

**DECISION ON THE LEVEL OF COMPLIANCE WITH THE UNIVERSAL POSTAL  
SERVICE QUALITY INDICATORS, IN 2019**

**ANACOM**

**2020**

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## **1. Background**

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

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

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

Also applicable in the measurement of 2019 is ANACOM decision of 28.12.2018, taken following the audit of the system of measurement of the QSI of 2016 and 2017, which determined that CTT carry out a series of changes to the QSI measurement procedures, to be implemented, at the very latest, from 01.07.2019<sup>4</sup>.

The Postal Act establishes (in Article 47), that in the case of non-compliance with the performance targets associated to the universal postal service, stipulated by ANACOM

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<sup>1</sup> Law 17/2012 of 26 April, as it stands.

<sup>2</sup> Bases of the Concession of the Universal Postal Service, as approved by Decree-Law 448/99 of 4 November, republished, after amendment, annexed to Decree-Law 160/2013 of 19 November.

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

<sup>4</sup> Available at <https://www.anacom.pt/render.jsp?contentId=1465863>.

under the aforesaid Article 13 of the Postal Act, ANACOM should, according to the principles of proportionality, adequacy, non-discrimination and transparency, apply user compensation mechanisms.

The Postal Act also establishes (in Articles 49 and 50) that non-compliance with the SQP and the performance targets constitutes a very serious administrative offence, punishable with a fine, without prejudice to the possible imposition of accessory penalties. Number 2 of Base XII of the Concession also establishes that, without prejudice to the applicable penalties, in the case of breach of the stipulated performance targets, ANACOM should apply user compensation mechanisms, under the terms of Article 47 of the Postal Act.

By application of the provisions in Article 47 of the Postal Act, in the aforesaid decision of 12.07.2018, it was established that breach of the stipulated performance targets (with the exception of the QSI relative to cross-border intra-community mail) shall give rise to a user compensation mechanism, which shall be applied from the year following that of the non-compliance, inclusively, and shall take effect within the 12 months from the time in which its application begins<sup>5</sup>.

Non-compliance situations shall be verified by ANACOM, after having heard CTT<sup>6</sup>.

By decision of 16.07.2020, ANACOM defined the criterion to be adopted for assessment of achievement of the performance targets associated to QSI calculated through samples<sup>7</sup>.

Non-compliance with the performance targets of the IQS occurs when<sup>8</sup>:

- a) In the case of QSI calculated through samples – IQS relative to standard mail (QSI1 and QSI2), priority mail (QSI3 to QSI6), newspapers and periodicals (QSI7 to QSI12), standard bulk mail (QSI21 and QSI22), and waiting time at postal

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<sup>5</sup> Article 11 (1 and 2) of the «Service quality parameters and performance targets associated to the provision of the universal postal service», established by ANACOM decision of 12.07.2018.

<sup>6</sup> Article 11 (3) of the «Service quality parameters and performance targets associated to the provision of the universal postal service».

<sup>7</sup> Decision available at <https://www.anacom.pt/render.jsp?contentId=1556041>.

<sup>8</sup> See the aforesaid ANACOM decision of 16.07.2020, on the criterion to be adopted to assess compliance with the performance targets associated to QSI calculated through samples, combined with the decision of 12.07.2018, which established the «Service quality parameters and performance targets associated to the provision of the universal postal service».

establishments (QSI23 and IQS24) – when the upper threshold of the 95% confidence level of the observed value is higher than or equal to the target value established for the respective QSI;

- b) in the case of all other QSI, calculated based on the universe (on real items sent by the users) – QSI relative to parcels (QSI15 and QSI16) and registered mail (QSI17 to QSI20) –, when the observed value of the QSI is lower than the performance target established for the respective QSI.

CTT, by means of a letter dated 22.04.2018, reported the observed QSI values in 2019, and by letter of 30.07.2020, reported the 95% confidence interval of the observed value of the IQS calculated through samples, rounded to two decimal places<sup>9</sup>.

According to CTT, the QSI were calculated through an independent measurement system, conducted by the external entity PricewaterhouseCoopers (PwC), except for the QSI related to cross-border intra-community mail, which were calculated by CTT based on the values ascertained by the measurement system Unipost Monitoring System (UNEX), managed by the International Post Corporation (IPC).

## **2. QSI Values in 2019**

Table 1 presents the QSI values reported by CTT for 2019.

According to that company, the QSI figures incorporate deductions for the effects occurred due to situations of force majeure or phenomena whose triggering and evolution were

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<sup>9</sup> See the provisions stipulated in the decision of 16.07.2020.

manifestly beyond CTT's control, which were accepted by ANACOM<sup>10</sup> for purposes of calculation of the QSI values of 2019:

- a) disruptions in air transport in the Autonomous Region of Madeira, caused by strong winds, on 26.03.2019 and 05.12.2019<sup>11,12</sup>;
- b) passing through of hurricane Lorenzo in the Autonomous Region of the Azores, on 02.10.2019<sup>13</sup>;
- c) curtailment of traffic on the A1 motorway, on 30.10.2019, caused an accident between two vehicles<sup>14</sup>;
- d) air traffic disruptions in the airports of the Autonomous Region of the Azores, caused by the depression Elsa and by the strike of SATA Air Açores maintenance staff, both occurred in December 2019<sup>15</sup>.

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<sup>10</sup> Under Article 7 of the «Service quality parameters and performance targets associated to the provision of the universal postal service», established by decision of 12.07.2018.

<sup>11</sup> ANACOM decision of 18.07.2019: <https://www.anacom.pt/render.jsp?contentId=1476697>.

<sup>12</sup> ANACOM decision of 19.03.2020: <https://www.anacom.pt/render.jsp?contentId=1522185>.

<sup>13</sup> ANACOM decision of 13.02.2020: <https://www.anacom.pt/render.jsp?contentId=1517241>.

<sup>14</sup> ANACOM decision of 19.03.2020: <https://www.anacom.pt/render.jsp?contentId=1522268>.

<sup>15</sup> ANACOM decision of 02.04.2020: <https://www.anacom.pt/render.jsp?contentId=1523142>.

**Table 1. QSI Values in 2019**

SQP - Transit times for postal items		RI (%)	Target	Observed value	Upper threshold of the 95% CI of the observed value	Reached target
QSI1	Transit time standard mail (D+3)	27	96.3%	91.5%	92.64%	No
QSI2	Transit time standard mail (D+5)	27	99.7%	98.5%	98.93%	No
QSI3	Transit time blue (priority) mail - Mainland (D+1)	10	94.5%	88.2%	89.80%	No
QSI4	Transit time blue (priority) mail - Mainland (D+3)	10	99.9%	99.1%	99.37%	No
QSI5	Transit time blue (priority) mail - CAM (D+2)	4	90.0%	88.0%	91.82%	Yes
QSI6	Transit time blue (priority) mail - CAM (D+4)	4	99.9%	98.4%	99.18%	No
QSI7	Transit time newspapers and weekly or less than weekly periodicals - Mainland (D+1)	8	94.5%	84.4%	85.30%	No
QSI8	Transit time newspapers and weekly or less than weekly periodicals - Mainland (D+3)	8	99.9%	99.0%	99.26%	No
QSI9	Transit time newspapers and weekly or less than weekly periodicals - CAM (D+2)	4	90.0%	84.1%	84.99%	No
QSI10	Transit time newspapers and weekly or less than weekly periodicals - CAM (D+4)	4	99.9%	97.9%	98.26%	No
QSI11	Transit time newspapers and more than weekly periodicals (D+3)	8	96.3%	86.7%	88.05%	No
QSI12	Transit time newspapers and more than weekly periodicals (D+5)	8	99.7%	96.7%	97.42%	No
QSI13	Transit time cross-border intra-community mail (D+3)	N/A	88.0%	77.7%	N/A	No
QSI14	Transit time cross-border intra-community mail (D+5)	N/A	97.0%	95.7%	N/A	No
QSI15	Transit time standard parcels (D+3)	5	96.3%	90.8%	N/A	No
QSI16	Transit time standard parcels (D+5)	5	99.7%	96.4%	N/A	No
QSI17	Transit time registered mail - Mainland (D+1)	20	94.5%	94.1%	N/A	No
QSI18	Transit time registered mail - Mainland (D+3)	20	99.9%	99.8%	N/A	No
QSI19	Transit time registered mail - CAM (D+2)	4	90.0%	75.8%	N/A	No
QSI20	Transit time registered mail - CAM (D+4)	4	99.9%	95.2%	N/A	No
QSI21	Transit time standard bulk mail (D+3)*	N/A	96.3%	89.3%	94.47%	No
QSI22	Transit time standard bulk mail (D+5)*	N/A	99.7%	98.1%	99.04%	No
<b>QSP - Waiting time at postal establishments</b>						
QSI23	Waiting time at postal establishments (% of events up to 10 minutes)	10	90.0%	88.8%	89.69%	No
QSI24	Waiting time at postal establishments (% of events up to 30 minutes)	10	99.5%	99.1%	99.38%	No

Notes:

Values reported by CTT, not yet audited.

IR — Relative importance of each QSI.

CI — Confidence Interval.

N/A - Not applicable.

CAM: Mainland Portugal — Azores — Madeira flows.

According to CTT, the QSI were calculated through an independent measurement system, conducted by the external entity PricewaterhouseCoopers (PwC), except for the QSI related to cross-border intra-community mail, which were calculated by CTT based on the values ascertained by the independent measurement system Unipost Monitoring System (UNEX), managed by the International Post Corporation (IPC).

\* Measurement from April to December 2019.

According to the values in Table 1, it is found that only IQS5 [Transit time blue (priority) mail - CAM (D+2)] reached its defined performance target for the year.

In view of the non-compliance with the performance targets, this gives rise to the application of the compensation mechanism established in Article 7 of the «Quality of service parameters and performance targets associated with provision of the universal postal service».

According to CTT<sup>16</sup>, in addition to the transport disruptions, especially in the connections with the Autonomous Regions, and among these in particular with the Autonomous Region of the Azores, the results in 2019 were negatively affected by labour disruptions (plenaries of the workers in June and general strike of CTT employees on 5 July, due to difficulties in hiring personnel due to the continuous decline of the unemployment rate, especially affecting the summer and Christmas periods, and due to the lower mail processing capacity at the Southern Production and Logistics Centre, in the 2nd, 3rd and 4th quarters of 2019, due to the implementation of new mail sorting machines under the Modernisation and Investment Plan of this company, as well as other occurrences of operational nature.

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

According to Appendix 2 of the «Service quality parameters and performance targets associated to the provision of the universal postal service»:

- a) the applicable compensation for non-compliance with the performance targets of the IQS, with the exception of the QSI relative to cross-border intra-community mail<sup>17</sup> and of the QSI relative to standard bulk, corresponds to the application of a deduction, up to the value of 1 percentage point, to the permitted maximum price variation

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<sup>16</sup> In the quarterly reports with information on the QSI values observed in each quarter of the calendar year, sent to ANACOM, pursuant to Article 8 (1 and 2) of the «Service quality parameters and performance targets associated to the provision of the universal postal service», established by ANACOM by decision of 12.07.2018.

<sup>17</sup> As already noted, the compensation mechanism is not applicable to non-compliance with the QSI of cross-border intra-community mail, hence, hereinafter no reference shall be made to the QSI.

for the basket of items of correspondence, editorial mail and parcels included in the universal postal service, permitted for the years following that of the non-compliance, which should benefit the users of these services as a whole<sup>18</sup>;

- b) the applicable compensation for non-compliance with the QSI relative to standard bulk mail corresponds to a deduction, up to 5%, on the prices of normal bulk mail subject to special prices, in the domestic service.

The compensation may be enforced for a maximum period of 12 months counted from the starting date of its implementation.

Compensation mechanism for non-compliance with the QSI (except for standard bulk mail)

The deduction is calculated as follows<sup>19</sup>:

- a) Deduction associated to non-compliance with each QSI calculated through samples [QSI relative to standard mail (QSI1 and QSI2), blue (priority) mail (QSI3 to QSI6), newspapers and periodicals (QSI7 to QSI12) and to waiting time at postal establishments (QSI23 and QSI24)]:

Non-compliance of the QSI exists when the upper threshold of the 95% confidence interval of the observed value of the QSI is lower than the performance target established for the

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<sup>18</sup> In exceptional situations duly substantiated by CTT, associated to operational difficulties in the implementation of the price reduction, this provider may request ANACOM to apply, as an alternative to the aforesaid compensation, a financial compensation in benefit of the users, in which the specific forms of carrying out this compensation, to be made under the services included in the universal postal service, shall be subject to prior approval by ANACOM, considering the principles of universality, and being of a financial value at least equivalent to the reduction of revenues that would arise from the established compensation via the price reduction. This possibility is laid down and ruled by the provisions in numbers 5 to 7 of Appendix 2 of the «Service quality parameters and performance targets associated to the provision of the universal postal service».

<sup>19</sup> By the combined application of Appendix 2 of the «Service quality parameters and performance targets associated to the provision of the universal postal service», with the decision of 16.07.2020 on the criterion to be adopted to assess compliance with the performance targets associated to QSI calculated by samples.

respectiv QSI. The deduction corresponds to the product of the relative importance (RI) of the IQS and the maximum deduction (1 p.p.).

- b) Deduction associated to the non-compliance of each QSI calculated based on the universe [QSI relative to parcels (QSI15 and QSI16) and registered mail (QSI17 to QSI20)]:

Non-compliance of the QSI exists when the observed value of the QSI is lower than the performance target established for the respective QSI. The deduction corresponds to the product of the relative importance (RI) of the IQS and the maximum deduction (1 p.p.).

- c) Applicable total deduction:

The applicable total deduction is determined by the sum of the RI of the QSI that are not compliant with the performance target, multiplied by the applicable maximum deduction (1 p.p.), up to the limit of 1 p.p. (applicable total deduction).

As the sum of the RI of the QSI that are not compliant with the performance target is 196%, the applicable deduction corresponds to the applicable maximum deduction, i.e. the deduction of 1 percentage point from the maximum price variation permitted for the basket of correspondence items, editorial mail and parcels included in the universal postal service (as  $196\% * 1 \text{ p.p.} \leq 1 \text{ p.p.}$ ).

Considering that:

- a) the applicable compensation may be enforced for a maximum period of 12 months counted from the starting date of its implementation; and
- b) the concession contract of the universal postal service terminates at the end of this year, on 31.12.2020,

it is considered that the compensation mechanism should be applicable up to 31.12.2020, i.e. the permitted maximum price variation for 2020 should be applicable to the basket of correspondence items, editorial mail and parcels included in the universal postal service.

It should also be applicable for a minimum period of two months, in other words, it must begin at the very latest by 01.11.2020, in order to enable benefiting all the users.

This time limit would enable taking into account the necessary period of time until the final decision may be implemented, which includes the time limit for the prior hearing of CTT (under the Code of Administrative Procedure) on the present draft decision, the time limit for ANACOM's analysis of CTT's statements and for the subsequent preparation of the final decision, as well as the time limit for CTT to prepare the implementation of the final decision (which includes, in particular, CTT's definition of the applicable price changes in order to ensure compliance with the endorsed final decision and, thus, the corresponding maximum price variation applicable to the aforesaid basket of prices). ANACOM's establishment of a date to start the application of the decision before November might not be compatible with the accomplishment of the aforesaid necessary steps. In any case, CTT may always start its application before 01.11.2020, should this prove possible.

By application of the criteria for pricing the postal services that comprise the universal service in the three-year period 2018-2020 (pricing criteria), defined by ANACOM decision of 12.07.2018 and complemented by decision of 05.11.2018, under Article 14 (3) of the Postal Act, the weighted average variation in the prices of the basket of correspondence, parcel and editorial mail services may not exceed, in 2019, the  $CPI + CPIAF - 0.25\% + TCF$ , in nominal average terms, which corresponds to a maximum variation of 1.41<sup>20</sup>.

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<sup>20</sup> Considering that:

- a) CPI - Consumer Price Index: in accordance with Article 5 (1) (a) of the pricing criteria, the CPI (for 2020) is the inflation forecast by the Government (for 2020) and, as such, entered in the National Budget Memorandum (2019). This value is 1.0%;
- b) CPICF - Correction factor of the CPI: taking into account Article 5 (1) (b) of the pricing criteria, the CPICF corresponds to the difference between the amount of inflation projected in the 2020 National Budget Memorandum for 2019, which is +0.3%, and the inflation figure that was forecast for 2019 in the 2019 National Budget Memorandum, which was 1.3%, with this difference having the upper threshold of 2.5%. Therefore, and taking into account the values mentioned above, the CPICF is equal to -1.0% [= 0.3 - 1.3%];
- c) TCF - traffic correction factor: this is a correction factor of the maximum price variation that takes into account deviations that take place between the traffic variation expected for 2020 at the time of the definition of the pricing criteria (which was forecast to be -3.42%) and the observed traffic variation (equal to -7.84%, according to the calculation formula established in Article 5 (1) (c) of the pricing criteria. The aforesaid deviation is equal to -4.42 percentage points [= -7.84% - (-3.42%)], such that the TCF value is equal to 1.66% [= -0.375 \* (-4.42%)], the average weighted variation of the prices of the basket of correspondence, editorial mail and parcel services must not exceed, in 2020, 1.41% [= 1.0% - 1.0% - 0.25% + 1.66%].

The application of the deduction of 1.0 p.p., arising from non-compliance with the performance targets of the IQS in 2019, implies that the average weighted variation of the prices of the basket of correspondence, editorial mail and parcel services, in 2020, the CPI + CPICF - 0.25% + TCF - 1.0%, in nominal average terms, cannot be higher than 0.41% (corresponding to 1.41% - 1.0%).

#### Compensation mechanism for non-compliance with the QSI of standard bulk mail

The applicable maximum price deduction for non-compliance with each of the QSI relative to standard bulk mail is 0.25%.

This maximum deduction is applicable to actual values of each of the QSI with negative deviations in relation to performance equal to or above 2 p.p.

When the negative deviation is less than 2 p.p., the applicable penalty follows a rule of proportionality between the performance target and the negative deviation between that target and the actual value.

As there is non-compliance with QSI21 and the negative deviation is 1.83 p.p. (difference between 94.47% and 96.3%), i.e. less than 2 p.p., the price reduction associated to non-compliance with IQS21 corresponds to  $0.25\% * (1.83 \text{ p.p.} / 2 \text{ p.p.}) = 0.23\%$ .

As there is non-compliance with QSI22 and the negative deviation is 0.66 p.p. (difference between 99.04% and 99.7%), the price reduction corresponds to:  $0.25\% * (0.66 \text{ p.p.} / 2 \text{ p.p.}) = 0.08\%$ .

In other words, compensation mechanism due to non-compliance with the QSI relative to standard bulk mail corresponds to a 0.31% deduction to the current prices for standard bulk mail.

Considering that:

- a) the applicable compensation may be enforced for a maximum period of 12 months counted from the starting date of its implementation; and
- b) the concession contract of the universal postal service terminates at the end of this year, on 31.12.2020,

it is also considered that the compensation mechanism due to non-compliance with the QSI relative to standard bulk mail should be applicable up to 31.12.2020, in other words, the reduction of the prices in force for standard bulk mail should be applicable up to 31.12.2020.

For the same reasons indicated above in the case of non-compliance with all the other QSI, it should also be applicable for a minimum period of two months, in other words, it must begin at the very latest by 01.11.2020, in order to enable benefiting all the users.

#### **4. Determination**

Whereas:

- a) CTT undertakes to provide the services that comprise the universal service in accordance with the quality of service parameters and performance targets established by ANACOM, pursuant to Article 13 (1) of the Postal Act;
- b) based on the information available regarding the values achieved by CTT, in 2019, the values of QSI5 relative to transit time blue (priority) mail - CAM (D+2) complied with its defined performance target for that year, but none of the other QSI complied with their defined performance targets for the year;
- c) the non-compliance with the performance targets referred to in the previous point gives rise to the application of the user compensation mechanism established in the service quality parameters and performance targets stipulated by ANACOM, without prejudice to the application of all the penalties foreseen in the law;

- d) CTT's prior hearing was held on the draft decision concerning the values of the universal postal service quality indicators in 2019, including the statement received and the respective analysis of the "Report on the prior hearing of CTT on the draft decision concerning the level of compliance with the universal postal service indicators, in 2019", which is an integral part of this decision,

the Board of Directors of ANACOM:

- in the exercise of the duties and powers conferred upon ANACOM, respectively, by Article 8 (1) (h) and (i) and Article 9 (1) (g), (h) and (p), all of its Charter, as approved by Decree-Law 39/2015 of 16 March;
- in the exercise of the powers conferred upon it by Article 26 (1) (b) of the ANACOM Charter; and
- observing the provisions of Article 13 (1) and Article 47, both of the Postal Act (Law 17/2012, of 26 April, as per the current amended version), paragraphs 1 and 2 of Base XII of the Basic acts of concession of the universal postal service (as approved by Decree-Law 448/99, of 04 November, as per the current amended version), Articles 1 and 7 of the "quality of service and performance targets associated with the provision
- observing the provisions in ANACOM's decision of 16.07.2020, on the criterion to be adopted for assessment of achievement of the performance targets associated to QSI calculated through samples,

determines:

- 1) Approval of the "Report on the prior hearing of CTT on the draft decision concerning the level of compliance with the universal postal service indicators, in 2019", which is an integral part of the present decision;
- 2) The application of the compensation mechanism established in Article 7 of the «Quality of service parameters and performance targets associated with provision of the

universal postal service», laid down in ANACOM decision of 12.07.2018, due to the observed failure to achieve the QSI performance targets in 2019;

- 3) In compliance with the previous point, ANACOM determines:
  - a) the application of the deduction of 1 percentage point to the weighted average variation of the prices of the basket of items of correspondence, parcels and editorial mail, permitted for the year of 2020, where this variation is henceforth  $\text{Consumer Price Index (IPC)} + \text{Consumer Price Index Correction Factor (FCIPC)} - 0.25\% + \text{Traffic Correction Factor (FCQ)} - 1.0\%$ , which is equal to 0.41%, where this deduction should benefit all the users of those services;
  - b) a 0.31% deduction to the current prices of regular bulk mail subject to special prices, in the domestic service.
- 4) That CTT must initiate the application of the deduction determined in the previous point by 01.11.2020, which must be fully applied by 31.12.2020.
- 5) That CTT That CTT should be ordered to inform ANACOM of the deduction of prices to be implemented in accordance with the preceding points, prior to its date of application, accompanied by (i) information demonstrating compliance with this determination, namely, the maximum price variation permitted for 2019, as determined in paragraph a) of point 3 above and of the price reduction determined in paragraph b) of the same point 3), and (ii) of information on how CTT shall proceed or has proceeded with disclosing the price change to the users.