COMMISSION DECISION

of 21 October 1997

relating to a proceeding pursuant to Article 90 (3) of the EC Treaty regarding the tariffs for piloting in the Port of Genoa

(Only the Italian text is authentic)

(Text with EEA relevance)

(97/745/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES.

Having regard to the Treaty establishing the European Community, and in particular Article 90 (3) thereof,

Having regard to the complaint lodged by Tourship on 21 June 1994 concerning the system of reductions in piloting tariffs in the port of Genoa, withdrawn on 8 July 1997,

Having given the Italian authorities, the Corpo dei Piloti del Porto di Genova (Corporation of Pilots of the Port of Genoa), Tirrenia, Viamare di Navigazione, Navarma and Tourship the opportunity to make known their views on the objections raised by the Commission concerning the system of reductions in piloting tarifs in the port of Genoa,

Whereas:

THE FACTS

This procedure concerns the system of reductions in piloting tariffs in the port of Genoa.

The State measure concerned

(1) Following several references for peliminary rulings from the Court of Genoa in connection with a dispute between Corsica Ferries and the Corporation of Pilots, on 17 May 1994, the Court of Justice delivered a judgement in Case C-18/93 Corsica Ferries ('), on piloting tariffs in the port of Genoa. It held that 'Article 90 (1) and Article 86 of the Treaty prohibit a national authority from inducing an undertaking which has been granted the exclusive right of providing compulsory piloting services in a substantial part of the common market, by approving the tariffs adopted by it, to apply dif-

ferent tariffs to maritime transport undertakings, depending on whether they operate transport services between Member States or between ports situated on national territory, in so far as trade between Member States is affected'.

On 26 May 1994, Tourship (formerly Corsica Ferries) applied to the Corporation of Pilots of the Port of Genoa for the reductions granted to vessels engaged in cabotage, pursuant to the abovementioned judgment. On 1 June 1994, the Corporation informed Tourship that it was obliged to apply the tariffs laid down by the Ministry for the Merchant Navy. The Ministry not having issued new tariffs at that time, the Corporation had been compelled to apply the tariffs objected to by the Court.

On 21 June 1994, Tourship complained to the Commission concerning the system of reductions in piloting tariffs in the port of Genoa, a system which had been the subject of the abovementioned Court ruling.

On 5 October 1994 a new tariff was published in Circular No 5203904. Pursuant to Article 91 of the Navigation Code, piloting tariffs are approved by the Minister for the Merchant Navy after seeking the opinions of the trade union associations concerned. The tariffs are put into effect in each port by decree of the competent maritime authority. In the port of Genoa, the abovementioned circular was put into effect by Decree 17/94 of 12 October 1994 of the maritime authority.

Article 1 of the Decree in question fixes the basic rate calculated on the basis of the gross registered tonnage of a vessel.

Article 4 lays down the tariff increases for services supplied outside normal working hours and days which range from 40 % to 50 % of the basic tariff.

Article 10 provides for a system of reductions on the following piloting tariffs:

^{(&#}x27;) [1994] ECR I-1783.

- a reduction of 65 % of the basic piloting tariff
 is granted to shipping companies operating
 passenger vessels which carry out regular scheduled services according to a fixed route and
 make at least three port calls a day,
- a reduction of 50 % of the basic piloting tariff is granted to shipping companies operating passenger vessels which carry out regular scheduled services according to a fixed rate and make at least four port calls a week,
- shipping companies wich make the following number of calls in a quarter benefit from the following tariffs:
 - from 1 to 3 calls: 100 % of the basic tariff,
 - from 4 to 10 calls: 95 % of the basic tariff,
 - from 11 to 20 calls: 85 % of the basic tariff,
 - over 20 calls: 80 % of the basic tariff.

A 'call' for the purposes of the circular means one entry and one exit from the port.

On 4 September 1996 a new tariff was published in Circular No 5203359. It was put into effect at the port of Genoa by Decree 19/96 of 9 September 1996 of the maritime authority.

Article 1 of the Decree fixes the basic tariff calculated on the basis of gross registered tonnes. There are three types of basic tariff: oil tankers with or without segregated ballast, and other vessels. Article 1 (2) establishes the tariffs for vessels of up to 2 000 grt that are piloted by radio and for vessels authorized to use radio piloting in order leave Porto Vecchio under the Ministerial Decree of 2 September 1996 (1).

Article 5 lays down the tariff increases for services provided outside normal working hours and days which range from 40 % to 100 % of the basic tariff.

Article 10 provides for the following reductions in piloting tariffs:

- a reduction of 65 % of the basic piloting tariff is granted to shipping companies operating passenger vessels which carry out regular scheduled services according to a fixed route and make at least four port calls a week,
- shipping companies which make the following number of calls in a quarter benefit from the following tariffs:

- from 1 to 3 calls: 100 % of the basic tariff,
- from 4 to 10 calls: 95 % of the basic tariff,
- from 11 to 20 calls: 85 % of the basic ariff,
- over 20 calls: 80 % of the basic tariff.

The firms and services concerned

- (2) The Corporation of Pilots of the Port of Genoa (Corpo dei Piloti del Porto di Genova) is a trade association comprising the 21 pilots working in that port. Through its members, it is engaged in an economic activity, namely, the supply of piloting services. It has received from the public authorities the exclusive right to provide compulsory piloting services in the port of Genoa.
- (3) Tourship Italia (formerly Corsica Ferries) is a shipping company governed by Italian law operating regular scheduled services between Genoa and Corsica with two ferries. Since June 1997 Tourship has also operated a high-speed link. It has a concession for a quay within the port of Genoa.
- (4) Tirrenia di Navigazione is 99 % controlled by Società Finanziaria Marittima Finmare, which is in turn controlled by IRI (a public holding company). It chiefly operates ferry and cargo services to Sicily and Sardinia.

Viamare di Navigazione (taken over on 18 December 1996 by Italia di Navigazione) is 99 % controlled by Società Finanziaria Marittima Finmare, which is itself controlled by IRI. Italia di Navigazione operates six container vessels.

Navarma specializes in the transport of passengers and vehicles on ferries sailing to Elba, Corsica and Sardinia.

(5) Piloting services in Italian seaports, governed by the Navigation Code (Articles 86 to 100) and the Implementing Regulation (Articles 98 to 137) are provided under the authority of the harbour master. Although usually optional, piloting services can be made compulsory by decree of the President of the Republic. In virtually all Italian ports, piloting has become compulsory. In the port of Genoa, a Decree of the Ministry of Transport and Shipping of 30 December 1992 made piloting compulsory. This was reaffirmed by Ministerial Decree of 2 September 1996.

That Decree of the Ministry of Transport and Shipping provided for the possibility of recourse, under certain conditions, to piloting services by radio on departure from Porto Vecchio.

⁽¹⁾ See recital 5 for a description of the Decree.

Pursuant to Article 86 of the Navigation Code a corporation of pilots having legal personality is to be set up by decree of the President of the Republic in ports and other places for the access or passage of vessels where there is a recognized need for a piloting service.

Thus, at a given port, the corporation of pilots and the master of a vessel representing the shipowner conclude a contract for the provision of services against payment. Under the contract, a pilot, as a member of the corporation, assists the master of the vessel with the necessary manoeuvres to enter, leave or manoeuvre in the port and the necessary operations for berthing and unberthing. The shipowner applies to the corporation, which designates a pilot to provide the appropriate services.

LEGAL ASSESSMENT

Article 90 (1)

(6) Article 90 (1) provides that, in the case of public undertakings and undertakings to which Member States grant special or exclusive right, Member States shall neither enact nor maintain in force any measure contrary to the rules contained in the Treaty.

In the abovementioned judgment, the Court ruled that the Corporation of Pilots of the Port of Genoa is an undertaking to which the public authorities have granted the exclusive right to supply compulsory piloting services in the port of Genoa. It also stated that endorsement by the Member State of the piloting tariffs was a State measure within the meaning of Article 90 (1).

On 2 September 1996 the Minister for Transport and Shipping adopted a Decree which confirmed the compulsory nature of the piloting service. Circular No 5203359 of the Ministry approved the tariffs for such services in Italian ports. The circular was put into effect by Decree No 19/96 of 9 September 1996 of the Genoa Board of Navigation for the port of Genoa. Such endorsement of the piloting tariffs thus constitutes a State measure within the meaning of Article 90 (1) and the judgment of the Court of Justice in Case C-18/93 Corsica Ferries.

Article 86

The relevant market

(7) The relevant market is that for piloting services in the port of Genoa (Corsica Ferries (1)).

Furthermore, the maritime links within the Community make up a neighbouring, but separate, market which is affected by the behaviour of the corporation of Pilots on the piloting-services market.

The dominant position

(8) According to the case-law of the Court of Justice, an undertaking which has a legal monopoly in a substantial part of the common market may be regarded as occupying a dominant position within the meaning of Article 86 of the Treaty (see the judgments, of 23 April 1991, 18 June 1991 and 10 December 1991 respectively, in Cases C-41/90 Höfner (²), C-260/89 ERT (³); and C-179/90 Port of Genoa (⁴).

The Corporation of Pilots of the Port of Genoa is an undertaking within the meaning of Article 90 (1) of the EC Treaty which, by virtue of the exclusive right granted pursuant to Article 96 of the Code of Navigation, holds a dominant position on the market for piloting services in the port of Genoa.

Substantial part of the common market

(9) Having regard in particular to the volume of traffic in that port and its importance in relation to maritime import and export operations as a whole in the Member State concerned, that market may be regarded as constituting a substantial part of the common market (judgment of the Court in Port of Genoa).

Abuse of a dominant position

(10) The system of reductions in piloting tariffs introduced by Circular No 5203359 has the effect of applying dissimilar conditions to equivalent transactions with other shipping companies, as regards entering, leaving and manoeuvring within the port, thereby placing them at a competitive disadvantage.

(a) Dissimilar conditions

(11) The system of reductions in question is based on the number of weekly calls. The following table lists the beneficiaries of reductions.

^{(1) [1994]} ECR I-1783, at paragraph 41.

⁽²) [1991] ECR I-1979. (³) [1991] ECR I-2925.

^{(*) [1991]} ECR I-5889.

Company	Current reduction	Reduction at 15. 9. 1996	Average reduction at 5. 10. 1994	Flag	
Tirrenia	65 %	65 %	65 %		
Tourship (')	65 %	50 %	0%	Panama	
Navarma	65 %	50 %	% 44 % Italy		
Viamare di Navigazione (²)	65 %	50 %	65 %	Italy	
Other liner companies	from 5 to 20 %	from 5 to 20 %	depending on the flag	Various	

⁽¹⁾ Only from July to September.

A comparison of the different tariffs shows a certain consistency as regards the beneficiaries of the reductions. Tirrenia enjoys a 65 % discount regardless of the tariff applied.

(b) Equivalent transactions

(12) With regard to entry, departure or manoeuvres within the port of Genoa, the piloting service is identical for any given type of vessel (size or tonnage). The fact that a vessel belongs to one shipping company rather than another does not affect the provision of the piloting service.

In their reply to the letter of formal notice, the Italian authorities state that the size of the vessel, type of cargo and the use of tugs were important factors which altered the piloting service supplied to different vessels. However, it is the number of calls in a port which is decisive as regards the service supplied, the latter being very reduced in the case of a master who manoeuvres frequently in the port concerned.

The Commission considers that the factors referred to by the Italian authorities affect the provision of piloting services. This, moreover, is why the tariff takes account of some of those factors, in particular the tonnage of the vessel and the distinction made between oil tankers and other vessels. The use of tugs can also affect the provision of piloting services, although it is clear that this factor has no bearing on the reductions. As regards the argument relating to a reduced service, this point is dealt with in detail in paragraph 19.

(c) Effect on competition

- (13) On a route such as Genoa-Bastia where Tourship, Moby Lines (Navarma) and Tirrenia among others are competitors, those companies receive a large reduction in their piloting costs for an equivalent service provided by the corporation of pilots, thereby placing any other operating company or company wishing to gain access to the route at a competitive disadvantage.
- (14) The Italian authorities state that such a system is justified by the economies of scale that are achieved, first in the planning and allocation of pilots and second, by the reduced piloting service required by ferries.

Economies of scale in planning

According to the Italian authorities, considerable economies of scale are achieved in the area of planning. Passenger vessels notify their quarterly timetables in advance to the pilots corporation. The latter is thus able to assess the number of times that piloting services will be required, the minimum number of pilots per shift and the hours of work. The forecasts allow optimum deployment of the pilots and reduce stand by time considerably. Non-liner vessels which by their nature have no fixed timetables require the corporation to have a larger number of pilots or set up a duty roster.

Pilots have two main tasks: coordination/organization of vessels and on-board or radio piloting. In the case of non-liner vessels, the former takes up 65 % of the pilots' time, while for vessels making three calls a day the time spent on such duties is virtually nil.

⁽²⁾ Now 'Italia di Navigazione'.

In their last two replies to the Commission's request for information (letters of 6 November 1995 and 22 February 1996), the Italian authorities proposed two methods of calculation to demonstrate the economies of scale described below

First method: letter of 6 November 1995

(15) Since 1973, the annual turnover at a piloting station which determines the pilots' incomes has been defined as follows:

$$F = C + n/32 \times Qb \times N \times 12$$

where

F is the annual turnover of a pilot station,

C is the cost of the service (general and administrative costs, repairs, etc.),

n is the number of hours worked a week per pilot,

32 is the statutory number of working hours per week per pilot,

Qb is the basic quota

$$Qb = Eb \times (100 + Kt)/100$$

where

Eb corresponds to a minimum income guaranteed by the State to pilots in Italian ports,

Kt measures the specificities (1) of each port,

N is the number of pilots

The turnover (F) is the sum of the various costs incurred through the provision of piloting services (overheads, repairs and labour).

According to the Italian authorities, piloting costs (c) would be reduced if account were taken only of the regular scheduled traffic, which requires less planning:

Cost reductions obtained by servicing scheduled traffic only

	Current total traffic costs	Scheduled traffic costs	Comments
Overheads	424	117	Reduction from 3 to 1 station
Administration	269	67	Mechanization from 4 to 1 employee
Miscellaneous	341	170	
Communications	329	72	Reduction in communications
Nautical facilities			
Staff	1 274	398	Reduction in staff
Repairs, consumption	668	334	Reduction in repairs
Total	3 306	1 158	That is a reduction of 65 %

The coefficient (K) which measures the specificities of the port would be reduced by 12 %, as the port would no longer require round-the-clock services or a laying-up service.

The number of hours worked per week per pilot (n) would fall by 12 % as only the commercial port would remain in business.

The annual turnover (F) would total Lit 4 005 million instead of Lit 7 954 million, representing a reduction of 50 %.

The 50 % would break down as follows:

- 80 % of traffic benefits from a 65 % reduction,
- 20 % of traffic benefits from a 15 % reduction.
- (16) The initial assumption used by the Italian authorities in their calculation is incorrect. In order to identify cost reductions due to the nature of the

⁽¹⁾ The K coefficients refer to pilots' schedules, workload, tonnage of piloted vessels, proportion of night work, weather conditions and the lack or inadequacy of other port services.

traffic (scheduled/non-scheduled), the calculation should be based on the constant traffic level in the port and not simply by eliminating the present non-scheduled traffic. That is why the reductions set out above are to a large extent explained by less traffic and not by a change in the type of transport (scheduled/non-scheduled). Only the administrative and communications costs would be likely to benefit from economies of scale in a comparison of scheduled with non-scheduled traffic. The economies would at most be 14 % (lower administrative and communications costs to total costs) and not 65 %. The total saving using the above formula would thus be between 15 % and 20 %.

It is worth noting that the calculation compares scheduled passenger traffic with non-scheduled traffic and not the traffic resulting from a number of weekly with other traffic. As a result, if the 50 % calculated above were justified by the economies of scale defined by the Italian authorities, the corresponding reduction would apply to scheduled passenger traffic as a whole.

The effect of peak and off-peak activity is already partially taken into account in the increases for services supplied outside normal working hours and days (Article 5 of the Decree).

Second method: amortization of fixed costs. Study by the 'Tor Vergata' University (Letter of 22 February 1996)

(17) The aim of the study communicated by the Italian authorities is to demonstrate that the cost of supplying piloting services to Tirrenia is far less than the cost of supplying the same services to four other liner shipping companies. To that end, the study compares the average cost of the service, on the one hand for Tirrenia and on the other for the four other lines. The difference between the two average costs, according to the study, represents the economies of scale achieved. The average daily cost to Tirrenia and to the four other companies, GNV, Navarma, Compagnie Tunisienne de Navigation and Tourship (formerly Corsica Ferries), is as follows:

Hypotheses:

Tirrenia and the four companies account for 28,62 % of pilot services supplied.

The monthly basic quota (guaranteed minimum income) generated by the traffic of the five companies thus accounts for 28,62% of each pilot's revenue (Qb \times 28,62%).

Tirrenia makes an average of 13 calls a day, the other four companies together accounting for an average of nine calls.

The other liner companies calling at the port of Genoa (some 25) are not included in the sample.

The daily piloting cost (CU) borne by the coporation for the five companies in question (28,62 % of the coporation's business) is dependent on the daily income of all the 21 pilots (Qb \times 21/30) or the formula:

$$CU = Qb \times 28,62 \% \times 21/30$$
.

The average daily cost for Tirrenia is thus the cost of the daily service for the corporation divided by the number of daily calls (CU/13).

The average daily cost for the other four companies is thus CU/9 where 9 is the number of daily calls.

The difference is thus the economy of scale achieved.

(18) Again, the reasoning is incorrect. On the one hand, it would mean that at any time the 21 pilots were working only for Tirrenia. On the other, the cost of the service should be assessed by unit supplied and not by group of services supplied daily. The latter reasoning would be justified if the corporation supplied a single unit of service for the 13 calls against one for the nine calls. There is no reason to consider that piloting a Tirrenia vessel is different from piloting a Tourship vessel. Furthermore, if the logic used in the study were carried to its limits, the average unit cost for each company except Tirrenia would be far lower than that for Tirrenia. Tirrenia would thus be the only one not to benefit from reductions.

The study then examines the daily, monthly and annual distribution of calls in the port of Genoa. According to the author, Tirrenia is more regular than the other companies both over a day and over a year. The reductions, it is inferred, are a regularity incentive.

As piloting is compulsory, this approach must be rejected. It is possible that the tariffs for peak and off-peak hours or high and low season differ in order to resolve the problems of pilot allocation during peak periods. However, it is not possible to consider, as the study claims, that Tirrenia's traffic is 'normal' and that all the other companies produce peak traffic. As in the preceding explanation, distinguishing between scheduled and non-scheduled traffic could be justified on grounds of economies of scale linked with planning.

Reduced service

(19) The Italian authorities consider that a company making four port calls a week requires a reduced piloting service.

According to the study on EU maritime piloting carried out by RH&H Consult at the request of the Commission, all the Member States with the exception of Italy grant either a piloting exemption certificate (ad personam authorization of the captain) after a certain number of visits to a port, or a piloting exemption for regular transhipment vessels. The number of calls required for a piloting exemption certificate ranges from 6 to 36 depending on the Member State and the port. These Member States thus consider that a captain calling into port between 6 and 36 times a year no longer needs a pilot. It can therefore be concluded that captains achieving such totals effectively require in a Member State which makes piloting mandatory, a reduced or even nil service. In Genoa, at least four calls a week (208 per annum) per company are necessary before substantial reductions can be enjoyed. Reductions are calculated by company and not by master. A new master in a company owning vessels will give entitlement to a reduction, although a full piloting service will be provided. In view of the number of vessels of the companies in question, the thresholds giving entitlement to a reduction are considerably higher than in the other Member States, although there is no evidence that entering and leaving the port of Genoa is particulary difficult.

The decree of the minister for Transport and Shipping of 2 September 1996 stipulated that regular

scheduled ferries in excess of 15 000 gross tonnes operating a liner service, with fixed itineraries and timetables, may use radio piloting services only on departure from Porto Vecchio and provided they do not use tugs if the master speaks Italian and has completed 10 approaches on the same type of vessel with a pilot on board (entering and leaving the port). This possibility is not, however, available at any port other than Porto Vecchio.

The various studies submitted by the Italian authorities do not show that there are any economies of scale in the supply of piloting services to the four companies benefiting from the 65 % reduction compared with the other companies operating from the port of Genoa. The studies show, however, that liner companies pay less for piloting services than non-liner companies. Nevertheless, the saving made in providing piloting services for liner companies as a whole is far from accounting for 65 % of the cost of the service. According to the study of 6 November 1995, it accounts for a maximum of 20 %, which should therefore be fairly distributed among all the liner companies and not only between the four beneficiaries referred to above.

The present system, accordingly, has the effect of applying dissimilar conditions to equivalent transactions with other shipping companies in respect of sailing into, out of and inside the port, thereby placing them at a competitive disadvantage.

(21) In their reply to the formal notice, the Italian authorities indicated that an economic operator, even with a monopoly, must be able to establish a policy of incentives for its most important customers and hence a port marketing policy.

According to the case-law of the Court (1), commercial behaviour regarded as normal may constitute abuse within the meaning of Article 86 of the Treaty if it is carried out by an undertaking in a dominant position.

A difference in the way an undertaking in a dominant position treats its different customers must be justified on objective grounds.

Because of its geographic position and the communications network surrounding it, the port of Genoa has a natural monopoly for a large part of its traffic,

^{(&#}x27;) Judgment of the Court of First Instance in Case T-65/89 BPB Industries and British Gypsum V. Commission [1993] ECR II-389, paragraph 69.

especially as regards passenger traffic. It is the only possible port for shipping companies wishing to serve the islands of the Mediterranean (Corsica, Sicily, Sardinia).

Shipping companies have no alternative. There is very little danger that a company will alter its route and hence change port in order to benefit from a more advantageous offer from a competing port. Pilots cannot, without an objective reason, favour certain shipping companies to the detriment of others.

Objective reasons could, for example, be economies of scale or protection of the sea bed.

As was explained above, the economies of scale are of minor importance in the present case and fail to reach the 65 % reductions granted to certain shipping companies.

Indeed, those reductions are not based on any criterion relating to the protection of the sea bed.

For the reasons set out above, an undertaking such as the corporation of pilots which applies dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage, is abusing a dominant position within the meaning of point (c) of the second paragraph of Article 86.

Therefore, where a Member State has, as in the present case, formally approved such a system by adopting a circular laying down the tariffs, it constitutes a State measure that is contrary to Article 90 in conjunction with point (c) of the second paragraph of Article 86 of the Treaty.

In its judgment concerning the former piloting tariffs in the port of Genoa, the Court considered that a Member State infringes Articles 90 and 86 of the Treaty if, by approving the tariffs adopted by the undertaking, it induces it to abuse its dominant position, *inter alia*, by applying dissimilar conditions to equivalent transactions with its trading partners, within the meaning of point (c) of the second paragraph of Article 86 of the Treaty (judgment in Corsica Ferries).

Effect on trade between Member States

(22) The system of reductions places a burden on the transport prices of carriers unable to benefit from the system. Harbour duties are a major item of

expenditure in a shipping company's operating charges.

In Corsica Ferries (1), the Court ruled that inasmuch as the discriminatory practices applied to the provision of identical services 'affect undertakings providing transport services between two Member States, they may affect trade between Member States'.

Article 90 (2)

Although the Italian authorities stated that there was a large element of public service in the supply of piloting services, they have not pleaded the exemption pursuant to Article 90 (2) of the Treaty to justify introducing and maintaining the reductions. Furthermore, the application in the present case of the rules on competition does not obstruct the performance of the particular tasks assigned to the corporation of pilots which is to monitor and ensure the safety of traffic inside the port and to protect the sea bed.

The exemption provided for in Article 90 (2) is therefore not applicable.

Conclusion

In view of the foregoing, the Commission considers that the State measure referred to in recital 1 constitutes an infringement of Article 90 (1) of the Treaty in conjunction with Article 86,

HAS ADOPTED THIS DECISION:

Article 1

The system of reductions in piloting tariffs in the port of Genoa introduced most recently by Circular No 5203359 of the Ministry of Transport and Shipping of 4 September 1996 is incompatible with Article 90 (1) of the EC Treaty, read in conjunction with Article 86.

Article 2

The Italian Government shall put an end to the infringement referred to in Article 1 of this Decision and shall inform the Commission of the measures it has taken to that end within two months of the notification of this Decision.

^{(&#}x27;) [1994] ECR I-1783, paragraph 44.

Article 3

This Decision is addressed to the Italian Republic.

Done at Brussels, 21 October 1997.

For the Commission

Karel VAN MIERT

Member of the Commission