

# Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

July 24, 2023

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 COVID-19 crisis.

#### 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 the 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, 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, which continues to expand its**

**responsibilities.** 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 oil consumption days) 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 the consumption in the previous year. Recently, in January 2023, CORES expanded its responsibilities on gas. It is now responsible for communicating to all industry members their

obligations to ensure the required underground stock of gas, during specific dates throughout the year.

In May 2022, CORES was given responsibility of controlling and supervising entities to incorporate biofuel and comply with the 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 the entity meets with the sustainability criteria.

On top of these responsibilities, CORES also 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 with any changes in consumption.

CORES could also take additional responsibilities in the future such as maintaining natural gas reserves. While there have been some discussions within the government in recent years, there is still no clear visibility on when this event could take place. In any case, we believe CORES remains a key strategic arm of Spain's government, and its role has been strengthening over the past years, owing to its increased responsibilities.

**Spain's 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 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. This was the case in 2020, during the COVID-19 pandemic, when the government and CORES agreed to modify the initial fees of its operators because consumption levels decreased significantly due to mobility restrictions. Furthermore, we believe if CORES were to be dissolved, the 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 79% of CORES' annual fees in 2022 came from six members, including the two largest oil operators in Spain--Repsol (34%) and Cepsa (22%).

**In Spain, both oil operators and CORES are obliged to maintain oil stock reserves--42 days for CORES and 50 for the industry.** As consequence of the war in Ukraine, in 2022, the IEA asked countries to release oil stock reserves. The Spanish government decided the release would be done by the industry and not CORES. The first wave happened in April 2022 when the IEA requested 60 million barrels to be released; Spain's industry released 2 million. The second wave of 120 million barrels completed in June 2022 and Spain's industry released 4 million. This translated to the industry reducing reserves by 7.8 days' worth of stock.

As per its mandate, CORES has been in charge of supervising and coordinating this action together with the ministry and the IEA. We understand that in case of future releases the ministry could ask CORES to release part of its reserves rather than the industry, although we view this action as a last resort. In any case, the government makes the ultimate decision to participate in such actions and decides on the number of reserves to be released in this situation.

We understand the IEA has asked member countries to restore their oil reserves stock to the previous level of 90 days by April 30, 2024. Spain is obligated to maintaining a stock of 92 days, slightly above the IEA's requirement as per the ministry's decision to grant Spain with an

additional buffer. We expect the central government to release an official requirement for the industry to restore their stock levels over the coming months.

In addition, and as a consequence of the war in Ukraine, the EU asked member states to increase gas stock reserves, although the target varies throughout the year depending on demand. Initially the EU requested gas stock maintenance at 80% of their total capacity, which was subsequently revised to 90%. CORES is responsible for supervising the industry's compliance with these requirements and targets. In July and August 2023, the industry is required to maintain a stock reserve of 23.5 days and in November this year, the requirement will increase to 31.1 days.

**In 2022, CORES posted a small profit of €8.4 million, down from its extraordinary €110 million in 2021.** The extraordinary profit in 2021 came from the sale of its excess of reserves, and was used to repay debt. The calculation of the reserves CORES has to maintain annually is based on the consumption of and sale of oil-related products in the previous year. As such, in 2020, for example, the decline in consumption and sale of oil-related products due to mobility restrictions resulted in a reduction in the volume of reserves CORES had to hold. However, in 2021 when consumption picked up, CORES generated an excess of its reserves. Back then, the MITECO and CORES decided to temporarily reduce the level of strategic reserves to 42 days from 50 days and sell the excess reserves. This generated proceeds of €265 million, increasing CORES' liquidity, and was used to repay debt in 2021.

In 2022, consumption levels did not differ as much to those in 2021, and CORES' excess reserves were lower than in previous years. CORES' proceeds in 2022 from the sale of excess reserves amounted to €22 million. These proceeds were used for an early debt repayment of a €20 million loan from 2023.

CORES' budgeting process is characterized by the calculation of its annual expenditure (including debt service), and subsequent allotment of the corresponding fees to operators. CORES' expenditure, by law, should be fully covered by fees from operators. If the fees were not sufficient, CORES could charge operators an additional extraordinary fee to cover the difference.

**CORES next debt repayment is due in October 2024, and has already been prefunded.** As of December 2022, CORES' long-term debt stood at €1,295 million, with the next repayment of €250 million scheduled in 2024. CORES currently has €265 million in credit lines available as a back-up to finance its debt maturing in 2024. However, we expect CORES to transform these credit lines into long-term loans and refinance its debt over the next 12 months.

CORES could decide to sell the excess of its reserves in case of financial distress. As of May 30, 2023, these are valued at €57.3 million. In addition, CORES' reserves market price is now much higher than the initial cost of acquisition, meaning the reserves are currently valued at €3,404 million versus €1,697 million at the time of acquisition. It is important to note that these capital gains correspond to CORES solely, and that CORES would not be obliged to transfer them to its operators.

CORES is significantly exposed to interest rate movements given about 44% of its debt is at variable rates. However, financial costs--like all other CORES expenses--are covered by fees from operators, limiting the risk for its finances.

## Related Criteria

## Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES)

- 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 10, 2023
- Corporacion de Reservas Estrategicas de Productos Petroliferos, July 26, 2022

### Ratings Detail (as of July 24, 2023)\*

#### 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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