

Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

July 22, 2024

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Almost certain likelihood of timely and sufficient extraordinary government support in the event of financial distress.

Highly strategic role for the sovereign and Spain's economy, given its enhanced responsibility of not only managing strategic oil reserves, but also guaranteeing and supervising industry gas stock and supervising biofuel use.

Strong and stable regulatory framework, ensuring full coverage of costs and ability to adapt, if necessary, as demonstrated during the pandemic.

Key risks

Lack of an explicit guarantee from the Spanish state.

Limited asset diversification, given the nature of its business.

Dependent on market prices and available capacity for storage, which could limit flexibility, although it can sell excess oil reserves and increase member fees if needed.

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Outlook

S&P Global Ratings' stable outlook on Spanish oil reserve management company Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES) reflects that on Spain (unsolicited A/Stable/A-1).

Downside scenario

We could lower our rating on CORES if we took a similar action on Spain. We could also lower our rating on CORES if we believed that its role for, and link with, the Spanish government had weakened, indicating a lower likelihood of extraordinary government support.

Upside scenario

We would upgrade CORES if we took the same action on Spain.

Rationale

CORES operates under the supervision of the Spanish central government through the Ministry of Ecological Transition and Demographic Challenge (MITECO), but with a distinct legal status and under private law. Our view of almost certain government support for CORES hinges on the entity's:

- Critical role for the government of Spain as an entity specifically formed to provide a key strategic public service on behalf of the Spanish government. CORES has an explicit mandate to monitor and maintain the level of Spain's oil reserves--virtually all of which are imported--and ensure they are sufficient to cover the country's oil consumption needs for a legally determined number of days. After Spain's hydrocarbon law reform in 2015, CORES' role now also includes control of the gas reserves that the industry holds. More recently, since May 2022, CORES is also responsible for ensuring biofuel-related entities comply with purchase and consumption targets and that these transactions meet the sustainable criteria for the reduction of gas emissions in the transportation market. Additionally, as of Jan. 26, 2023, CORES is responsible for controlling the minimum underground stock of natural gas; and
- Integral link with the government of Spain, as CORES is controlled and supervised by the Spanish MITECO. CORES' chairman, as well as four of the 11 members of its board of directors, are appointed by the ministry. While the board normally makes agreements by simple majority, the ministry may exercise veto powers through CORES' chairman on any decision that it deems contrary to public interest.

CORES' role is crucial for the Spanish government and has expanded its responsibilities in recent years. Spain is a member of the International Energy Agency (IEA). Therefore, as per its agreement obligations under the IEA, the sovereign must maintain minimum stocks of different groups of oil products. CORES, created by the Spanish government in 1994 by a royal decree, helps the country to comply with this requirement, sharing the responsibility for holding these minimum reserves with the sector's operators. CORES must, by national law and in line with EU regulation, maintain a stock of at least 42 days' worth of Spain's national oil product consumption at any given time. The remaining stock (to reach the national requirement of 92 days' worth of oil product consumption) is held by the oil operators, retail distributors, and consumers of imported oil.

In 2015, a legal reform of Spanish law governing the hydrocarbon industry expanded CORES' role, and it now has the responsibility of ensuring the industry maintains the minimum-security level of natural gas. As such, Spain has the obligation of maintaining 20 days of gas stock based on consumption in the previous year. In recent years, there have been discussions about expanding CORES responsibilities related to natural gas, such as directly maintaining strategic reserves. However, there is no clear timeline for this additional role to be developed.

Since May 2022, CORES has been responsible for controlling and supervising oil operators' compliance with requirements to incorporate biofuel and sustainability criteria through the reduction of gas emissions. This responsibility will be fulfilled together with MITECO, which will receive the certification application and will assess whether entities meet the sustainability criteria.

Since 2023, CORES has also been responsible for monitoring compliance with targets of gas storage in underground reserves throughout the year, to ensure strategic resilience to potential supply disruptions ahead of the winter season. This complies with targets imposed by the EU to deal with the consequences of the Ukraine war.

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On top of these responsibilities, CORES acts as a statistical hub for information related to oil and gas consumption. CORES actively maintains and manages this information, which is communicated to the market and other operators. This allows CORES to keep abreast of any changes in consumption.

We believe CORES remains a key strategic arm of Spain's government, and its role has been strengthening over the past years given its increased responsibilities.

Spain's government provides ongoing support through a strong and stable regulatory framework. CORES operates under a regulatory framework in which oil and gas operators must pay the required fees to fully cover CORES' costs, including debt service. CORES does not receive funds from the government or benefit from an explicit guarantee of its liabilities. However, its framework has proven robust and supportive. The current legal framework allows CORES to demand extraordinary fees from operators, if necessary, with authorization by the government. In 2020, the government and CORES agreed to increase the initial fees of its operators, to fully cover its costs, as consumption levels (and therefore fees) decreased significantly due to mobility restrictions caused by the pandemic.

All oil and gas operators authorized for distribution are legally obliged to be members of CORES and are charged monthly fees. Retail distributors and consumers of imported oil and gas products must pay monthly fees to CORES but do not have member status. About 77% of CORES' annual fees in 2023 came from six members, including the two largest oil operators in Spain, Repsol (33%) and Cepsa (22%).

Furthermore, we understand that if CORES were dissolved the government would take over its obligations.

After a coordinated oil reserve release in 2022, we expect stocks will be replenished. In 2022, the Spanish government decided to release to the market 6 million barrels of oil products (equivalent to 7.8 days of consumption) to deal with the market disruptions arising from Russia's invasion of Ukraine. This was a coordinated action with all IEA members. The stocks were released by oil operators, not by CORES.

As of April 2024, the IEA announced the end of the emergency, and consequently the return of the mandatory oil reserves requirement. In Spain, both oil operators and CORES are obliged to maintain oil stock reserves--42 days for CORES and 50 for the industry--so now oil operators will have to rebuild the released reserves. We understand the Spanish government has not yet given precise instructions to this effect, but we believe it will grant an extended period for the industry to comply, avoiding any excessive exposure to spot prices. However, CORES' role in this case is limited to verifying operators' compliance with the requirement.

As per its mandate, CORES has been in charge of supervising and coordinating these actions together with the ministry and the IEA. We understand that in case of future emergencies the ministry could ask CORES to release part of its reserves, along with (or after) the industry, although we view this as a last resort. In any case, the Spanish government makes the ultimate decision about how to carry out such actions.

CORES accounts remain balanced, with extraordinary results devoted to debt amortization.

Its budget is based on full cost recovery. The largest cost item (about €127.6 million, or 75% of total costs) is the storage capacity for its reserves, which it mostly leases from market operators. Since these costs are based on established contracts, they are easy to predict, although they are subject to changes when contracts come up for renewal. The second largest cost item is financial costs (about €33 million, or 19.8% of total costs in 2023).

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Based on cost estimates, and CORES' oil consumption predictions, the corporation determines fees to be paid by oil market operators. By law, CORES' fees must be sufficient to cover its costs. However, if, due to changes in market patterns, the fees prove insufficient, CORES can charge operators an additional extraordinary fee intra-year to cover the difference, in a process that can be done very quickly as happened during the pandemic. This ensures CORES has timely and sufficient cost coverage.

CORES' reserves are dimensioned based on the consumption and sale of oil-related products in the previous year. Depending on changes in consumption patterns, the entity may be left holding excess reserves, which it can decide to sell, with board approval, and provide an additional source of funds.

In 2023, CORES carried out one such sale of reserves, for €66.5 million. By law, CORES must allocate proceeds from reserve sales to debt amortization. It cannot distribute dividends or return them to oil operators in the form of lower fees. The sale of excess reserves in 2023 generated an extraordinary result of €36 million, and an intra-year increase in CORES liquidity. In 2023, the entity used its excess cash reserves for early debt repayments of two loans maturing in 2025, of €20 million and €15 million. Moreover, CORES made an early debt repayment of €130 million from a €250 million loan with ICO, maturing in 2029.

CORES prudently covers its financing needs and has plenty of buffers. Its financial management team typically covers its refinancing requirements well in advance of actual maturities, avoiding risks from any sudden deterioration in market conditions. The entity has solid market access and can get funding from a well-diversified pool of national banks, even during market stress.

CORES has an upcoming bond maturity of €250 million due in October 2024. In keeping with its financial practice, we understand it has already secured the funding for this repayment.

Even before securing this refinancing, CORES had already signed sufficient credit lines to meet the entirety of the debt repayment. We understand the entity will follow the same strategy ahead of its maturities in 2025, keeping credit lines slightly above its maturities for the year, which are much lower than in 2024, at only €45 million.

CORES' interest expenses have risen in 2023, driven by market conditions. However, we note that financial costs--like all other CORES expenses--are covered by fees from operators, limiting the risk for its finances. In any case, CORES has reduced its exposure to interest rate movements, bringing down its variable rate debt to 36% in 2023 from 44% in 2022.

In case of any eventual difficulties to refinance its maturities due to market disruptions, CORES could always ask its operators for an extraordinary fee. CORES could also decide to sell additional excess reserves in case of need. As of June 2024, these are valued at €48 million.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Sovereign Risk Indicators, July 8, 2024
- Corporacion de Reservas Estrategicas de Productos Petroliferos, July 24, 2023

Ratings Detail (as of July 22, 2024)*

Corporacion de Reservas Estrategicas de Productos Petroliferos	
Issuer Credit Rating	A/Stable/A-1
Senior Unsecured	A
Issuer Credit Ratings History	
22-Mar-2022	A/Stable/A-1
22-Sep-2020	A/Negative/A-1
24-Sep-2019	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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