

October 18, 2011

Summary:

Corporacion de Reservas Estrategicas de Productos Petroliferos

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Summary:

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Credit Rating: AA-/Negative/A-1+

Rationale

Standard & Poor's Ratings Services bases the 'AA-' long-term rating on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), Spain's public corporation responsible for managing the country's strategic oil reserves, on an equalization with the long-term sovereign credit rating on the Kingdom of Spain (AA-/Negative/A-1+). This reflects Standard & Poor's opinion that there is an "almost certain" likelihood that the Spanish government would provide timely and sufficient extraordinary support to CORES in the event of financial stress.

In accordance with our criteria for government-related entities (GREs), our rating approach takes into account on our view of CORES':

- "Integral" link with the Spanish government. CORES is a public-law entity, tightly controlled and supervised by the Spanish Ministry of Industry. We see CORES as an extension of the government, specifically mandated to build up, manage, and control the nation's strategic oil reserves in accordance with EU and international legislation. CORES does not receive funds from the government, nor does it benefit from any explicit guarantee on its liabilities. However, the government provides CORES with what we deem to be strong ongoing support in the form of a regulatory framework under which oil and gas operators have the obligation to pay whatever fees are necessary to fully cover all of CORES' costs--including debt service. Standard & Poor's believes that this framework would safeguard a smooth sovereign takeover of CORES' obligations if needed.
- "Critical" role as an entity specifically formed to provide a strategic public service on behalf of the Spanish government. CORES has a specific mandate to monitor the level of Spain's oil reserves--virtually all of which come from imports--and ensure that they are sufficient to cover the country's oil consumption needs. Only the government itself would, in our opinion, be able undertake CORES' mandate.

Liquidity

CORES has limited need for short-term credit lines for operating and debt servicing purposes, since the government budgets the fees that CORES receives to fully cover all costs, and members pay the fees monthly. Moreover, CORES' budgeting is often conservative; hence, fees surpass effective costs (CORES returns the excess to operators at year-end).

Outlook

The negative outlook on CORES reflects that of Spain, which, in turn, reflects our view of the risks to Spain's economic growth linked to private sector deleveraging, external financing pressures, and their impact on budgetary consolidation.

We could lower the ratings again if, consistent with our downside scenario, the economy contracts in 2012, Spain's fiscal position significantly deviates from the government's budgetary targets, or additional labor market and other growth-enhancing reforms are delayed.

A further downgrade on the sovereign would also result in a downgrade of CORES.

Conversely, we could revise the outlook on Spain, and thus, on CORES, to stable if, consistent with our upside scenario, the government meets its budgetary targets in 2011 and 2012, risks to external financing conditions subside, and Spain's economic growth prospects prove to be more buoyant than we currently assume.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

Related criteria

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Related research

- Long-Term Rating On Spain Lowered To 'AA-' On Economic Growth And Banking Sector Risks; Outlook Negative, Oct. 13, 2011
- Spain-Based Corporacion de Reservas Estrategicas de Productos Petroliferos 'AA/A-1+' Ratings Affirmed; Outlook Negative, Dec. 28, 2010.

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