld a previous court decision, dismissing an EC decision of 2002 to require the subsidy granted to Deutsche Post, with a current value of around 1.15 billion euros, to be returned.

Nevertheless, since 2007, a comprehensive investigation has been underway at the EC into all potential distortions of competition resulting from subsidies granted by the state to Deutsche Post and the compatibility of such subsidies with the EU regulatory framework.

One of the main challenges faced by Deutsche Post in Germany seems to be "cherry picking" by its competitors, i.e. they compete with Deutsche Post in the more profitable urban areas and leave Deutsche Post with the burden of providing postal services in rural areas of little or no economic attraction (Lijn *et al*, 2008).

A second challenge is the fact that the government intends to apply value added tax (VAT) retroactively to a set of postal services (over a non-determined set of financial years) which until now, under European law and national legislation, Deutsche Post has considered exempt.

Another major challenge faced by Deutsche Post is to address concerns raised by the issue of its "carbon footprint", which will affect not only its business model, but also the advanced solutions and technologies it uses.

This has been made more pressing by the results of a recent survey conducted by Deutsche Post (Deutsche Post DHL, 2010b) of residential and business customers in Germany, Brazil,

China, USA, India and the United Kingdom. The results highlighted climate change as being considered the most serious global problem and made it clear that business customers considered sustainable logistics important, not only due to intangible benefits (e.g. corporate reputation and corporate responsibility), but also, and increasingly, due to associated cost savings. Nevertheless, 51% of residential customers and 57% of corporate customers said they preferred a "greener" provider to a "cheaper" provider.

A study published recently by the company (DHL Deutsche Post, 2010b) identifies the main developments expected in terms of logistics, in light of the "green" challenge:

- a) Logistics will increasingly be a catalyst for global trade and a strategic component for reducing carbon emissions;
- b) Cooperation with competitors, suppliers and customers is key to technological innovation and to the environmental and economic sustainability of the business;
- c) The logistics business model will change as the innovations associated with an environmentally sustainable approach open up new opportunities;
- d) Carbon emissions, insofar as they are being given an economic and accounting value, will be very important in the decision-making process of operators, customers and governments.

The German USP has made a commitment to reduce carbon emissions by 30% between 2007 and 2020. The operator seems to be winning this challenge; it has been achieving very positive scores in international indexes that annually assess the efforts of environmentally sustainable practices, such as the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index⁸¹.

6.2 UNITED KINGDOM

The provision of the UPS in the United Kingdom - where full liberalisation of the postal service dates back to 01/01/2006 - is undertaken by Royal Mail, which employs about 193,000 staff, and in the financial year ending March 2009, reported revenues of 5.398 billion euros⁸² and operating profits of 207.7 million euros⁸³. In the United Kingdom, corporate customers account for 87% of total postal traffic and residential customers the remaining 13%.

On 17.12.2007, the Secretary of State for Business, Enterprise and Regulatory Reform ordered a review of postal services in the context of market developments occurring

⁸¹ See the Dow Jones indices at <http://www.sustainability-index.com/>.

⁸² 4.6 billion pounds sterling.

⁸³ 177 million pounds.

subsequent to a legislative reform in 2000. This review was conducted by an independent panel, and the first results (related to the impact of postal liberalisation on the incumbent, the alternative operators and consumers) were published in May 2008 (Hooper et al., 2008b).

One of the main conclusions of the document of May 2008 was that - although since 2006, competition in corporate bulk mail had grown much faster than the regulator (Postcomm) had predicted⁸⁴ - there remained virtually no competition in terms of sending individual items.

As regards the possibility of whether, in the future, there might be end-to-end competition in correspondence, opinions are divided between those who believe that alternative operators already have the volumes they need to invest in providing delivery in urban centres (perhaps bi-weekly) and others who maintain that significant barriers to entry remain.

A further conclusion reveals that the fifty companies that make most use of postal services (accounting for 40% of the market), along with other large corporations, clearly enjoyed the benefits of liberalisation, particularly in terms of lower prices, greater choice and also greater assurance of QoS, although innovation has fallen short of initial expectations.

In contrast, small businesses and domestic consumers have not seen significant benefits from liberalisation, despite considering that Royal Mail services offer good value for money. Nevertheless, small businesses, in particular, consider that there has been a decline in QoS resulting from the elimination of Sunday mail collection and limitation to one daily collection on the remaining days of the week. On the other hand, according to data from the regulator, Royal Mail's performance in terms of QoS has been very good.

It should also be noted that a 2008 study by Europe Economics suggested that competition in the UK's postal sector has contributed to the creation of 3300 new jobs and GDP growth of about 229 million pounds sterling.

Another important conclusion was the general agreement that the regulatory framework needs to adjust to the evolution of the postal market. Royal Mail seeks further deregulation of the market, whereas alternative operators and some business customers are demanding greater protection and the regulator wants the incumbent to be more efficient.

The challenges for the future include the difficulty of modernizing the postal network⁸⁵, in a scenario where the trend of declining volume of postal traffic is expected to continue (see **Figure 27**). This trend stems to a large extent from the effects of substitution associated with electronic communications (e.g. phone calls, text messages and e-mail correspondence as

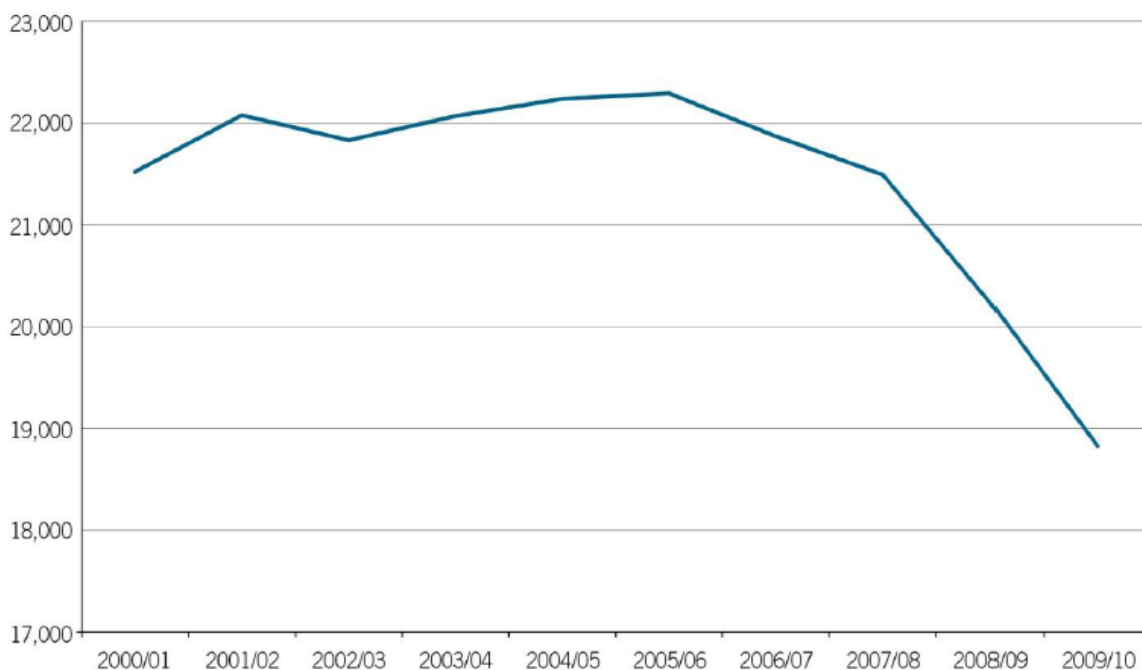
⁸⁴ In May 2010, Royal Mail's share of pre-sorted, second class, bulk mail was under 20%, and the volume of bulk mail traffic handled by the operator has fallen very significantly since 2005.

⁸⁵ Including, for example, about 115 thousand letter boxes, 87 thousand business addresses, 12 thousand post offices, 69 sorting offices, 9 distribution centres and 1,403 correspondence delivery stations.

an alternative to correspondence, in particular, transactional correspondence), digital technologies (social networking sites as an alternative to the social mail) and media (advertising in newspapers, television, magazines and the Internet as an alternative to direct mail).

Other key challenges include ensuring the financial viability of providing the UPS⁸⁶ - in a context of full competition and the high fixed costs of the USP's network - ensuring that labour conflicts do not affect QoS and resolving the deficit in Royal Mail's pension fund, whose book value was estimated in 2008 at about 3.4 million euros⁸⁷ (which should initially have been paid over a period of 17 years, but was recently extended to a period of 38 years).

Figure 27 Evolution of Royal Mail's operating volume of correspondence (in millions of letters)



Source: Postcomm

In December 2008, the independent panel's final report was published (entitled "Modernise or decline"), focused on safeguarding the UPS (Hooper *et al*, 2008a).

This report acknowledged, from the outset, that the provision of the UPS and its ability to deliver postal items to 28 million postal addresses and business is part of the country's social and economic glue.

Despite these threats to the postal service, the report gives a positive outlook for the future:

⁸⁶ Postcomm has estimated that in 2012-2013, Royal Mail's negative cash-flow will approach 400 million pounds (469.4 million euros).

⁸⁷ 2.9 million pounds.

- a) Mail has unique properties. It is more personal, compared to other media. And many items currently sent by post are difficult or impossible to transmit in other forms, making it necessary that mail be a delivery service of choice, not merely a service of last resort.
- b) Its appeal to a wide range of customers, provided that postal companies are obsessive about meeting the needs of senders and recipients alike and that they provide reliable and convenient services at competitive prices, seizing new opportunities in the communications and logistics markets by developing innovative services.

However, the starting point to meeting the challenge of the future did not appear that bright in 2008. Royal Mail delivers 99% of all items posted in the United Kingdom and it is the only company currently capable of providing the US. But it faces severe difficulties, not just due to competition, but also due in large part to very poor efficiency levels.

In terms of efficiency, Royal Mail compares poorly with other Western Europe operators and with its own competitors⁸⁸, in particular with respect to business traffic, despite a visible reduction in the USP's annual costs and staff numbers between 2002 and 2005⁸⁹.

The main reasons for Royal Mail's low levels of efficiency were:

- a) A cumbersome postal distribution network falling short of the networks of major European incumbents, which have already taken steps to substantially streamline their networks;
- b) Low level of automation, given that, in 2008, Royal Mail used machines in its mail centres to sort 70% of letters (compared to 95% sorted by major European operators⁹⁰) and subsequent separation of letters for delivery rounds was completely manual;
- c) Very high pension contributions;
- d) Inappropriate working practices, related for example to overtime payment and equipment use;
- e) Payment of salaries above market average rates.

⁸⁸ Even Royal Mail estimated that in 2006-2007, the company was 40% less efficient than its competitors.

⁸⁹ Annual costs were reduced from between 460 million pounds (Postcomm estimate) and 600 million pounds (Royal Mail estimate) and the work force was cut by around 25 thousand in this period and by a further 16 thousand people between 2006 and 2008.

⁹⁰ According to information provided in CTT's 2009 Annual Report, at the end of 2009, 94% of small format national mail was automated and 25% of distributed traffic was subject to the highest level of mechanization, or ordered by street round, corresponding to 1.4 million postal items / day.

- f) Poor industrial relations, to such an extent that the total of employee days lost in the postal sector due to industrial action represented 60% of all days lost to strikes across the whole of the UK economy in 2007.

The independent panel firmly rejected options such as withdrawing the geographically uniform tariff, reducing the number of weekly deliveries (from six to five) or forcing the USP's competitors to help finance the net cost of universal service, since, in their view such proposals do not serve the best interests of anyone - they would penalise consumers, postal companies or the taxpayer and they would not give the USP an incentive to cut its costs.

Therefore, as a solution to avoid disruption of the UPS and a forced restructuring by the EU, the independent panel considers that modernization of Royal Mail is inevitable, and that this would have two phases. In the first phase - "transformation" - the USP must focus relentlessly on meeting the needs of customers, changing its organizational culture, improving efficiency and reducing costs. In a second phase - "diversification" - the company must find new sources of revenue either by providing related products or expanding to cover a wider geographical area.

If this modernization is to succeed, the USP urgently needs to gain commercial confidence (in particular, by giving greater clarity to its objectives over the short and long term), improve union relations, generate better conditions of access to capital and gain management experience (e.g., through strategic partnerships with private companies, ideally from network industries).

The panel also recognized that its high pension contributions make it difficult for Royal Mail to compete effectively, even by improving their efficiency standards. In fact, Postcomm (2010) has estimated that a reasonable increase in contributions by the USP to tackle the pension deficit would involve an additional 704 million euros per year⁹¹. As such, it was suggested that the Government should take responsibility for the operator's pension fund.

In fact this solution corresponds to the course taken in Portugal, where, in 2003, the liabilities and assets of CTT's pension fund (also in deficit) were assumed by the State.

In June 2010, the United Kingdom's new coalition government asked Richard Hooper (who headed the independent panel) to update the analysis of the postal sector carried out in 2008 - the results of this update were published in September 2010 (Hooper, 2010).

The key finding of the report published in September 2010 was that Royal Mail's financial health had deteriorated since 2008, due to the decline in the postal market and in the operator's market share, an insufficient pace of modernization of operations and postal

⁹¹ 600 million pounds.

network (despite some progress), an increased pension deficit from 2.9 billion pounds to 8 billion pounds and, finally, an unfit regulatory framework. Meanwhile, little progress seems to have been made in terms of diversifying the services provided by the operator.

Even so, the USP's relationship with its unions and with Postcomm had improved (enabling, in the former case, change to the organizational culture, the elimination of restrictive labour practices, increased productivity).

Among the new risks to Royal Mail's profitability, the report (Hooper, 2010) highlights:

- a) Large companies seem to be accelerating replacement of postal mail with e-mail as a way of achieving reductions in carbon emissions, given that significant parts of the population sees direct mail as harmful to the environment⁹², even though, according to estimates by Royal Mail, a typical consumer's annual volume of mail is the equivalent, in terms of carbon emissions, to a car journey lasting 45 minutes (Postcomm, 2010);
- b) Small businesses seem to be replacing priority mail with non-priority mail in a drive to cut costs.

The main regulatory challenges with respect to the postal sector in the United Kingdom were highlighted in a consultation paper published by Postcomm (2010) in May 2010.

A major challenge for the United Kingdom's postal regulator seems to be the current impossibility of assessing the net costs of universal service, given the lack of transparency of costs and the USP's poor level of accounting separation.

Another important challenge is connected to the development of an environmentally sustainable business policy. In this respect, the United Kingdom's USP has been increasing the use of recyclable materials (e.g., 76.5% of the material used in direct marketing is recycled), reducing the CO₂ emissions of its vehicle fleet (with estimated annual savings of 7,000 tons) and increasing the energy efficiency of their premises.⁹³

A third challenge is to ensure the viability of providing the UPS in a scenario where alternative operators can engage in "cherry picking". To a certain extent, this possibility has been limited due to the exemption that Royal Mail enjoys in relation to VAT for the provision of the public postal service – this exemption was confirmed by the European Court of Justice, following a complaint from TNT, which considered it an unfair competitive advantage.

⁹² See <http://www.brandrepublic.com/bulletin/dmdailybulletin/article/862672/Unpersonalised-direct-mail-seen-worse-environment/?DCMP=EMC-DMDailyBulletin>.

⁹³ See <http://www.royalmail.com/portal/rm/jump1?catId=121400778&mediaId=121500785>.

Another interesting challenge is to reform the system of wholesale prices that alternative operators pay for use of Royal Mail's distribution network. Current prices appear to be unrelated to actual costs and may generate excessive margin for alternative operators in certain products (generating inefficient market entries) and excessively narrow margins on other products (discourage efficient market entries). The current system also appears not to offer the USP an incentive to innovate and reduce costs.

Bulk mail at Royal Mail is currently regulated according to the "headroom" method (corresponding to the so-called "retail-minus" method used in regulating electronic communications), whereby the USP is required to maintain a certain margin between the retail price and wholesale price it charges its competitors to distribute this type of mail.

In this context, the future form of price regulation for bulk mail may require the application of "price-capping" to a basket of services of access to Royal Mail's postal network.

In addition to these challenges, Postcomm is also examining the possibility of:

- a) Giving Royal Mail more flexibility to establish wholesale prices for pre-sorted bulk mail and for access to its network;
- b) Removing controls on retail prices for pre-sorted bulk mail, limiting regulatory safeguards to the corresponding wholesale prices;
- c) Eliminating price controls on all parcels weighing over 750g, given the existing level of competition in this market segment.

Taking into account a recommendation made by the independent panel and by Hooper (2010), a bill put before Parliament by the British government in October 2010⁹⁴, advanced with the abolition of Postcomm and the transfer of its postal regulatory powers to Ofcom (the United Kingdom's electronic communications regulator) (BIS; 2010a, 2010b).

Two reasons were presented for this measure (BIS, 2010a). One stems from the broader context of reducing the number of public bodies and reducing public expenditure in the United Kingdom. The other relates to reform of postal sector regulation. Indeed, the British government believes that, as regulator of the communications sector, Ofcom would benefit from a deeper understanding in relation to the broader markets in which postal operators are now competing, in addition to being best placed to make decisions arising from existing competitive challenges and being under statutory obligation to reduce regulations when no longer necessary.

⁹⁴ See <http://services.parliament.uk/bills/2010-11/postalservices.html>.

Also taking into account the recommendations of the Hooper reports, provision is made in the same legislative proposal for the State to assume responsibility for Royal Mail's pension deficit.

Other measures of interest defined in the bill include the "spin off" of the subsidiary that owns and manages post offices (Post Office Ltd) from the Royal Mail Group, eliminating the requirement for postal operators to obtain the agreement of the regulator before launching new services and a share swap, representing at least 10% of Royal Mail's capital, with the company's employees. The possibility of a sale of Royal Mail capital to the private sector is also envisaged.

The British government expects that this bill will result in a number of important benefits, although many have not been quantified, namely (BIS, 2010b):

- a) Sustainability of the provision of the US;
- b) Increased efficiency of the USP (resulting in savings with an estimated current value, over a period of 10 years, of between 852 million euros⁹⁵ and 5.587 million euros⁹⁶);
- c) Improving the labour relations climate;
- d) Possible reduction in the amount of time that managers of postal operators spend in interactions with the regulator;
- e) More efficient regulation (resulting in reduced regulation costs - with an estimated current value, over a period of 10 years, corresponding to 7.86 million euros⁹⁷ - in addition to unestimated gains in terms of the functioning of regulated markets);
- f) Financial gains arising from the sale of shares in Royal Mail which is currently owned by the Government⁹⁸;
- g) Diversification and expansion of Royal Mail's activities.

On the other hand, reform of the postal sector resulting from this bill will also have costs (although not all of these have been quantified), including costs associated with the following items (BIS, 2010b):

- a) Restructuring of the postal network, including generating a return on the subsidiary, Post Office Ltd., which is responsible for the assets of the postal network⁹⁹. The generation of return from postal establishments involves the integration of other

⁹⁵ 726 million pounds, at the reference exchange rate of the Bank of Portugal of 18.11.2010.

⁹⁶ 4.761 million pounds, at the reference exchange rate of the Bank of Portugal of 18.11.2010.

⁹⁷ 6.7 million pounds, at the reference exchange rate of the Bank of Portugal of 18.11.2010.

⁹⁸ Whose value was estimated by the British press in 2009 at 3.52 million euros (3 billion pounds, at the reference exchange rate of the Bank of Portugal of 18/11/2010) and in 2010 (under a clearly pessimistic scenario) at about 821.4 million euros (700 million pounds, at the reference exchange rate of the Bank of Portugal, of 18.11.2010). See <http://www.managementtoday.co.uk/go/news/article/1034822/is-royal-mail-worth-privatising-and-whence-post-office/>

⁹⁹ See <http://www.postoffice.co.uk/portal/po/content2?catId=20000192&mediaId=57600693>.

services such as financial services, telecommunications services, travel agency services, sale of convenience items, among others;

- b) Hours of work by top management and directors, dedicated exclusively to the modernization process (with an current estimated cost, over a period of 10 years, of 8 million pounds);
- c) Transfer of Postcomm's regulatory powers and Postcomm staff to Ofcom;
- d) Coverage of Royal Mail's *pension deficit* (with an estimated value of 12.086 billion euros¹⁰⁰);
- e) Sale of shares in Royal Mail which are currently owned by the government;
- f) Diversification and expansion of the activities of Royal Mail (this operator has now diversified its activities into the area of insurance and banking).

6.3 SWEDEN

Sweden was the second European country to fully liberalize its postal sector, back in 1993¹⁰¹, with full liberalisation preceded by liberalisation of parcels and bulk mail services.

However in Sweden, even today, Posten Norden AB (USP of Sweden and Denmark) retains overwhelming market share in correspondence, benefiting from its reputation in terms of efficiency and QoS, in postal services and in logistics, delivering more than 20 million postal items every day to more than 4.5 million postal addresses.

Nevertheless, with respect to bulk mail distributed in major cities (such as, for example, Stockholm and Malmo), Posten Norden faces strong competition from City Mail, a company owned by Posten Norge (USP in Norway) and acquired from Royal Mail. City Mail has capacity to deliver mail to about 54% of Swedish homes. As a result, prices for bulk mail have seen a significant reduction (Postal Regulatory Commission, 2008, George Mason University, 2008).

City Mail presented a complaint to the Swedish Competition Authority against Posten Norden, claiming that the company distorted competition by offering volume discounts to customers with pre-prepared bulk mail. However, in 2009, the Swedish Competition Authority dismissed the complaint.

Meanwhile, there are around three dozen competitors to the USP and City Mail, operating mainly in well-defined geographical areas, whereby, to deliver mail outside these areas, they

¹⁰⁰ 10.3 billion pounds.

¹⁰¹ Finland, as mentioned before, liberalized its postal sector in 1991.

have had to make arrangements with this provider as the only provider with a real national distribution network (Post & Telestyrelsen, 2000).

Posten Norden has also faced some competition in parcels, where it has a market share of 70% in the business segment and a market share exceeding 70% among residential customers. This competition arises from operations in these markets, in particular, by United Parcel Service and Deutsche Poste DHL.

Posten Norden's network is spread mainly over three levels. At the bottom level, there are about 2 thousand agents who are mostly owners of small shops and kiosks, which in addition to selling stamps, offer the most basic postal services. The intermediate level comprises around 1,600 postal outlets installed in retail stores, offering services such as registered mail and parcel delivery.¹⁰² Finally, at the top level, there are about 380 business centres installed in commercial areas, operating between 7am and 7pm and offering the full range of postal services.

In addition, there are approximately 2,500 rural postmen who take their "post offices on wheels" to more isolated, rural populations. It should be noted that, although, under Swedish law, the USP is required to deliver post five days a week, exceptions are made in sparsely populated areas where post is usually delivered two to four times a week in grouped letter boxes located between 200 and 1,000m from homes. However, this exceptional situation only affects a very small number of families.

The innovative services provided by Posten Norden include the substitution of stamps by an SMS service for correspondence and for parcels weighing up to 2kg, planned for summer 2011; the end-user sends an SMS to Posten Norden and is charged an amount corresponding to the value of the old stamp. In return, the user receives a code, which can be manually placed on the correspondence or on the parcel; this then read based on the current barcode system. Deutsche Post launched a similar service (HANDYPORTO) in 2008.¹⁰³

The current network, as outlined above, resulted from the replacement of 80% of traditional postal establishments with agents under contract, which, during a transitional period, was viewed poorly by the general public (Postal Regulatory Commission, 2008).

This measure, along with a rationalization of human resources (the volume of USP employees in Sweden was cut by more than 50% between 2001 and the end of 2010, falling to just 18,698), enabled the financial problems which had surfaced between 2001 and 2003

¹⁰² In Sweden there is no parcel home delivery service.

¹⁰³

http://www.deutschepost.de/dpag?tab=1&skin=hi&check=yes&lang=de_EN&xmlFile=link1014602_1014518.

to be surmounted. Accordingly, Posten Norden earned operating income, resulting from its operations in Sweden, totalling 45 million euros in 2009 and 99.7 million euros in 2010¹⁰⁴.

Swedish postal legislation does not make provision for a compensation fund to finance the net cost of the UPS.

Posten Norden is the product of a merger, taking place on 24.06.2009, between Denmark's USP (Post Danmark A/S) and Sweden's USP (Posten AB), which resulted in a group which currently has about 43,000 employees and total revenue of around 4.728 billion euros¹⁰⁵. The company's voting rights are divided equally between Sweden and Denmark (Posten Norden, 2009a).

The merger stems from strong synergies between the costs of UPS in both countries (estimated annual savings of 113.5 million euros¹⁰⁶, specifically in terms of supplier costs, management and information technology) and significant economies of scale in areas related to the development of services, conversion to environmentally-efficient transport systems and production systems (Posten Norden, 2009b).

Following the merger, the group's revenues continued to come mainly from Sweden (46% of total revenue) and Denmark (39% of total revenue), while Norway (8% of total revenue) and Finland (2% of total revenue) were already making an evident contribution (Posten Norden, 2010a).

The strategy of this new group is based on the following principles (Posten Norden, 2010a):

- a) Customer orientation - meeting their communication and logistics needs in a cost effective manner and with high quality standards, while monitoring the development of their needs;
- b) Focus on results - seeking systematically to exceed targets and ensure the company's competitiveness over the medium and long term;
- c) Focus on profitability - Offering services tailored to customer needs, while remaining conscious of costs, enabling reasonable returns and facilitating investment in new technologies, new services and environmentally sustainable solutions.

Posten Norden (2010b) also claims that one of its main objectives is to reduce carbon emissions, even while its logistics is already highly efficient. In **Figure 28**, it is possible to see the significant reduction in overall CO₂ emissions achieved by Posten Norden in Sweden in absolute terms and in relation to sales volume.

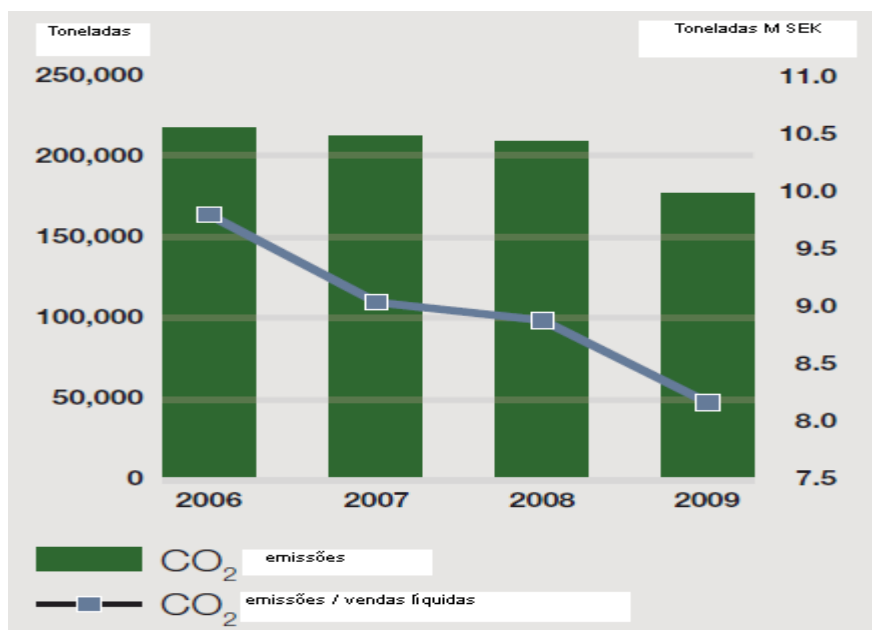
¹⁰⁴ SEK 397 million, at the reference exchange rate the Bank of Portugal of 11.03.2011.

¹⁰⁵ 42 billion SEK, at the reference exchange rate of the Bank of Portugal of 11.03.2011.

¹⁰⁶ One billion SEK, at reference exchange rate of Bank of Portugal of 11.03.2011.

It is also interesting to note that, in 2009, Posten Norden set up a climate fund, to which it contributes an amount at least equal to the equivalent costs that the operator would incur in offsetting their CO₂. The purpose of this fund is to finance measures to reduce CO₂ emissions, such as purchasing vehicles powered by alternative energy¹⁰⁷, replacing part of the old vehicle fleet earlier than originally planned or increasing the energy efficiency of the operator's buildings (Posten Norden, 2010b).

Figure 28 Trend in CO₂ emissions by Posten Norden in Sweden



Source: Posten Norden (2010b) ; emissions = emissões

Posten Norden has also been active in reducing noise pollution, in reducing the production of waste and increasing waste recycling (in 2009, 71% of waste was recycled and 27% was used for energy production) and also in reducing the use of chemicals (Posten Norden, 2010b).

In addition, Posten Norden reduced the annual number of miles travelled by its fleet by 2.5 million kilometres by optimizing routes, by making increased use of rail for shipping (which allowed an annual reduction of CO₂ emissions amounting to 4.6 thousand tons), increased use of bicycles and management and staff training in environmental areas.

As postal sector regulator, Post & Telestyrelsen (PTS) is particularly attentive in overseeing compliance with obligations related to QoS, related to the UPS and to access to the postal network.

In this context, retail prices are regulated through a "price-cap" mechanism, following successive price increases for residential customers (above CPI) accompanied by lower

¹⁰⁷ In 2009, 15% of Posten Norden's fleet consisted of electric-powered vehicles.

prices for business customers (especially in geographical areas with increased competition) after liberalisation. In any case, the trend in prices has been such as to call for their alignment with costs (Statskontoret, 2005).

Postal legislation also requires that the price of access to the postal network is the same for all operators, including the price supported by Posten Norden, which increasingly requires significant knowledge of the internal costs incurred by Posten Norden on its network (Post & Telestyrelsen, 1999).

In general, Posten Norden seems to be responding well to the challenges of the postal sector's full liberalisation, while maintaining a high market share, benefiting from good levels of profitability and diversifying into relatively innovative services (e.g. hybrid mail). In this context, the Swedish regulator reports that, so long as it continues to provide a cost-efficient service and ensure the security of its distribution, Posten Norden is unlikely to find opposition at a national level in the area of correspondence (Post & Telestyrelsen, 2008).

7. CHALLENGES FACING POSTAL SECTOR AS IT MOVES TO FULL LIBERALISATION

In the context of the full liberalisation of the postal sector in Portugal and in view of the economics of the sector, the characteristics of the different operators and the case studies detailed above, an important set of foreseeable challenges are identified, facing both providers of postal services and ICP-ANACOM in upholding the interests of Portugal's citizens and businesses.

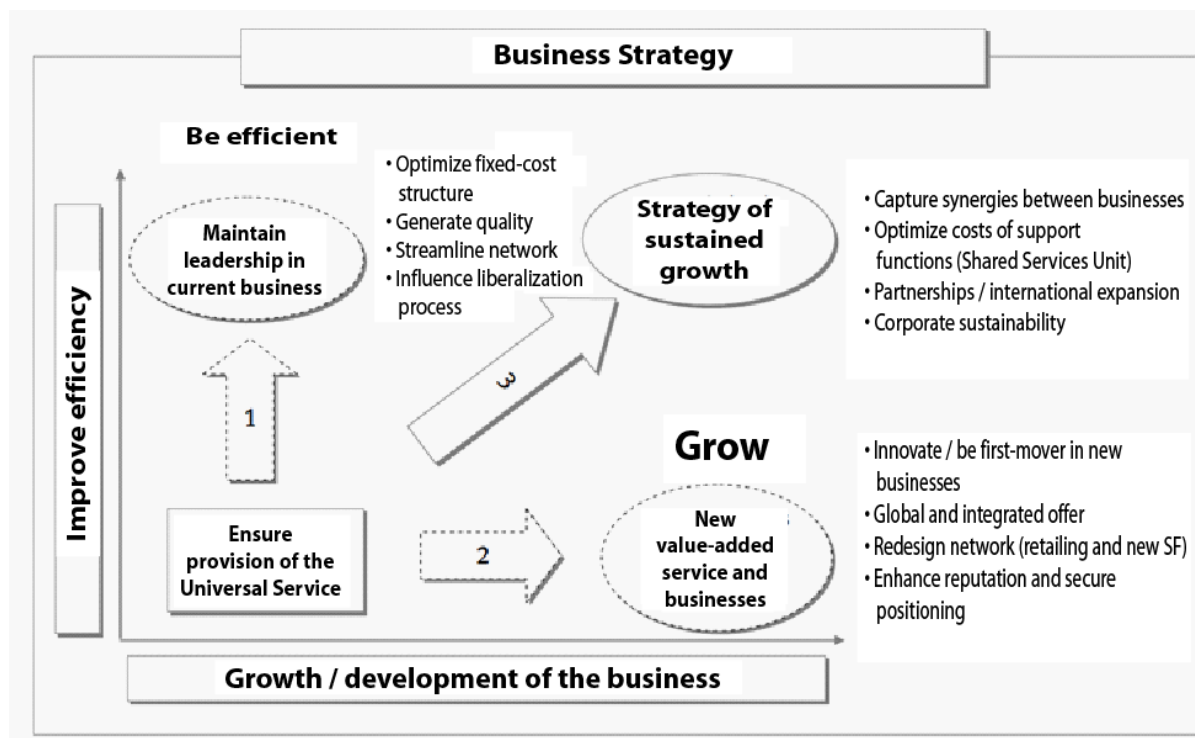
7.1 CHALLENGES FOR SERVICE PROVIDERS

The key challenges facing service providers include the decline in correspondence traffic, reducing the "carbon footprint", the viability of the business in a context of increased competition, the development of essential management skills for business growth in a competitive market, the economic sustainability of the UPS and, for alternative service providers, overcoming the potential disadvantage of not benefiting from an exemption from VAT.

Internationally, **the decline in correspondence traffic** over the next five years should reach levels of between 25% and 40% (Hooper, 2010), and this structural tendency may be exacerbated by the current recessionary economic environment.

According to CTT, the company's response "in a fully liberalised environment and in a more competitive market, with falling physical traffic and increased electronic substitution" is based on efficiency (in terms of its assets and its costs) and growth (generating more value for their customers' money, and also on a drive to expand and diversify its business portfolio). The strategy presented by CTT, to overcome this challenge, is presented in **Figure 29**.

Figure 29 CTT's business strategy



Source: CTT (2010a)

One of CTT's strategies, with a view to increasing its business, is international expansion. CTT already operates in Spain and Mozambique, and is soon expected to start working in Angola, strengthening its international presence over coming years. In the consulting business CTT is also present in a number of markets in Europe, Africa and Latin America. In addition to international expansion, innovation (in particular, with services such as electronic date stamping, mailmanager, *meuselo* (my stamp), *meupostal*, geographic information system products, etc.) should also contribute to the business's growth.

In particular, the electronic mailbox represents a drive towards innovation/modernization in the postal service. This is CTT's response to the trend towards the replacement of traditional mail with digital mail, turning this threat to its traditional business into a growth opportunity.

Diversification of CTT's business beyond its traditional activities has included expansion into the following activities, whether provided directly by CTT or through subsidiaries: printing and finishing services (to ensure a strong presence in this segment, CTT acquired Campos Envelopagem back in 2001), document management and logistics, payment solutions (via Payshop), sale of postal solutions, mobile electronic communications services, financial services, public and general-interest services and local services. This diversification is not alien to the impact that the new postal service providers have had on market dynamics, taking advantage of increasing liberalisation to enter liberalised segments and challenging the position of CTT, in particular with regard to the express mail segment.

A second challenge for postal operators will be how to respond to the growing concerns of both business and residential customers with regard to **reducing the "carbon footprint"**, while continuing to streamline the cost of operating the service.

In this respect, the principles of CTT's environmental policy (legal compliance, communication/disclosure and prevention of pollution) seem to be making a decisive contribution to overcoming this challenge. In particular, with regard to pollution prevention, the company presents the following principles:

- a) Evaluate, monitor and control the environmental impacts of its activities;
- b) Promote the prudent use of natural resources and reduce the consumption of materials;
- c) Reduce, reuse and recycle waste;
- d) Promote increased energy efficiency in its buildings and vehicle fleet, monitoring and reducing air emissions;
- e) Adopt best practices and available technologies.

The latest initiatives adopted by CTT include the continued funding of the ACGE - Índice de Alterações Climáticas e Gestão de Empresas (Climate Change and Business Management Index), supporting the recovery of ecosystems on the island of Madeira, the reforestation of the Serra de Montejunto, continuation of waste management and recovery project, development of a mobility plan for staff, use of an environmental scorecard in staff appraisals and the launch of a stamp issue commemorating the 50th anniversary of the Botanical Garden of Madeira and 2010 - International Year of Biodiversity. CTT's total CO₂ emissions were reduced by 2.9% between the first half of 2009 and first half of 2010 (CTT 2010), with the provider aiming to maintain an annual reduction of 2%.

In addition, CTT has adopted the principles of the National Strategy for Ecological Procurement 2008-2010, approved by Resolution of Council of Ministers No. 65/2007 of 7 May, in conjunction with Agência Nacional de Compras Públicas (National Agency for Public Procurement) and Agência Portuguesa do Ambiente (Portuguese Environment Agency).

Meanwhile, a reorganization was conducted of the Postal Operations Centre of the North - with the opening of the new building in December 2010; this, according to CTT (2010a), is a key part of the company's strategy as it faces full liberalisation (as it will allow more flexible sorting, transportation and distribution operations) - including the adoption of criteria to minimize negative environmental effects and save energy.

Among the alternative providers of postal services, the initiatives of Chronopost Portugal, DHL, MRW and United Parcel Service can be highlighted.

In January 2009, Chronopost Portugal launched an information website that indicates the difference in CO₂ emissions between parcel transport by air and by road. Customers can choose a faster service which is more expensive and also more damaging to the environment, or they can choose a more economical route which, while slower, is also "greener".¹⁰⁸.

Internationally, and according to information from CTT, this provider was ranked fifth in the first Postal Sector Sustainability Report, among 21 participating incumbent operators¹⁰⁹.

DHL has developed the GOGREEN service (available for international shipments), which aims to reduce polluting emissions while promoting the substitution of fossil fuels with renewable energy sources. This company is committed to reducing CO₂ emissions and to neutralizing its "carbon footprint" by funding carbon reduction projects. This service is priced 2% over the normal price of the package, with a minimum value of 30 euro cents¹¹⁰.

Like DHL, United Parcel Service allows customers to offset CO₂ emissions generated by their deliveries. For this purpose, it provides a service that calculates the emissions associated with each parcel, the most economic routes and the costs of offsetting the emissions. These costs are charged to the customer and the funds are used by United Parcel Service in measures aimed at reducing its "carbon footprint"¹¹¹.

Since April 2010, MRW has been promoting the use of biodegradable and compostable envelopes. During the period in which bio-envelopes will be used alongside envelopes made of polyethylene, the MRW franchisees will collect the used polyethylene envelopes, which will be sent for recycling¹¹².

Notwithstanding these initiatives, the increasing relevance of the problems associated with environmental issues may also lead to future questioning as to the usefulness, from a cost-benefit perspective, of the obligation to deliver mail on D+1. According to Boldron *et al* (2010) the obligation to deliver mail on D+1 might be forcing the USP to use more polluting forms of transport such as aircraft. In addition, it can lead to less efficient use of road transport resources, with the fleet dispatched while only a portion of its carrying capacity is used. Furthermore, according to the authors, if the social costs of pollution resulting from these inefficiencies were to be considered, it might make more sense to remove the

¹⁰⁸ <http://www.ambienteonline.pt/noticias/detalhes.php?id=7521>.

¹⁰⁹ <http://www.ipc.be/en/Services/Sustainability.aspx>.

¹¹⁰ <http://www.bcsdportugal.org/files/1101.pdf>.

¹¹¹ http://www.ups.com/bussol?loc=pt_PT&viewID=productView&contentID=ct1_solg_sol_carbon_neutral.

¹¹² http://www.mrw.pt/comuns/noticia/MRW_sobres_biodegradables.pdf.

obligation of delivering mail on D+1 or at least restrict this obligation to specific geographical areas.

This does not appear to be an option in the designation of the USP in Portugal, possibly due to the impact this would have on the USP's staffing levels.

So far, the market segments in which CTT has faced **increased competition** are express mail (particularly in international mail, but also in national mail, in which CTT's market shares have been falling significantly) and parcels.

Furthermore, it seems unlikely that the USP will face significant competition at national level when it comes to the end-to-end delivery of correspondence. This is for two main reasons. One is related to uncertainty about expected revenues in the context of the replacement of postal traffic by other types of communications and the overall drop in postal traffic. The other relates to the huge investments that an alternative operator would incur in order to compete nationally with CTT. For example, in a study on postal economies in the EU, NERA (2004) concluded that cost-related entry barriers were small for small postal operators but grew progressively as the scale of operation became larger, which is very large for a USP with national coverage.

At the same time, the possibility that alternative operators will engage in "cherry picking" raises the question of the **economic sustainability of the provision of UPS** in its present form and of its reconciliation with rules of healthy competition in a fully liberalised market.

Judging by the regulatory practice in a country which is further advanced in the liberalisation process - Sweden - the answers to this problem could possibly lie in a move away from "traditional" retail regulation by "price-capping" towards "retail minus" wholesale regulation, along with the practice of differential pricing by geographical area for items of correspondence (as already happens in Portugal in the postal parcels service).

In this respect, it is worth noting that after successive improvements in terms of cost reduction and increased productivity, CTT is, as stated in its Report and Accounts for the first half of 2010, the second most profitable postal operator among those operators with which comparisons can be made at an international level.

Another significant challenge - as recognized, for example, by the UK government - will be the **development of the USP's management skills** and their extension to other areas of activity, which can be achieved through the privatization of this operator, which it is expected, may occur from 2012.

It will also be important to understand the extent to which **exemption from VAT**, from which CTT continues to benefit with respect to services included within the UPS, may or may not,

in a context of liberalisation, be compatible with the conditions of healthy competition in the market. In any case, it is noted that if the USP were to charge VAT on these services, it would be able to recuperate it on its expenses, for example, equipment, vehicles and fuel, reducing their operating costs.

The Sixth VAT Directive (Sixth Council Directive 77/388/EEC of 17.5.1977) allows the provision of public postal services to be exempt from VAT, whereas Member States have interpreted this provision in different ways.

Spain applies the VAT exemption to postal parcels services, while France and Lithuania apply this exemption to the UPS correspondence service. In Italy, Malta, Poland and the United Kingdom all services of the USP are exempt from VAT (including those not included in the UPS). A set of 13 countries (Belgium, Czech Republic, Germany, Greece, Estonia, Hungary, Ireland, Luxembourg, Netherlands, Portugal, Romania and Slovak Republic) apply the VAT exemption to all US services (WIK, 2009).

In just six European countries there is no exemption from VAT for any of the providers of postal services; these are Estonia, Finland, Iceland, Latvia, Sweden and Norway (WIK, 2010).

In this context, the EC concluded that exemption from VAT would distort competition between postal service providers, and in 2003 it asked the European Parliament and the Council to amend the Sixth VAT Directive, so that this tax was applied to all postal service providers. However, those institutions did not proceed with the EC's request.

In April 2009, the European Court of Justice, in a case involving Royal Mail and TNT Post, concluded that exemption from VAT under the Sixth Directive should not be applied to all services provided by a public postal operator but only those services made available in their capacity as USP.

Meanwhile, a situation that has affected incumbents in other European countries, related to the **pension deficit** of its staff has already seen resolution in Portugal, insofar as Decree-Law no. 246/2003 of 8 October transferred CTT's liabilities to CGA - Caixa Geral de Aposentações (General Pension Fund) in relation to the retirement pensions of personnel subscribing to the CGA, retired or active, with effect from 01.12.2003, to the amount of about 1.032 billion euros¹¹³ (CGA, 2004).

¹¹³ As financial compensation for the transfer of such liabilities, CTT transferred the assets of its Pension Fund to CGA, and remains under obligation to pay CGA a contribution equivalent to what it would be bound to pay, with respect to these staff, as employer, under the general social security scheme, also with effect from 1 January 2003.

In general, postal operators seem to be taking a positive approach to the challenges posed by the postal sector's liberalisation. In fact, according to the conclusions of the study conducted by KPMG (2008), liberalisation of the sector is already seen, *id temporis*, by operators, shippers and finishing companies as a necessity and the USP itself has proved "willing and ready to embrace this challenge". This is largely because lack of choice would lead to systematic price increases without concomitant improvements in efficiency and QoS.

7.2 CHALLENGES FOR ICP-ANACOM

The key challenges facing ICP-ANACOM with respect to the full liberalisation of the postal sector include, in particular, cooperation with the legislature in implementing the new EU regulatory framework, assessment of the net costs of the UPS, the enhancement of CTT's SCA, the adaptation of postal regulation in line with best international practice and the redefinition of its role as regulator.

In general, it is clear that actual full liberalisation of the postal sector is dependent on the transposition of the community rules which govern this liberalisation into national legislation. This is also highlighted by CTT (2010a), which is calling for the "urgent development of a new regulatory framework which, *inter alia*, must clarify alternative mechanisms for funding the universal service and define the conditions of operation for the new operators, ensuring a level playing field, guaranteeing the efficiency of the market and safeguarding the continued delivery of a quality universal service at national level and on a sustained basis."

In this context, and with basis in its statutory remit to advise the government, ICP-ANACOM undertook the timely preparation of draft legislation in this area, pending, as indicated above, publication of legislation to transpose Directive 2008/ 6/EC.

A second major challenge for ICP-ANACOM (and also for the USP and alternative operators) will be the evaluation of any net costs of providing the UPS, and where it is deemed to constitute an unfair financial burden, the deployment of corresponding funding mechanisms. In this context, the experience gained in the sector of electronic communications may, *mutatis mutandis*, provide a big advantage.

The results of CTT's SCA are an important reference in the process of assessing the net costs of UPS provision, and also with regard to assessing any distortions of competition. As Portugal was one of the pioneers (as early as 1998) in the implementation of such a system for regulatory purposes, it must now be considered whether the broad thrust of this system remains current in light of the new possibilities and purposes in sight, and if not, it is

necessary to determine the changes required to improve CTT's SCA and to decide on a realistic timetable for implementing these changes and an effective way of overseeing them.

A fourth challenge is to improve regulation of the postal sector, bringing it into line with international best practice. To some extent, this challenge has been pursued through ICP-ANACOM's participation, on its own behalf or in representation of the Portuguese State, in different international *fora*, such as the Universal Postal Union or the European Committee for Postal Regulation (in the context of the European Conference of Postal and Telecommunications Administrations).

Nevertheless, it appears that a more intensive and comprehensive exchange of experiences and technical expertise between different European regulators, which is open and transparent, can bring more and better results. In this context, on 10.08.2010, an EC Decision was published establishing the European Regulators Group for postal services.

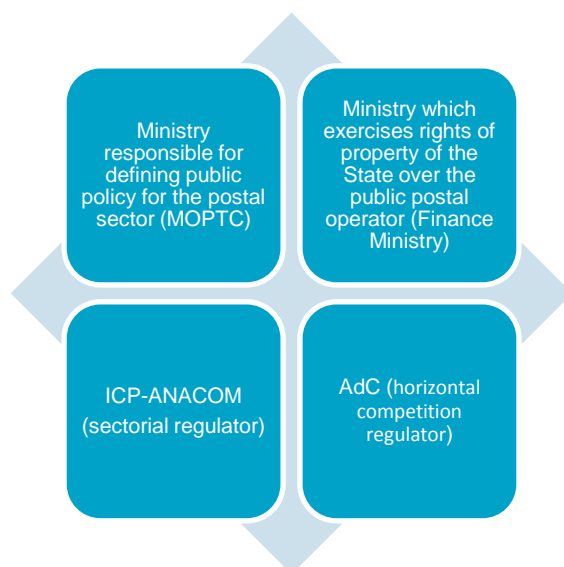
This Group has the following tasks:

- a) To advise and assist the Commission in consolidating the internal market for postal services;
- b) To advise and assist the Commission on any matter related to postal services within its competence;
- c) To advise and assist the Commission as to the development of the internal market for postal services and as to the consistent application in all Member States of the regulatory framework for postal services;
- d) To consult, in agreement with the Commission, extensively and at an early stage of its expert work with market participants, consumers and end-users in an open and transparent manner.

The areas in which a future exchange of experiences may foreseeably take place within the group, include, in particular, the UPS (especially, mechanisms for designating the USP, assessment of the net costs of UPS and funding mechanisms), the SCA, access to the network, regulation of pricing and QoS, cross-border mail, the allocation of titles for the exercise of activity and the compilation and reporting of statistical information.

Another important challenge is to redefine ICP-ANACOM's regulatory role, turning it into a more limited role (regulating only when really necessary, even if regulatory instruments are available), but at the same time a broader role, focusing on three fundamental objectives: to ensure provision of the UPS; to promote competition; and to protect the interests of users of all types of postal services (WIK-Consult, 2010). This will possibly require the continuation of a governance model along the lines outlined in **Figure 30**.

Figure 30 Governance model for the postal sector in a fully liberalised environment



Source: ICP-ANACOM

Nevertheless, it seems desirable to improve coordination with the Competition Authority, given that, in a scenario of full liberalisation, its intervention in the postal sector will likely be more frequent. In particular, the new EU regulatory framework seems to call upon the sectorial regulator and the horizontal competition regulator to consult and coordinate in a transparent manner.

Such coordination could involve, for example, the use of procedures such as scheduled task allocation mechanisms by the two organisations, reciprocal consultation in cases involving aspects of an anti-competitive nature, extensive exchange of information and data, and uniform interpretation and application of common terms with regard to both competition law and sectorial regulation.

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LIST OF ACRONYMS

AdC - Autoridade da Concorrência (Portuguese Competition Authority).

B2B - Business to Business

B2C - Business to Consumer

B2X - Business to Business and Business to Consumer

BNetzA - Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen (Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway).

C2B - Consumer to Business

C2X - Consumer to Business and Consumer to Consumer

CEP - Courier, Express and Parcels.

CGA - Caixa Geral de Aposentações (General Pension Fund)

CPI - Consumer Price Index

CPIAF - CPI adjustment factor.

CTT - CTT - Correios de Portugal, S.A. (Universal Postal Service in Portugal).

Deutsche Post - Deutsche Post AG (Universal service provider in Germany).

EC - European Commission.

EU - European Union.

GDP - Gross Domestic Product.

ICP-ANACOM - Autoridade Nacional de Comunicações (National Communications Authority - regulator of the postal sector in Portugal).

IRG - Independent Regulators Group

Ofcom - Independent regulator and competition authority for the UK communications industries (Electronic Communications Regulator in the United Kingdom).

Postcomm - United Kingdom Postal Regulator.

Posten Norden AB - Universal Service Provider in Sweden and Denmark.

Posten Norge AS - Universal Service Provider in Norway.

PTS - Post & Telestyrelsen (regulator of postal sector in Sweden).

QoS - Quality of Service.

QSI - Quality of Service Indicators.

Royal Mail - Universal Service Provider in the United Kingdom.

SME - Small and Medium Enterprises.

SCA - Sistema de Contabilidade Analítica (Analytical accounting system)

SOHO - Small Office / Home Office (Small or micro businesses operating in small office or in the homes of their owners.

UPS - Universal Postal Service.

USP - Universal Service Provider.

VAT - Value Added Tax.