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## Fitch Affirms CORES at 'A-'; Outlook Stable

Fitch Ratings - Barcelona - 06 May 2022: Fitch Ratings has affirmed Corporacion de Reservas Estrategicas de Productos Petroliferos' (CORES) Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDRs) at 'A-' with Stable Outlooks. A full list of ratings is detailed below.

CORES is Spain's national strategic manager of oil stocks.

Fitch views CORES as a government-related entity (GRE) of Spain (A-/Stable) and equalises its ratings with the sovereign's. This reflects a support score of 45 points under our GRE Rating Criteria.

### KEY RATING DRIVERS

#### Status, Ownership and Control: 'Strong'

CORES was created in 1994 with the status of a non-profit public corporation without equity, and is tightly controlled by the central government. It has the legal status of a public-law corporation. The central government's strong influence over and control of CORES' operations are underscored by the Ministry for the Ecological Transition and the Demographic Challenge's (MITECO) supervision over the organisation, through its veto right over any decision that it deems could breach the law or harm public interest. However, the government has never exercised this veto due to usually a strong consensus within CORES' board of directors.

The strong influence and control are also reflected by the presence of the central government on CORES' board of directors, as four of its 11 members are appointed by MITECO. MITECO also appoints CORES' president (currently Juana María Lázaro Ruiz), who has a five-year mandate, which can be renewed for another five years. The president acts as the legal representative of CORES in all its contracts, and oversees its activities.

The central government holds no shares in CORES and in case of its dissolution, would not be involved and there would be no transfer of liabilities. CORES' accounts and debt are consolidated in Spain's national accounts. Its budgets and borrowing are approved by its board of directors. MITECO approves the fees CORES charges operators through its budget elaboration process.

#### Support Track Record: 'Very Strong'

Fitch believes that regulatory influence is strongly supportive of CORES' financial stability and viability, as the operators are obliged by law (according to item 25.4 of the Royal Decree 1716/2004) to pay at any time an increase of fees to guarantee CORES' creditworthiness.

The law also stipulates that CORES can at any time sell oil reserves storage that exceeds the mandatory

level to cover debt servicing (principal debt and interest). Excess reserves were estimated by CORES at EUR49.4 million at end-2021, representing about 1.5% of total reserves at market value.

### **Socio-Political Implications of Default: 'Very Strong'**

Oil is crucial to Spain's domestic energy supply, representing 42.4% of primary energy consumed in the country. Spain is obliged to maintain 90 days of net imports of crude oil and petroleum under EU requirements, which the Spanish government has increased to 92 days of sales or consumption. CORES is the designated central stockholding entity (CSE) for the maintenance of oil stocks in Spain, which obliges the company to maintain at least 42 days of reserves, hence leaving the industry to hold the remaining 50 days worth of reserves. CORES' main mission is also to control and inspect the level of Spain's security reserves held by operators to ensure the minimum stock of oil.

Our assessment of the socio-political implications of default reflects the lack of any immediate substitutes to maintain CORES' obligation of 42 days of reserves, given the complicated necessary legal changes, the economic and financial difficulty for private operators to assume its obligation and the non-transferability of the task of controlling and inspecting reserves held by operators. It also reflects that a financial default by CORES would materially endanger the continuation of its activity, since it funds its purchase of reserves through debt borrowing.

Consequently, its default would result in serious repercussions for the Spanish government, as it would fail in its EU-imposed obligation to maintain a minimum of 90 days of net imports of crude oil and petroleum. This would have a significant impact on Spain's international reputation and may result in economic sanctions. In addition, CORES' default in case of an oil supply crisis would have grave repercussions for the national economy due to Spain's energy dependence.

Since the Ukrainian war interrupted petroleum supply to Spain, CORES has supervised Spanish operators' release of 2 million (equivalent to 2.6 days) of barrels of oil reserves .

### **Financial Implications of Default: 'Strong'**

This factor reflects the Spanish government's strong incentive to provide extraordinary financial support to prevent a default by CORES, as it would have a significant impact on Spain's credit international reputation in failing to meet the EU target, affecting its availability and cost of borrowing. The assessment also reflects that CORES' debt and accounts are consolidated in Spain's national accounts. A default would also have a significant impact on the availability of borrowing for CORES as it is mostly financed in capital markets (77% of outstanding debt at end-2021), risking failure in meeting the EU target.

### **Operating Performance**

CORES is a non-profit corporate, which by law, and has stable fee revenue that must cover its operating spending. Typically, it reduces fees charged to operators (fees collected from operators more than cover operating spending), in the last quarter of each year. However, in May 2020, CORES approved an extraordinary fee for operators between June and September 2020 to compensate for a decline of oil

consumption and contributions paid by operators, due to the coronavirus crisis.

## **Derivation Summary**

The rating reflects a combination of 'Very Strong' support track record and expectation and socio-political implications of default and 'Strong' status, ownership and control and financial implications of default.

## **Short-Term Ratings**

Under our Short-Term Ratings Criteria a Long-Term 'A-' IDR corresponds to Short-Term IDRs of either 'F2' or 'F1'. When an issuer's rating is derived using a top-down notching approach, the higher of the two Short-Term IDRs applies, capped at the supporting state's Short-Term IDR. This results in a Short-Term IDR of 'F1' for CORES.

## **Debt Ratings**

The 'A-' ratings on CORES' senior unsecured outstanding bond issues and EMTN programme are in line with its Long-Term IDR.

## **Liquidity and Debt Structure**

CORES' outstanding debt declined at end-2021, as EUR264.8 million proceeds from the sale of excess reserves were used for debt reduction. Cash reserves amounted to EUR13.9 million, and immediate available credit lines totalled EUR107 million.

## **Issuer Profile**

CORES was established in 1994 as the CSE for the maintenance of oil stocks in Spain. Its main responsibilities include acquiring petroleum, and maintaining, managing and selling petroleum reserves.

## **Rating Sensitivities**

### **Factors that could, individually or collectively, lead to negative rating action/downgrade:**

A downgrade could follow a similar rating action on the sovereign, an adverse change in the legal framework, which Fitch views as unlikely at present, or a weakening of expected support from the state.

### **Factors that could, individually or collectively, lead to positive rating action/upgrade:**

Positive rating action on the state's IDRs will be mirrored on CORES' IDRs, assuming that the links between the sovereign and the company remain strong.

## **Public Ratings with Credit Linkage to other ratings**

CORES' IDRs are linked to Spain's ratings.

## **ESG CONSIDERATIONS**

Fitch no longer provides ESG relevance score for CORES as its ratings and ESG profile are derived from its parent, the Spanish sovereign. ESG relevance scores and commentary for the parent entity- Spain- can be found here (<https://www.fitchratings.com/research/sovereigns/fitch-affirms-spain-at-a-outlook-stable-10-12-2021>)

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **References for Substantially Material Source Cited as Key Driver Rating**

The principal sources of information used in the analysis are described in the Applicable Criteria.

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**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)	LT IDR	A-	Affirmed	A-
	ST IDR	F1	Affirmed	F1
	LC LT IDR	A-	Affirmed	A-
• senior unsecured	LT	A-	Affirmed	A-

**RATINGS KEY OUTLOOK WATCH**

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

**Applicable Criteria**

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[International Local and Regional Governments Rating Criteria \(pub.03 Sep 2021\) \(including](#)

rating assumption sensitivity)

## Additional Disclosures

Solicitation Status

## Endorsement Status

Corporacion de Reservas Estrategicas de Productos Petroliferos  
(CORES)

EU Issued, UK  
Endorsed

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