

Fact-Finding Inquiry IC54  
**Automotive Fuel Prices:**  
**Competitive Dynamics from Extraction to Distribution**  
**Executive Summary**

**13 June 2023**



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## IC54

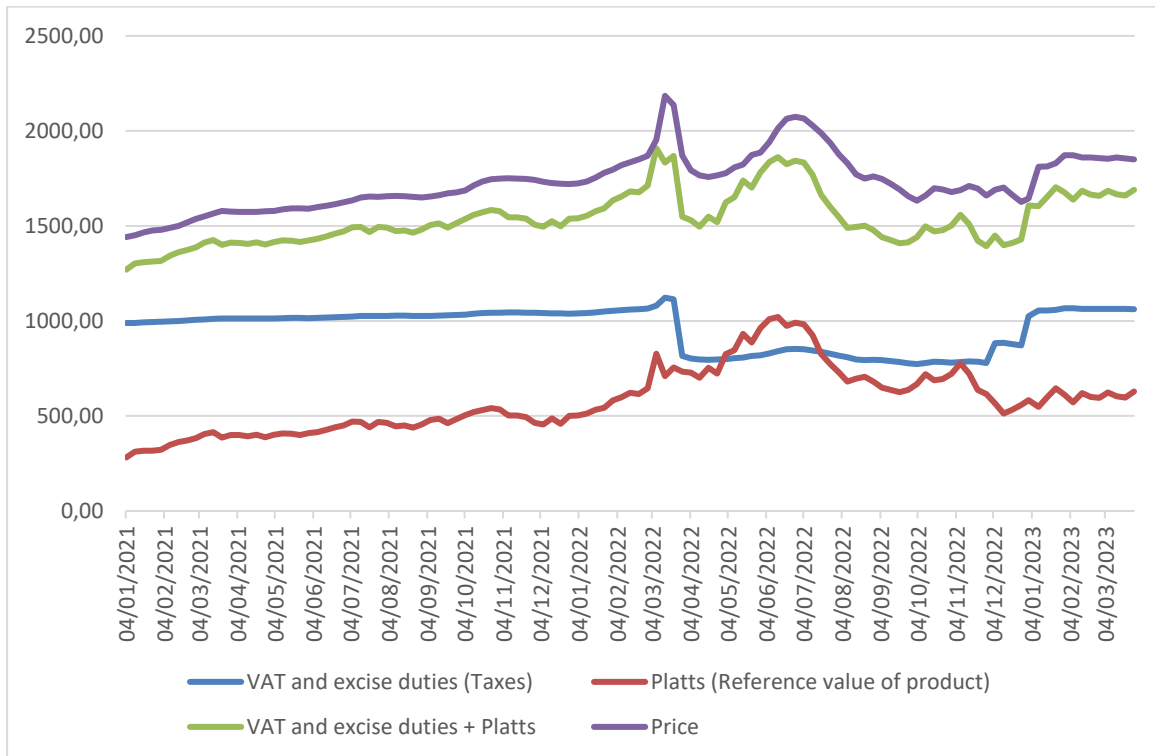
### Executive Summary

On 24 January 2023, the Italian Competition Authority (hereinafter referred to as the “Authority”) launched a fact-finding inquiry, based on Article 12, para 2, of Italian Law no. 287/1990, into the prices of motor fuels in Italy with regard to the competitive dynamics observable in the various stages of the supply chain, from extraction to distribution (hereinafter referred to as the “Inquiry” or “IC54”). The activities concluded on 13 June 2023, with the approval of the final text of the Inquiry, available in its entirety on the

Authority’s website, and the table of contents of which is attached hereto.

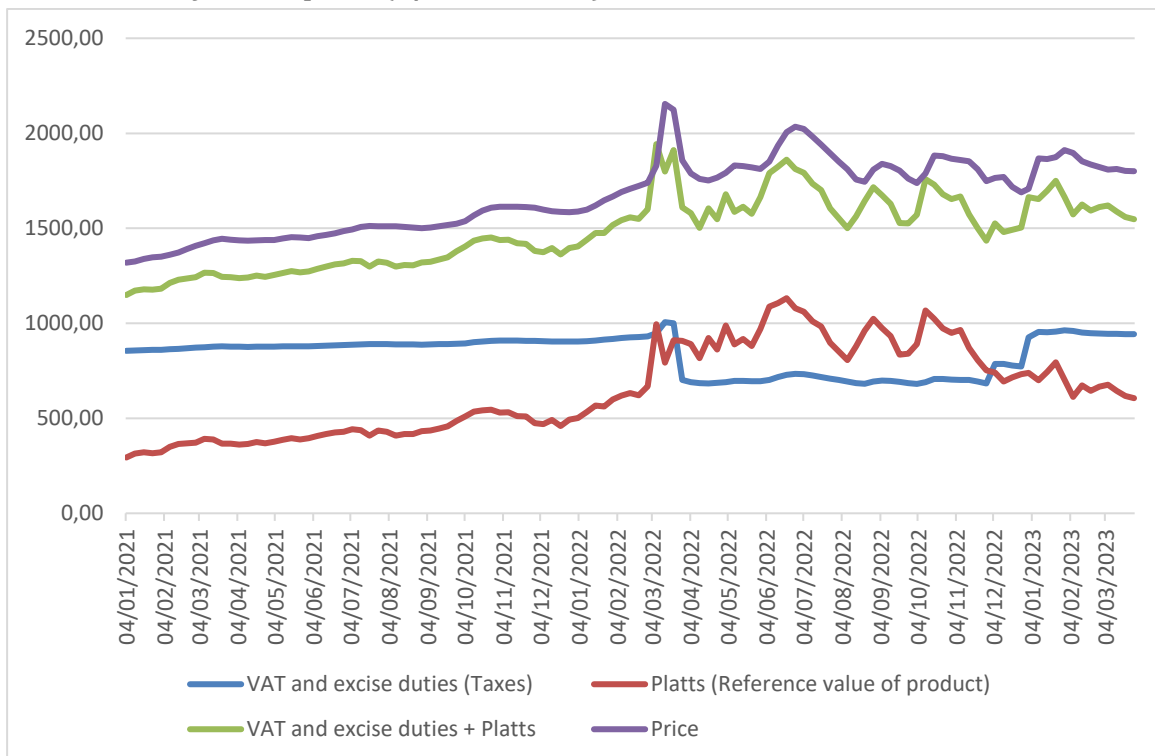
The reason for the Inquiry was the observation of some significant increases in the retail prices of motor fuels during the year 2022 and early 2023. It focused on price trends between January 2021 and early April 2023 and tried to identify the main determining factors. Below are two graphs showing the exceptional nature of the trends observed and the dynamics of the main components of petrol and diesel prices.

### Breakdown of petrol prices (€/1,000 liters)



Source: processing of MIMIT data (weekly prices of petroleum products) and FIGISC Newsletter

### Breakdown of diesel price (€/1,000 liters)



Source: processing of MIMIT data (weekly prices of petroleum products) and FIGISC Newsletter

Unlike other inquiries previously carried out by the Authority about fuels and their distribution structure (IC18 of 24 October 1996, IC21 of 7 June 2001, IC44 of 19 December 2012), IC54 took the entire oil supply chain into consideration, thus also analyzing the most upstream stages characterized by international dynamics; as to the more downstream stages, which, like distribution, directly affect

Italian consumers, the results of a survey conducted on a sample of more than 2000 habitual purchasers of fuels for their vehicles made it possible to obtain an updated picture of consumption habits. The Inquiry also made it possible to focus on the unprecedented dynamics affecting the oil sector in the context of the ongoing energy transition.

## **Summary of the main findings of the Inquiry**

Insights from the fact-finding inquiry revealed that:

1. the price tensions experienced from 2022 onwards are primarily attributable to exceptional events of an international nature, in respect of which the possibility of effective antitrust intervention is difficult to hypothesize juridically, all the less at the national level;
2. exceptional regulatory interventions also had a significant impact on consumer price trends in Italy and, in particular, the application of a temporary tax rebate on fuels by limitation of the applied excise duties (from March 2022), and its subsequent elimination (from January 2023). A significant increase in variability of the overall trend of gross margins emerged at the aggregate level;
3. the national distribution network, despite a certain amount of upgrading, continues to be characterized by a lower average supply than in the other main EU countries, and there is operational lack of transparency within it that has allegedly facilitated the spread of tax evasion and corruption phenomena, which have been detected by the relevant institutions. In this respect, it became apparent that a set of provisions should be introduced and tools implemented on the organization of the national oil system as a whole, including the alignment of the databases on product flows and filling stations managed by a series of public bodies;
4. with specific regard to the motorway network, where fuel prices are systematically higher than on the ordinary road network, concerns have emerged about the

current concession model, namely the applied royalties and the service obligations demanded from sub-concessionaires. These are conditions which (all the more so given the downward trend in consumption) are likely to affect the efficiency of services and the prices charged to consumers as well as the actual financial sustainability by operators;

5. price transparency measures, although long pursued in the more general context of liberalization of consumer distribution activities, must be carefully considered, paying attention to their actual usefulness and cost effectiveness. With particular regard to the use of existing price comparison tools, the inquiry showed that some of these tools, specifically the 'Osservaprezzi' website, could be improved to enable their greater use. Recent regulatory provisions ( see Italian Decree-Law no. 5/2023 and ensuing instruments) need to be considered insofar as they allow certain improvements and, in particular, the possibility for the user to set up a search based on his or her own choice criteria, while other measures envisaged therein, specifically the publicity of average prices with regard to broad geographic areas, are not particularly useful for consumers, besides being suitable for possible use by companies as a 'focal price', potentially harming competition;
6. the new charging needs of electric vehicles can also be understood as an important opportunity to convert existing fuel stations. The current high number of filling stations on the national territory may represent an unexpected advantage in terms of extensiveness of charging points, if such conversion is supported by the development of the necessary technological infrastructure and targeted incentives, while respecting competition;
7. as part of the extraction activities carried out in Italy, it might be useful to examine in depth the concessionary conditions and the ways in which public revenue is obtained (royalties and taxation) with a view to better protecting competitive conditions and availability of resources which, particularly, in specific circumstances such as exceptional price tensions, could also be used to the benefit of consumers of refined products.

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## A. Price trends and their drivers

Consumer fuel price trends in Italy are inevitably conditioned not only by current taxation but also by the global nature of the upstream stages of the oil supply chain. Retail prices of petrol and diesel are the result of three main elements, namely:

- i. the tax component (VAT and excise duties), which represents over 50% of the consumer price;
- ii. the industrial component, estimated at over 30% of the consumer price, which is determined by the international reference prices of refined products (Platts CIF Med for Italy), in turn influenced by crude oil prices (Brent);
- iii. the gross margin, less than 20% of the final price, indicating the share allocated to cover costs and guarantee remuneration of downstream activities - i.e., those more precisely domestic - which guarantee the availability of fuels at filling stations.

The main price indices used along the oil supply chain, Brent and Platts, were certainly affected during the reference period by a series of exceptional events that took place in the international context, in particular, the recovery in consumption following the COVID-19 pandemic and the crisis generated by the Russian-Ukrainian

conflict, ongoing since February 2022, with the consequent embargo on Russian oil products, announced by the EU in June 2022, which became effective in December 2022.

Even apart from the above-mentioned exceptional events, the dynamics of the most upstream stages of the oil supply chain and, in particular, the extraction stage on which the availability of raw materials depends, have historically been conditioned by elements that may not be attributed to free competition and are difficult to counter by means of antitrust rules: in particular, as also explained by the European Commissioner for Competition, antitrust law is not applicable to the OPEC cartel nor to its expanded version OPEC+, as these concern conduct that is attributable to sovereign states.

This geopolitical and macroeconomic scenario also impacts the trend of fuel prices in Italy, characterized in 2022 by significant and non-transitory increases, with peaks in March and June when prices exceeded - of both petrol and diesel - the EUR 2/liter threshold. These unprecedented peaks were accompanied by exceptional price variability which was as wide as never seen during the last two

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decades. Following a period of decline from the summer until the end of 2022, January 2023 saw another sudden increase, albeit with significantly lower average levels than the maximum levels previously observed; after a new downward trend, prices then tended to remain stable until the beginning of April 2023.

The dynamics described were reproduced in both the ordinary distribution network and the motorway network, where consumer prices were systematically higher. Several factors seem to be behind this gap, including the marked reduction in fuel consumption and the higher operating costs associated with motorway outlet management - costs that are increased by the service obligations inherent in this activity and a royalty level all the more disconnected from demand dynamics.

In the period under review, including the phase of exceptional price tension recorded since 2022, there is still a difference between the prices applied by vertically integrated distributors - i.e. attributable to the few oil companies still active in Italy during the distribution stage - and those offered by independent distributors: in particular, the so-called 'white pumps', especially in the case of full service. Independent operators thus retain a role of

potential competitive discipline over prices, as also highlighted by the survey.

As far as the industrial component is concerned, the Inquiry showed that the factor that influenced the most the exceptional price dynamics was Platts, the international reference price for refined products, petrol and diesel for motor vehicles; in turn, the prices of refined products were influenced by the anomalous trend of Brent, the reference index in Europe for crude oil prices and one of the main determinants of Platts. With regard to international benchmarks for petroleum products, and in particular the Platts, it should be noted that these are exposed to a risk of lack of transparency, as evidenced by, on the one hand, proceedings for suspected tampering concluded in the past in non-EU jurisdictions, and, on the other hand, the adoption of special guidelines by the International Organization of Securities Commissions (IOSCO).

Lastly, gross margin, which accounted for less than 15% in the period under analysis, includes a great series of cost items, including compulsory stocks and compulsory blending with biofuels, which varies according to the different operators. As already mentioned, these activities and enterprises are mostly attributable to local contexts, downstream of the more



typically international stages of the supply chain.

With regard to the increases recorded at the beginning of 2023, the evolution of the tax component of the retail price of petrol and diesel is undoubtedly relevant: indeed, the tax rebate (lower excise duties), which had been introduced in March 2022 to lower prices precisely because of the exceptional peaks mentioned above, was removed right at the beginning of 2023.

Compared to the rest of the EU, Italy is among the countries with the highest

retail prices of petrol and diesel. This is due to the impact of the tax component, which is higher than the European average. Conversely, the industrial price component is among the lowest within the EU, as shown by the trend of the gap (difference between the net price in Italy and in the EU area), which shows essentially negative values during the analysis period. It follows from this trend that the price shocks that occurred in the more international stages of the oil supply chain, from 2022 onwards, have been well absorbed in the national context compared to what can be observed in the rest of the European continent.

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## B. Stages in the supply chain: analysis and policy proposals

Within the EU, Italy ranks first in terms of oil reserves and crude oil production, although these shares are negligible compared to the world total. In view of this positioning and the resulting relevance - relative, but still of interest - of the exploitation of public resources, the Inquiry highlighted how current mining law recognizes particularly long administrative exploitation concessions (thirty years, renewable for another ten years). Moreover, according to the available evidence, the overall impact of royalties and taxation in Italy is lower than in other major European countries.

It is therefore advisable that these elements are investigated by the relevant decision-makers with a view to better protecting competitive conditions both in awarding concessions and obtaining revenues, which, particularly in specific circumstances such as exceptional price tensions, could also be used to the benefit of consumers of refined products.

As far as the refining stage is concerned, the reduction in investment recorded at the national level - which is in line with a trend in the whole of the EU - occurred against a backdrop of global demand for oil products that showed no sign of

decreasing. This resulted in an increased exposure of the Italian system to shocks on the supply side of refined petroleum products, which also affected fuel distribution. At the same time, a significant process of industrial reconversion of refineries into biorefineries is in progress in Italy, which is aimed at producing fuels that are no longer oil-based.

Even with sufficient logistical facilities, the availability of wholesale products can be a critical factor in times of supply shortages. This is particularly true for operators other than the major vertically integrated oil companies. The development of a wholesale fuel market that is more 'liquid' and less constrained by formulas of spot purchasing may therefore contribute to greater freedom of supply, thus fostering more stable and structured conditions for independent operators.

In this regard, it would be wise to implement fully and actually the provisions of Italian Legislative Decree no. 249/2012 that are aimed at creating market platforms to make supply and demand for logistical capacity match more easily, as well as wholesale supply and demand for petroleum products, including futures.

Procurement is linked to the subsequent distribution stage through contracts that define the relationships between owners and operators of stations, governed by the rules laid down by Italian Legislative Decree no. 32/1998, which requires a 'typification' of these relationships hitherto based on only two models (the traditional model of free loan of equipment and exclusive supply and a more recent and less widespread one that combines free loan of equipment with a commission agreement). At the same time, there is the use of atypical contractual forms such as custody and tender contracting.

Subject to neutrality, with a view to safeguarding competition, with respect to the choice of contracts that can be adopted, including from the perspective of consumer protection it seems appropriate to urge - also in the context of recent initiatives launched at the ministerial level for a comparison between the various parties involved - the definition of contractual types that facilitate greater efficiency in the provided services.

With regard to the retail network, positive results of the liberalization process initiated in the late 1990s include the substantial removal of barriers to entry, with the increased role of independent operators, and an associated relative redevelopment

of service areas. The network, however, remains characterized by average delivery levels, usually taken as a significant indicator of distribution efficiency, among the lowest in the EU; the structure of supply, moreover, appears highly fragmented, due to the considerable number of small operators.

Some critical issues could be attributable to this fragmentation, in particular an operational lack of transparency that has facilitated the spread of tax evasion and corruption phenomena, as underlined by the competent institutions. Such lack of transparency, moreover, was also attributed by various parties during the Inquiry to the lack of interoperability between market monitoring tools adopted over time by different administrations (in particular, the register of filling stations kept by the MASE, Ministry for Environment and Energy Security, the database of the Customs and Monopolies Agency, and the register underlying the Price Observatory maintained by the MIMIT, Ministry of Enterprises and Made in Italy). With a view to stimulating the efficiency of the distribution network, starting with an up-to-date and dynamic awareness of the actual number of operating filling stations, a rapid implementation of the connection between the aforementioned databases is therefore deemed to be highly desirable.

With specific reference to the motorway network, it is equally desirable to restore a more balanced relationship between royalties and service charges applied to sub-concessionaires - indicated by various parties as the main cause of the higher prices compared to those applied in the ordinary network - and the trend in demand, including by providing for

mechanisms for revising the conditions for new concession awards while the contract is in force. We are still waiting to see the outcome of the next rounds of contract awards, which will also have to be adopted based on the indications recently issued by the relevant transport regulation Authority.

## C. Consumer behavior and price transparency

Consumption behavior, also analyzed on the basis of data collected and processed through a special survey conducted on a sample of more than two thousand consumers, confirms the relevance of price as the main choice factor. The majority of consumers appear to carry out regular research into the prices that are charged at individual filling stations. This research is carried out mainly through direct observation of the signs displayed and to a lesser extent through other tools, including digital ones, such as the ‘Osservaprezzi’ website.

Interventions aimed at ensuring correctness of the information that is available to the public and its greater usability in the actual range of choices seek to increase transparency to the actual benefit of consumers. Tools such as the app recently envisaged in Italian Decree-Law no. 5/2023, as converted by Law no. 23/23, and the ensuing Ministerial Decree of 31 March 2023, are therefore to be welcomed, particularly if they allow the user to set up a search on the basis of his or her own choice criteria.

On the other hand, the compulsory indication of the average price at filling stations compared to wide geographical areas -

regional for the ordinary network and national for the motorway network - does not seem able to guarantee any substantial benefit for consumers, given the aforementioned local range of choices of filling stations. On the contrary, as the Authority pointed out at the parliamentary hearing, one cannot rule out that the dissemination of such information may lead to negative effects, facilitating the convergence of operators on price policies that are substantially aligned around a common reference indicator.

Again in relation to the most recent regulatory provisions on transparency of information, given the reference in Article 5 of Italian Ministerial Decree of 31 March 2023 to the possibility for the relevant Ministry to enter into agreements with parties that are interested in managing “*forms of intermediate price communication*” aimed at merchants and “*other forms of communication to consumers of the related price information*”, we wish to take this opportunity to emphasize how the design of such agreements, and more generally the services that can be developed downstream of them, must display the strictest respect for the principles of competition so as to avoid the possibility of causing effects of information

transparency other than those strictly necessary to better guide consumer choices.

From the broader perspective of the energy transition underway, with particular reference to the national fuel distribution network, the new charging needs of electric motors can also be understood as an important opportunity to convert existing filling stations, as part of streamlining the network that might also pursue aims rather different from what was previously hypothesized. The large number of existing filling stations, if their conversion to charging points is supported by the

development of the necessary technological infrastructure, could represent an unexpected element of advantage, enabling the creation of a comprehensive network of refueling stations.

In the interests of efficiency and the promotion of consumer welfare, it will therefore be essential to prudently steer the evolution of the network resulting from energy transition processes, including through incentives to support the development of the necessary infrastructure, provided that these do not in any way distort competition between the operators involved.

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