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Colombia's recent entry to OECD will help attract additional energy investors, experts say. (Photo: Colombia's Oil and Mining Ministry)

Latin America Energy & Projects: The COVID-19 Impact

The COVID-19 impact on Latin America's energy and infrastructure projects.

BY JOACHIM BAMRUD

What is the overall impact on energy and infrastructure projects in Latin America as a result of COVID-19 and the oil price decline? What is the outlook after the pandemic? Which countries have the best potential after the pandemic?

Latinvex asked three experts: **Maria-Leticia Ossa Daza,** head of the Latin America practice at Willkie; **Jorge Kamine**, a Willkie partner with broad experience across the energy industry and **Maria Isabel Nieto**, Willkie's Director for Latin America Strategy.

Maria-Leticia Ossa Daza, Jorge Kamine and Maria Isabel Nieto, Willkie. (Latinvex collage)

IMPACT FROM COVID-19

Latinvex: What is the overall impact on energy and infrastructure projects in Latin America as a result of COVID-19 and the oil price decline?

Maria-Leticia Ossa Daza: Unfortunately, I think it is still too early to assess the overall impact of the COVID-19 pandemic and the dramatic oil price decline on energy and infrastructure in the region, particularly since parts of the region appear to still be battling the pandemic. Even once we start to see countries emerging from the pandemic, we expect to see variations in the ways in which different countries in the region have been affected and given that the longer-term effects will be intertwined with the longer-term macroeconomic effects on both the public and private sectors and the potential medium to long-term changes in behavior resulting from the crisis. So far, we have seen all segments of the energy and infrastructure industry adversely affected, either directly or indirectly, by changes in people's activities and behaviors as a result of the quarantine measures.

Jorge Kamine: Further to Maria-Leticia's point, the effects that we have seen thus far include a marked reduction in electricity demand as a result of the reduction in industrial and commercial activity that has accompanied the quarantine measures. These reductions have put a strain on the electricity generation value chain from distribution companies to generators. The quarantine measures have also meant a significant reduction in the use of transportation infrastructure even though governments have required the continued operation of key transportation infrastructure to ensure essential workers can travel while suspending the obligation to pay tolls and fees to the operators. Of course, we have also seen a reduction in air travel, which has affected both airlines and airport operators. While we would expect some of that demand to return as quarantine measures are lifted, we will have to see how economic activity returns and whether the pandemic results in more permanent changes in behavior that have a longer-term effect on demand, particularly if a segment of workers opts to continue to work from home, schools operate on reduced schedules and certain businesses reduce activity to reflect reduced demand or economic distress. On the other hand, the experience with the crisis may increase the demand for telecom infrastructure, including increased fiber, data sites and similar infrastructure, particularly if more people opt to work from home. Those changes in behavior could affect a number of segments in the energy and infrastructure sector.

Maria Isabel Nieto: While it coincided with the rise of the COVID-19 pandemic, which may have exacerbated the drop in crude prices, we have to consider the effects of the oil price decline separately in a number of respects. As you know, our region is a bit split when it comes to impacts from significant declines (or increases) in oil prices. On the one hand, we have the oil-exporting countries which will be hurt to varying degrees based on their dependence on that income from what will now be lost revenue – income which may have otherwise helped to fund measures to address the economic, social, and public health needs and impacts of the pandemic. It is difficult to generalize, but again some oil-exporting countries will face more severe impacts from that loss of income than others. For all of these countries, the loss of revenue could not come at a worse time and their approach to mitigating the loss will be important to watch. Given the global and dynamic nature of oil and products markets, it is too early to tell how the markets will recover and what that will mean for these producers. On the other hand, we have the oil-importing countries which may experience some benefit as their energy costs decline slightly given the price drop, assuming that the price drop does not lead to supply issues. Again, it may be difficult to predict how much they will benefit because of the other challenges they will face in trying to supply their energy needs.

OUTLOOK AFTER COVID-19

Latinvex: How do you view the Latin America energy and infrastructure projects outlook after the pandemic?

Kamine: The energy and infrastructure needs of the region are so significant that they will not be diminished by the current crisis. If anything, the need for infrastructure should also present an opportunity to stimulate economic growth, attract private sector investment, particularly foreign investment, and improve macroeconomic productivity. However, the reality is that governments in Latin America will face varying degrees of constraint on budgets and fiscal space in their efforts to provide public support for infrastructure projects. Moreover, multilaterals that work in the region and are so often a catalytic force in encouraging private investment in energy and infrastructure may also see their capacity limited as they focus their resources on more urgent needs associated with coping and recovering from the pandemic.

Ossa Daza: Nevertheless, we are already seeing a resurgence in efforts by governments in Colombia, Brazil, Peru and Costa Rica to move ahead with tender processes for new infrastructure projects that attract private sector investment even in the midst of this crisis. Given the "dry powder" that was queued up in the months leading up to the COVID-19 crisis, we remain optimistic that well-structured projects in jurisdictions with investment climates that provide legal certainty and predictability and relatively good credit will continue to attract investment capital.

BEST POTENTIAL

Latinvex: In which countries do you see the best energy and infrastructure projects potential after the pandemic?

Ossa Daza: There are many countries in the region that can potentially be good places for investment depending on the risk and investment parameters of the particular investor and the investment climate of a given country. It is important to remain open to opportunities that may arise from political leaders who are committed to creating those investment climates that attract investment.

Nieto: Case in point, despite the disruptions from the COVID-19 pandemic, we saw Colombia's formal entry into the OECD at the end of April, as well as Costa Rica's execution of an OECD accession agreement this month, which also makes Costa Rica the first Central American country to join the OECD. These are very important accomplishments for the political leaders of Colombia and Costa Rica given the significant amount of policy work involved in meeting the OECD's criteria for admission. More importantly, these steps will be key to mobilizing foreign investment in energy and infrastructure in those countries because it expands the pool of potential investors to include companies and funds that are restricted or limited in their ability to invest in non-OECD countries.

Kamine: As I mentioned before, we had been hearing from clients and contacts prior to the COVID-19 pandemic that there was interest in deploying capital in Latin America, but a segment of those interested had a restriction that limited investments to OECD-member countries. With respect to investment funds, we would expect interest to return as soon as there is greater visibility on how different countries in the region will emerge from the pandemic. Once that happens, we would expect those funds and investors to move quickly, but perhaps be more conservative in their risk appetites. In that situation, we think the OECD membership will be very helpful in distinguishing these markets as attractive places to invest in energy and infrastructure.

Ossa Daza: With all of that in mind, from the perspective of our Latin America Practice team at Willkie, we expect to invest most of our time on transactions in Chile, Colombia, Peru and possibly Brazil. We will also be monitoring opportunities in Costa Rica for the reasons mentioned and also in Panama given its investment-grade status. As Jorge mentioned, we are already seeing the governments of the Pacific Alliance counties (excluding Mexico) and Brazil pushing ahead with their tenders, so we are hopeful that attractive investment opportunities will emerge quickly as we continue to navigate this crisis in the region and globally.

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