



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

**December 2022
– 7/2022**

**Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee**

Pilotage in Danish waters

1. Introduction and conclusion

1.1. Purpose and conclusion

1. Pilotage is about maritime and environmental safety. The role of the pilot is to provide advice to the master of a vessel on navigation and maneuvering to ensure that the vessel arrives safely. The Danish waters are characterised by dense traffic, narrow passageways and low water depths. Pilotage reduces the risk of accidents that could lead to loss of lives or pollution of the marine environment from, for instance, oil and chemical spillage or nuclear waste.

2. Particularly large or deep-keeled vessels, or vessels carrying dangerous cargo, are required to use a pilot when they enter or depart a Danish harbour. It is not compulsory for vessels sailing through Danish waters without calling at a harbour to use a pilot. The exemption from compulsory pilotage can be found in a treaty (*Københavnertraktaten*) from 1857, according to which Denmark is obliged to make pilotage through the belts voluntary. Since the primary route to and from the Baltic Sea goes through either The Sound or the Great Belt, many vessels pass through these waters every day. In 2021, approx. 18,000 oil tankers and cargo ships went through The Sound and the Great Belt. The International Maritime Organisation (IMO) recommends that deep-keeled vessels and vessels carrying dangerous cargo use a pilot on these routes.

3. The market for harbour pilotage was liberalised in 2006. The Danish parliament (the Folketinget) decided to open the transit pilotage market for competition in 2014. Competitive tendering for transit pilotage was implemented gradually in the years from 2016 to 2020. The liberalization of the pilotage market had multiple purposes, some of which were conflicting, according to the Ministry of Industry, Business and Financial Affairs. The point of departure for Rigsrevisionen's study is the intentions of the Folketinget to create more competition and reduce prices so that more vessels would use a pilot to the benefit of maritime and environmental safety in Danish waters.

4. In 2013, the Folketinget decided to convert the state-owned Danish Pilotage Service into an independent public enterprise called *DanPilot*. The overall purpose of this change was to provide a basis for the efficient operation of pilotage in DanPilot. The Danish Ministry of Industry, Business and Financial Affairs owns DanPilot. Figure 1 shows the key purposes of the amendments made to the Danish Pilotage Act and the DanPilot Act.

The International Maritime Organisation (IMO)

IMO is an organisation under the UN with responsibility for the safety and security of shipping and the prevention of marine and atmospheric pollution by ships.

Harbour pilotage

Pilotage with an entry or exit point in a harbour.

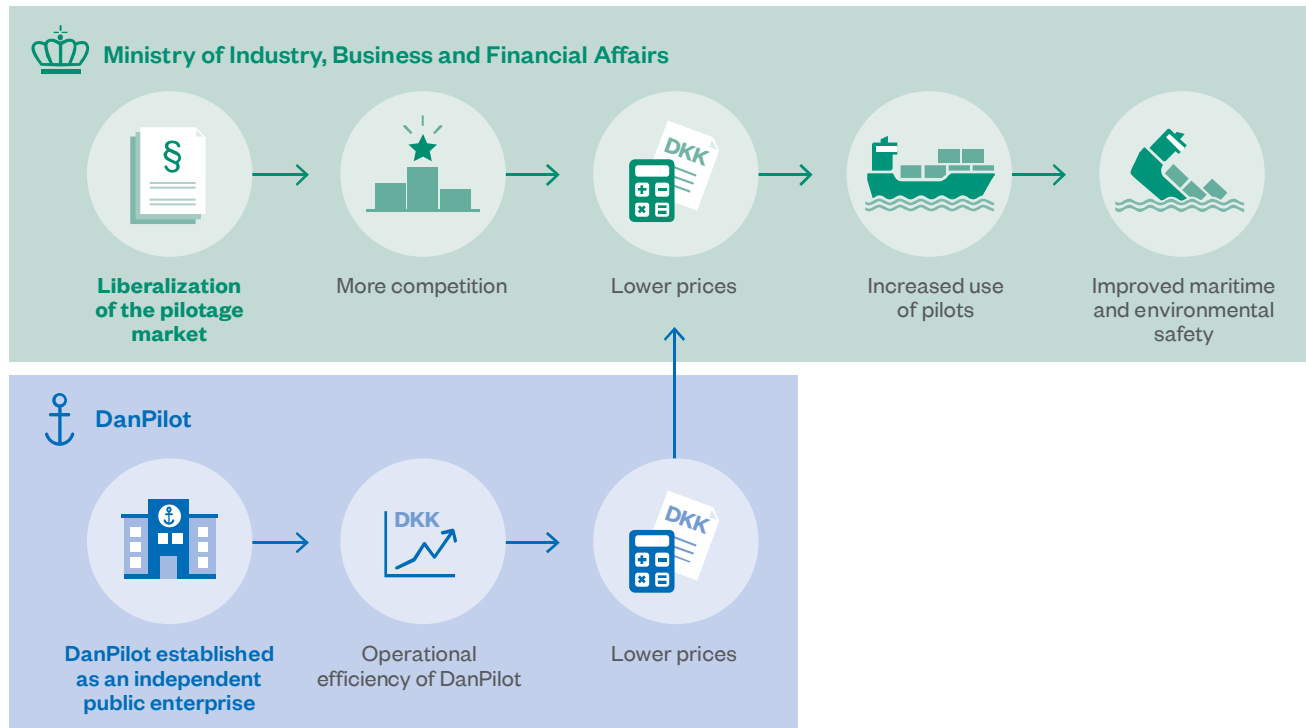
Transit pilotage

Pilotage through Danish waters without calling at a harbour.

Independent public enterprise

An independent public enterprise is a company owned by the state. Independent public enterprises generate revenues and build up capital and operate outside the Danish appropriation system. Many public services, such as rail transport and energy utilities, are provided by independent public enterprises in Denmark.

Figure 1
Main purposes of the amendments made to the acts



Source: Rigsrevisionen based on notes to the DanPilot Act and notes to the amendment of the Pilotage Act in 2006 and 2014.

Efficiency

The principle of efficiency means getting the most from the available resources. It is concerned with the relationship between resources employed and outputs delivered in terms of quantity, quality and timing.

An efficiency analysis can help determine whether a company produces as much as possible from available resources or employs as few resources as possible (input) to deliver a certain output.

5. The purpose of the study is to assess whether the Ministry of Industry, Business and Financial Affairs has adequately supported the achievement of the parliament's overall intentions for pilotage. The report answers the following questions:

- Has the Ministry of Industry, Business and Financial Affairs supported the achievement of the main purpose of liberalizing the market for pilotage and the establishment of DanPilot as an independent public enterprise?
- Has DanPilot enhanced the efficiency of pilotage after it was established as an independent public enterprise?

6. Rigsrevisionen initiated the study in February 2022.



Main conclusion

The Ministry of Industry, Business and Financial Affairs has not supported the implementation of the Folketinget's overall intentions for pilotage in an entirely satisfactory manner. As a consequence, the use of pilots has decreased and marine and environmental safety in Danish waters could be jeopardized.

The Ministry of Industry, Business and Financial Affairs has not adequately supported achievement of the main purpose of liberalizing the market for pilotage and establishing DanPilot as an independent public enterprise

The Ministry of Industry, Business and Financial Affairs has not taken full advantage of its opportunities to support achievement of the main purpose of liberalizing the market, which was to increase competition, reduce prices and increase the use of pilots. The ministry could, for instance, have imposed limitations on DanPilot's price-setting or acquisition of competing companies offering pilotage services. There is currently little competition in the pilotage market and the price of pilotage has not dropped for all services.

As the owner, the ministry has set targets for DanPilot and followed up on DanPilot's performance regularly. However, the ministry has not carried out relevant analyses to determine what a realistically attainable efficiency level would look like. DanPilot has not achieved the efficiency targets. The ministry has not developed a model for the supply contribution payable to DanPilot that the Folketinget agreed to impose on all pilotage service providers in 2014. Rigsrevisionen notes that this may have created uncertainty among the pilotage service providers about the nature of the terms that would govern the pilotage market in the future.

DanPilot has not enhanced its efficiency since it was established as an independent public enterprise

In 2013, the Folketinget decided to establish DanPilot as an independent public enterprise assuming that this would enhance operational efficiency. However, DanPilot's efficiency has dropped by 9% since 2013, which has had an adverse impact on DanPilot's opportunities to secure lower prices in the pilotage market.

The cause of the overall decrease in efficiency is the fact that costs have increased more than the number of piloted nautical miles since 2013. Different factors have contributed to increasing the costs. Most importantly, the total salary costs for pilots, after adjustment for the general development in salaries in the labour market, have increased by 5% since 2013, mainly because DanPilot has taken on more pilots in the years from 2013 to 2021. The increase in salary costs has not been accompanied by a similar increase in the number of piloted nautical miles.

Supply contribution

DanPilot is responsible for security of supply in terms of pilotage in Danish waters and is as such required to meet the demand for pilots at all times. DanPilot is compensated for the additional costs that this obligation imposes on the organisation through a so-called supply contribution that all pilotage service providers are required to pay to DanPilot.