

Research Update:

Strategic Oil Reserve Manager CORES Outlook Revised To Stable From Neg After Same Action On Spain; 'A/A-1' Rtgs Affirmed

March 22, 2022

Overview

- We revised our outlook on Spain (unsolicited A/Stable/A-1) to stable from negative on March 18, 2022.
- We equalize our issuer credit ratings on Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) with those on Spain because we think there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government, if needed.
- We therefore revised our outlook on CORES to stable from negative, and affirmed our 'A/A-1' long- and short-term ratings on the company.

Rating Action

On March 22, 2022, S&P Global Ratings revised its outlook on Spanish strategic oil reserve manager CORES to stable from negative. At the same time, we affirmed our 'A/A-1' long and short-term foreign and local currency issuer credit ratings on the company.

Rationale

The outlook revision follows a similar action on Spain on March 18, 2022 (see "Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed," published on RatingsDirect). In accordance with our criteria for rating government-related entities (GREs), we think that there is an almost certain likelihood that CORES would receive timely and sufficient extraordinary support from the Spanish government in the event of financial distress. We therefore equalize our long-term issuer credit ratings on CORES with those on Spain.

CORES operates under the supervision of the Spanish central government through the Ministry for Ecological Transition and Demographic Challenge, but with a distinct legal status and under

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private law. We therefore consider CORES to be a GRE, and our opinion of an almost certain likelihood of extraordinary government support reflects our view of CORES':

- 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 management of strategic reserves of gas, in accordance to the terms that will be set by the central government; and
- Integral link with the government of Spain, since CORES is controlled and supervised by the Spanish Ministry for Ecological Transition and Demographic Challenge (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 does not receive funds from the government, nor does it benefit from any explicit guarantee of its liabilities. However, the government provides CORES with what we see as strong ongoing support through a regulatory framework under which oil and gas operators must pay the necessary fees to fully cover all of CORES' costs, including debt service. Moreover, the current legal framework allows the government to demand extraordinary fees from operators if necessary. Ultimately, we think that if CORES were to be dissolved, the central government would take over its obligations. CORES borrows from local and international financial markets to finance its purchase of oil stocks.

As a response to the Ukraine-Russian conflict, the International Energy Agency (IEA) coordinated the release of 62.7 million barrels of oil from member countries' emergency reserves to reduce market shock in oil prices. In this context, Spain decided to have private operators release reserves of 2 million barrels. CORES will act as a coordinator and supervisor of this decision, in line with its mission and goals as national strategic oil manager for Spain.

Outlook

The stable outlook reflects that on Spain.

Downside scenario

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

Upside scenario

We could raise our ratings on CORES if we took the same action on Spain, assuming we continue to have the same opinion of CORES critical role for and integral link with the Spanish government.

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

- Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022
- Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES), July 20, 2021

Ratings List

Ratings Affirmed

Corporacion de Reservas Estrategicas de Productos Petroliferos

Senior Unsecured	A
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Ratings Affirmed; Outlook Action

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Corporacion de Reservas Estrategicas de Productos Petroliferos

Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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