

## **2. REGULATION OF POSTAL SERVICES**

Following is described ICP-ANACOM's activity regulating the postal services markets during the year 2003.

### **2.1 Universal service**

According to Law no. 102/99 of 26 July, the State is responsible for assuring the existence and availability of universal service, understood to be a permanent supply of postal services of a specified quality, provided throughout national territory, at prices affordable for all users, aiming to meet the communication needs of the population and of economic and social activities.

The provision of universal service was granted to CTT-Correios, S.A., by means of a contract.

With the aim of guaranteeing affordability and service quality, along with provision of the service throughout national territory, a set of obligations were imposed upon that company, as described below.

#### **Affordability**

Price setting for each of the services comprising universal service obeys the principles of orientation to costs, non-discrimination, transparency and affordability for all users. The rules for formulating the prices of the postal services comprising universal service are subject to the convention to established between the regulatory authority, the Directorate General of Commerce and Competition and the operator.

Under the Price Convention for Universal Postal Service, signed on 21 December 2000 and valid for the period between 1 January 2001 and 31 December 2003, a second Addendum to the said Convention was negotiated over the course of 2002, concerning the price regime for non-reserved services included in the universal postal service in effect in 2003; it was signed in 2003<sup>48</sup>.

---

<sup>48</sup> <http://www.anacom.pt/template12.jsp?categoryId=53230> .

ICP-ANACOM decided while still in 2002 not to oppose the entrance into force of the price regime for the services included in universal postal service proposed by the CTT – Correios de Portugal, S.A., to be in effect in 2003 (determination of 6 December 2002).

The Consumer Institute and the consumer representative organisations were asked to comment on the proposed price regime for non-reserved services in effect in 2003. They were provided for their information a copy of the proposed price table submitted by the CTT – Correios de Portugal, S.A.

A new Universal Postal Service Price Convention was negotiated in 2003 and signed on 20 January 2004. It is valid for the period between 20 January 2004 and 31 December 2005.

Regarding the evolution of prices, a study carried out by ANACOM was published on its website in March 2003. It concerned the prices for the services of priority mail (*correio azul*) and normal mail (non-priority), according to which the price basket for these service diminished in real terms from 1989 to 2003. Comparing the national and international base tariff (tariffs for normal letters weighing up to 20 grams) values practiced in the European Union member States, the study concluded that the average prices in Portugal continued to be lower than the average prices practiced in the European Union, for both priority and non-priority mail.

### **Cost Accounting System**

According to the Price Convention, CTT – Correios de Portugal, S.A., must maintain a cost accounting system that allows determination of the costs associated to each service.

In this context, the cost accounting system for financial year 2002 was audited in 2003. The respective conclusions, as well as the statement of conformity of the system and the results obtained, were approved in 2004 (determination of 8 January 2004). This audit by an independent entity concluded that in all materially relevant aspects the system complied with the applicable regulatory provisions, despite the fact that ANACOM had determined that some situations identified during the audit needed to be improved.

### **Quality of universal postal service**

The parameters and minimum service quality levels associated with the provision of universal service are set by the convention established between the regulatory body and the universal

service provider. The said parameters and quality levels are compatible with the quality standards set at community level for intra-community services and for the remaining international services. Independently of the universal service provider, the regulatory entity assures control of the effectively provided service quality levels; the results must be the subject of a report published at least once a year.

The Universal Postal Service Quality Convention valid for the period between 1 January 2001 and 31 December 2003 was signed on 21 December 2000. An Addendum to this Convention was subsequently signed on 21 January 2001, concerning parameters and service quality levels for intra-community cross-border mail.

A new Universal Postal Service Quality Convention was negotiated in 2003 and signed on 20 January 2004; it is valid for the period between 20 January 2004 and 31 December 2005.

Under terms of the provisions of the said Quality Conventions, ICP-ANACOM must quarterly monitor the quality of service indicators (QSIs) and evaluate compliance with same at the end of each year, namely by carrying out audits.

The quality of service indicators and the claims system of CTT – Correios de Portugal for 2002 were thus audited in 2003. The respective conclusions were approved and later published on the ICP-ANACOM website. Regarding the quality of service indicators QSI2, QSI4, QSI6 and QSI7 the audit concluded that their conformity and reliability of calculation were assured. However, regarding the indicators QSI1, QSI3 and QSI5 conformity is not assured, as the information in the respective databases does not reflect with a confidence level equal to or greater than 90 percent the information in the support objects for calculation of same, regardless of whether the identified differences do or do not have any impact on the indicator's calculation<sup>49</sup>; the claims

---

<sup>49</sup> Evaluation of the quality of service indicators is supported by analysis of results of the following activities: (i) calculation of the indicator for the entire test population; (ii) evaluation of the statistical matrix's representation compared to the real population; (iii) evaluation of the test population's representation compared to the statistical matrix; (iv) analysis of the information's consistence and integrity; (v) analysis of conformity between the physical support and the information registered in the database; (vi) calculation of the values that originated compliance with the CTT's quality of service indicators, in accordance with the Universal Postal Service Quality Convention. The information registered in the respective databases for each indicator is the support for calculation of the QSIs. In this context, the following evaluation methodology was agreed upon:  
A sample of 114 objects was chosen to evaluate conformity between the information in the electronic support (database) and the respective physical support. The aim of this comparison was to confirm that the information in the respective databases correctly reflected the characteristics of the physical object. The statistical model adopted stipulated that for percentages of error of less than 5% in the objects selected for the sample (114) it could be inferred that for the population the error percentage would not exceed 10% (i.e., that the information in the databases reflects, with a confidence level equal to or greater than 90%, the information in the physical objects). This percentage thus corresponds to the maximum tolerated value of error to allow information in the support database for the calculation of the respective indicators to rigorously transmit the information from the test objects.

system does not have an appropriate level of reliability and precision, vis-à-vis both the reported values and the analysed data – for this reason its conformity is not assured. The decision following on that audit of the quality of service monitoring system and the claims system of CTT – Correios de Portugal was made in 2004 (determination of 14 April 2004).

Regarding monitoring of the quality of service levels (QSIs) achieved by the CTT – Correios de Portugal in 2003<sup>50</sup> it was verified that some of the indicators did not achieve the quality of service levels applicable in this year. Indeed, the CTT did not meet the minimum values set for “Time routing priority mail (D+1)”, “Time routing normal package (D+3)” and “Time waiting in line at post offices (average)”. On the other hand, while meeting the minimum values, the objective values set for “Time routing normal mail (D+3)”, “Priority mail not delivered in 10 working days” and “Time waiting in line in post offices (peak hour)” were not reached.

Thus, by determination of 14 April 2004, ICP-ANACOM decided to apply to the CTT – Correios de Portugal, S.A., once the company had been heard, the penalty envisaged in article 5 of the Universal Postal Service Quality Convention for the 2001-2003 period, which implies a deduction of 1 percent from the limit of the average annual weighted variation for reserved postal services in effect in 2004. As a consequence, CTT was ordered to submit to ICP-ANACOM within 10 days after said determination a new price table proposal for reserved services, whose conformity with that determination was duly verified by the regulator.

### **Concession contract for universal postal service – development goals of the public postal network**

The development goals of the public postal network are established between the ICP and the concessionaire by convention.

After consultation of the interested parties, the audit report on the development goals of the public postal network and the minimum service provisions, containing the results of same and ICP-ANACOM’s understanding on the questions asked (determination of 29 May 2003)<sup>51</sup> was approved. ICP-ANACOM subsequently began negotiations to sign the convention, and to that end asked the CTT to quantify the indicators proposed by ICP-ANACOM. A quantification proposal submitted by the CTT was received on 26 February 2004.

---

In this context, given the sample errors of above 5% it is not possible to conclude positively on QSI conformity, as this circumstance is an alteration of the minimum and maximum value of the percentage of error for the population compared to the interval defined in the statistical model used, which was between 0% and 10%.

<sup>50</sup> Detail in the point on Postal Services in the chapter on “The Situation of Communications”.

<sup>51</sup> <http://www.anacom.pt/template12.jsp?categoryId=91740> .

**Creation and closing of postal establishments and schedule changes**

According to section 2 of Base 20 of the Universal Postal Service Concession, as per the reading introduced by Decree-Law no. 116/2003 of 12 June, the concessionaire is responsible for the following, upon favourable prior opinion from ICP-ANACOM:

- a) The creation and closing of postal establishments;
- b) Changing the working hours of postal establishments, taking into account the service needs and levels of demand.

Under section 3 of the same Base the CTT must notify ICP-ANACOM of any determinations made with regard to the creation, closing or changing of the working hours of postal establishments. In cases of closing or reduction of stations' working hours, such notification must be made at least two months before the date in which each determination should take effect; ICP-ANACOM may oppose realisation of the determination by communicating same to the CTT.

This communication to the CTT should be accompanied by the corresponding grounds, specifically with regard to the service's needs, the levels of demand and satisfaction of the population's communication needs and those of economic activities (section 4).

Prior to the entrance into force of the said Decree-law no. 116/2003, the creation and increased work hours of postal establishments also required a favourable opinion from ICP-ANACOM.

In this context, some 76 notifications were received from the CTT in 2003, as broken down in the following table:

**CTT Notifications in 2003**

DESIGNATION	CTT Notifications in 2003
Change of working hours of postal establishments	23
Closing of postal establishments	6
Closing of post offices and their replacement by mail points <sup>52</sup>	45
Creation of postal establishments	2

---

<sup>52</sup> Post offices (*estações de correio*) are held by the CTT, while mail points (*postos de correio*) are managed by third parties under the CTT's responsibility.

TOTAL	76
-------	----

ANACOM's criterion for the population and taking into account the provision of universal service has consisted of not expressing opposition to change communicated by the CTT, as long as same is duly grounded and has been agreed to by the respective neighbourhood and municipal councils.

## 2.2 Liberalised area

In Portugal and as per the terms envisaged in the community context, taking into account the European single market in accordance with Directive no. 2002/39/EC of 10 June, transposed into national legislation in 2003 by the publication of Decree-Law no. 116/2003 of 12 June, plans call for the continued gradual and progressive liberalisation of the postal services market, modifying the scope of reserved services while at the same time maintaining the guarantees necessary for the public interest.

The new regulatory framework in force in Portugal since publication of the aforesaid Decree-Law envisages the following schedule until 1 January 2009, aiming for the opening to competition of market segments that are still reserved:

- Until 2006, liberalisation of correspondence weighing more than 100 grams and with price above three times the reference tariff (priority mail – *correio azul* – in Portugal);
- From 1 January 2006 until 2009, liberalisation of correspondence weighing more than 50 grams and with price above two and a half times the reference tariff;
- Maintenance in both phases of outgoing international mail and direct mail in the reserved area;
- Eventual total liberalisation from 1 January 2009.

As a result of this evolution, the number of operational providers has increased in Portugal; at the end of 2003 there were 14 active and qualified entities in this market segment, some of them operating in contiguous markets such as merchandise transport.

Detailed study of this market's evolution is undertaken in the chapter on the situation of communications.