

Corporacion de Reservas Estrategicas de Productos Petroliferos

July 26, 2022

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths

Almost certain likelihood of timely and sufficient central 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 reserves of oil, but also guaranteeing and supervising the stock of gas in the industry and supervising the use of biofuel.

Strong and stable regulatory framework, ensuring full coverage of costs and ability to adapt, if necessary, as demonstrated during the COVID-19 crisis.

Key risks

Lack of an explicit guarantee from the central government.

Limited asset diversification, given the nature of its business.

Dependent on market prices and available capacity for storage, which could limit its flexibility, although CORES can sell excess of oil reserves and increase fees to members 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 that they are sufficient to cover the country's oil consumption needs for a legally determined number of days. After the reform of Spain's hydrocarbon law in 2015, CORES' role now also includes the control of the reserves that the industry has of gas. More recently, since May 2022 CORES has also the responsibility of ensuring that entities related to biofuel comply with purchase and consumptions targets and that these transactions meet the sustainable criteria for reduction of gas emissions in the transportation market; and
- Integral link with the government of Spain, since 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 recently expanded its responsibilities. Spain is a member of the International Energy Agency (IEA) and therefore, as per its agreement obligations under IEA must maintain minimum stocks of different groups of oil products. CORES, created by the Spanish government in 1994 by 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 at any given time a stock of at least 42 days' worth of Spain's national oil product consumption. The remaining stock (to reach the national requirement of 92 oil consumption days) is held by the oil operators, retail distributors, and consumers of imported oil.

In 2015, a legal reform of Spain's law governing the hydrocarbon industry expanded CORES' role, which also has the responsibility of ensuring that the industry maintains the minimum security level of gas. As such, Spain has the obligation of maintaining 20 days of gas stocks based on the consumption of the previous year.

Recently, in May 2022 CORES acquired the responsibility of controlling and supervising that entities incorporate biofuel and comply with the criteria of being sustainable through the reduction of gas emissions. This responsibility will be fulfilled together with MITECO, who will receive the certification application and will validate if the entity meets or not with the sustainable criteria.

On top of these responsibilities, CORES also acts as a statistics hub of 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 patterns.

Spain's central government provides ongoing support through a strong and stable regulatory framework. CORES operates under a regulatory framework where oil and gas operators must pay the necessary fees to fully cover their 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 central government. This was the case in 2020, during the COVID-19 pandemic, when the central government and CORES agreed on modifying the initial fees of its operators because consumption levels decreased significantly due to the mobility restrictions. Furthermore, we believe that if CORES were to be dissolved, the central government would take over its obligations.

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. Approximately 75% of CORES' annual fees in 2021 came from six members, including the two largest oil operators in Spain, Repsol (32%) and Cepsa (21%).

The ongoing military conflict between Russia and Ukraine has triggered several actions by the IEA, in which CORES has participated.

The ongoing unstable geopolitical situation in Europe, caused by the Russia-Ukraine conflict, has provoked a disruption in the international oil and gas market, limiting the offer of these products in the market. Under the law that regulates CORES' mandate it is said that the entity, previously agreed by MITECO, could mobilize reserves to guarantee the oil supplies in the market. Moreover, Spain is member of the IEA, which might decide to liberalize stock reserves in the context of a supply crisis.

So far this year, Spain has participated in the two waves of liberation of its minimum security oil stock coordinated by the IEA, the first one was in April, with a request of 60 million barrels, of which Spain released 2 million, and the second one in June for a total of 120 million barrels, of which Spain released 4 million. This translated into the industry reducing its reserves by 2.6 in April and 5.2 days from June and thereafter.

In this context, MITECO decided that the industry was going to be the one releasing its reserves directly and not CORES. CORES, as per its mandate, has been in charge of supervising and coordinating this action together with the ministry and the IEA. We understand that in future releases the ministry could ask CORES instead to release part of its reserves, although we view this action as a last resort. In any case, it is the central government who makes the ultimate decision to participate in such actions or not, and to decide on the amount to be release in such a case.

In addition, the EU has asked countries to maintain a gas stock of 80% of their total capacity, which translates into an additional 7.5 days of gas stock by Nov. 1, 2022, on top of the 20 days normal target stock. CORES will be responsible for supervising that the industry complies with these requirements and targets. The entities subject to maintaining this stock are the natural gas suppliers and direct market consumers.

In the context of the current energy price shock, we believe Spain is relatively shielded from the EU's ban on Russian gas imports, given that Spain's largest gas provider is the United States (35% of total gas imports) followed by Algeria (25%). Moreover, Spain has the highest number of re-gasifiers across Europe, with six active liquid natural gas plants, which in our view strengthens Spain's position in this context.

CORES has posted an extraordinary net profit of €110 million in 2021, mainly due to the sale of its excess reserves, which it has used to repay debt. The calculation of the reserves that CORES has to maintain on a yearly basis is based on the consumption levels of and sales of oil-related products of the previous year. In 2020 consumption and sale of oil-related products declined significantly due to COVID-19 and the consequent mobility restrictions. This meant a decline in the volume of reserves that CORES had to manage. However, when consumption started to pick up again during 2021 as mobility restrictions were lifted, CORES started to generate an excess of its reserves. In light of this, MITECO and CORES decided to reduce the level of strategic reserves to 42 days from 50 days and sell the excess reserves. The excess in reserves generated proceeds of €264 million, increasing CORES' liquidity, which was used to repay debt maturing in 2021. In addition, fees charged to operators also created an excess of about €5.3 million, of which €1.8 million were adjusted during 2022, and given back to operators. As a result, CORES will re-balance this excess by setting lower fees in 2022.

CORES has refinanced its maturing debt in 2022, and its next repayment is due in October 2024. At year-end 2021, CORES had already refinanced about 71% of its 2022 €350 million maturities with a €250 million loan from the Instituto de Credito Oficial. In 2022, CORES contracted an additional bank loan for €100 million and completely refinanced its debt maturing in November 2022.

CORES' next maturity is in October 2024, of €250 million. Given that they do not need to repay debt in the short term, the institution has reduced its credit lines to €65 million from €110 million. In any case we believe CORES maintains a comfortable cash position as it currently has excess reserves valued at €195 million, which it could sell if necessary.

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 11, 2022
- Strategic Oil Reserve Manager CORES Outlook Revised To Stable From Neg After Same Action On Spain; 'A/A-1' Rtgs Affirmed, March 22, 2022
- Research Update: Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022

Ratings Detail (as of July 26, 2022)*

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
27-Mar-2018	A-/Positive/A-2

*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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