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Latin America Energy: Promising Outlook

Brazil, Chile, Peru will drive growth this year. Strong interest in Argentina.

BY JOACHIM BAMRUD

What is general energy outlook in Latin America this year? What energy sectors will drive growth in the region? Which Latin American country markets do you expect to drive energy growth this year? And what are the key challenges facing the energy sector this year?

Latinvex asked two experts:

Anna Martini, partner and head of the Latin America practice at Willkie

Jorge Kamine, partner and member of Willkie's energy and Latin America practices

Latinvex: How do you view the general energy outlook in Latin America this year?

Martini: Despite some political and economic uncertainties, we think the outlook for 2025 remains promising for investors willing to navigate that uncertainty and take advantage of robust growth in electricity demand driven by economic growth, digital infrastructure, electrification of transportation, industrial production, and the energy transition. Related to the demand for power, we see opportunities for private investment in addressing the substantial need for new investment in transmission and grid infrastructure. There is also growing interest in battery storage to address a variety of needs from grid balancing and stability to reducing the need for curtailment of renewable energy resources, as well continuing demand for new generation given load growth. In addition to the power sector, we are seeing expanding opportunities for private investment in energy production, particularly oil and gas. We expect, and are already seeing, increased M&A activity across the energy sector and in several countries in addition to new capital investment.

There has been a great deal of attention from the private sector in investments in energy assets in Argentina ranging from hydrocarbons to power, although it may be too early to predict how much the interest and attention will translate into investments. (Photo: Mendoza Government)

Latinvex: What are the key challenges facing the sector this year?

Kamine: Broadly speaking, the key challenges lie with a combination of (1) implementing effective domestic policies that make a persuasive case for the existence of an enabling and predictably safe environment for private investment and regulatory, institutional and public policy support for effective and efficient project development and (2) addressing geopolitical risk resulting from shifts in U.S. foreign policy and trade policy. That includes pressure from the U.S. on Latin America to limit Chinese investment, tariffs and trade barriers imposed on Latin American exports to the U.S. market, and a range of other policies that can have an economic impact on the region including U.S. policies on migration and repatriation and remittances, which will affect macroeconomic performance and by extension impact the energy sector. As always, the cost of capital will also present challenges to the sector whether as a result of higher global interest rates, foreign exchange rates in the face of a strong dollar, higher expectations for investment returns particularly among institutional investors, and a lower risk appetite for emerging markets.

Latinvex: Which Latin American country markets do you expect to drive energy growth this year?

Martini: Given the pent-up demand for energy, the entire region presents opportunities for investment, particularly given that several governments are actively pursuing a range of policies intended to attract investment ranging from new auctions to PPPs to providing stability agreements and other types of credit support. We expect Brazil to be among the most active with continued investment opportunities in the power sector given growing data center development, interest in battery storage as demonstrated by the upcoming auction, and the continued need and opportunity for new investment in generation and transmission. We also may see the growth in opportunities for investment in hydrocarbons, midstream infrastructure and energy transition including hydrogen and biofuels. In addition, we anticipate there will be an active M&A market, capital raises and new investments.We expect continued interest in the Chilean power sector, specifically in battery storage, although perhaps less than in prior periods. We are also expecting renewed interest in Peru given needs, opportunities and government initiatives after several quiet years. Lastly, there should be opportunities in Mexico given the notable need for investment in power and transmission and President Sheinbaum's efforts to encourage new investments through Plan Mexico, including additional investments in the renewable power sector and energy sector more broadly. However, it is difficult to predict how any conflicts in the relationship with the U.S. may adversely affect those plans and investor interest.

Latinvex: How is Argentina's new business environment helping boost the energy sector there?

Kamine: We have certainly noted a great deal of attention from the private sector in investments in energy assets in Argentina ranging from hydrocarbons to power. The Milei administration has been advancing a number of policy initiatives including privatizing public companies, preparing auctions for new power generation contracts across technologies, enacting laws deregulating parts of the energy sector, and introducing the Incentive Regime for Large Investments (RIGI), which offers incentives and legal protections for large investments across sectors like energy, mining, and infrastructure. The government is communicating a strategy that emphasizes free-market principles, deregulation, and alignment with international trade standards, aiming to leverage Argentina's vast natural gas reserves and renewable energy potential to drive economic growth and energy transition. However, it may be too early to predict how much the interest and attention will translate into investments.

Latinvex: What sectors will drive growth in Latin America this year? Renewables? Oil and gas? Power?

Martini: If we look at the region as a whole, one answer is that it will be an "all of the above" set of drivers of growth. Power generation and grid infrastructure are needed across the region given economic growth, growing demand from digital infrastructure and electrification of the economy. Renewables, particularly solar, are expected to continue to attract investment ranging from distributed generation to utility scale given its promise as a lower levelized cost of energy, as well as other technologies and grid infrastructure to achieve stability, balancing and diversification of grids. In addition, we expect that countries with hydrocarbon reserves will see increased interest as U.S. and European energy companies seem poised to expand their investment in hydrocarbon production given shifting government policies on energy policy and addressing climate change, energy demand including for thermal generation, and discoveries of new oil and gas reserves that Latin American countries are interested in developing for their needs and as a source of export revenues.

Pedro Ricco, a visiting attorney at Willkie, also contributed to this Q&A