

Oiling The Economy: EU National Strategic Oil Reserve Agencies' Actions Reflect Their Central Role For Governments

March 22, 2022

This report does not constitute a rating action.

MADRID (S&P Global Ratings) March 22, 2022--S&P Global Ratings today said that the sale of oil by EU strategic reserve managers illustrates that these entities are fulfilling their critical role for their states. However, we don't believe this will have a meaningful impact on their financial positions.

On March 1, the member countries of the governing board of the International Energy Agency (IEA) agreed to release 62.7 million barrels of oil from their emergency reserves to soften the shock to oil prices of the conflict in Ukraine. IEA members hold emergency stockpiles of 1.5 billion barrels through their respective national strategic oil reserve managers. The oil will be released gradually throughout March. National strategic oil reserve managers have the option to release the barrels from public stock (via their directly held emergency reserves) or through private operators (that is, by lowering the stockholding obligation for the industry). Overall, close to two-thirds of the barrels in Europe will come from private operators, and the remainder from public reserves.

We rate four European strategic oil reserve operators: Corporacion de Reservas Estrategicas de Productos Petroliferos (CORES) in Spain (A/Stable/A-1), Acquirente Unico SpA (AU-OCSIT; BBB/Positive/--) in Italy, Societe Anonyme de Gestion de Stocks de Securite (SAGESS; AA/Stable/A-1+) in France, and Erdoel-Lagergesellschaft m.b.H. (ELG; AA+/Positive/A-1+) in Austria. These entities are taking part in this joint action. We understand all the EU national strategic reserve operators are in close contact to coordinate the operational details of these actions and ensure their effectiveness.

In this context, private oil operators in Spain and Italy will release reserves totaling about two million barrels, each. In France, the adopted strategy is a combination of public and private intervention. SAGESS has temporarily lent private operators roughly 1.8 million barrels out of its own reserves to allow them to fulfil the IEA requirement. At a later stage, those operators are expected to return the barrels to SAGESS. The Austrian government has decided that the national strategic reserve oil manager ELG will release about 0.4 million barrels of its own reserves.

Given the persistent oil price pressures, we believe further barrels could be released from the strategic reserves. This may include some held directly by the national strategic oil reserve managers, where they initially relied on private oil operators.

In our view, these actions fall within the frameworks of the missions and goals of the oil reserve

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managers, which play a strategic role for their respective states. At this stage, the impact on the reserves they manage directly is very limited. In line with the EU regulation, proceeds from the sale of reserves can only be used to replenish oil stock or to amortize debt incurred when the oil was initially acquired. We therefore do not see any possibility that these actions could hurt these entities' financials.

We view the current and any further potential policy action as fully aligned with the agencies' mandates and evidence of the critical role they play for, and their integral link with their respective governments. These factors continue to underpin our assessment of an almost certain likelihood of extraordinary support for the agencies from their governments if needed, and therefore the alignment of our ratings on the agencies with those on their respective sovereigns.

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