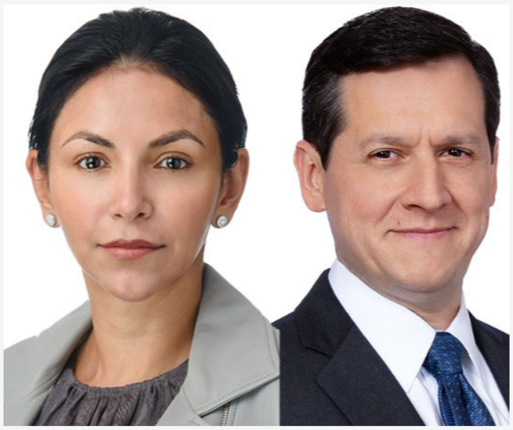
Brazil and Chile may see the greatest growth investment in the energy sector via investments in solar, wind, battery storage and green hydrogen this year. Here the Pirapora Solar Plant in Minas Gerais State, Brazil, owned by EDF of France and Canadian Solar. (Photo: Canadian Solar)



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

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Reports.

Latin America Energy: Positive Outlook

Brazil, Chile, Colombia and Mexico will drive growth this year.

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: Willkie Farr & Gallagher partners **Maria-Leticia Ossa Daza** and **Jorge Kamine**. Ossa Daza is head of the firm's Latin America practice and Kamine is co-chair of the firm's Project Finance and Investment practice.

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

Ossa Daza and Kamine: While each country in the region has its own approach and requirements for addressing its energy matrix and demands, we continue to have a positive outlook for the region, and expect that the energy sector will continue to grow in the year ahead. More specifically, we expect to see a continued trend towards increased private sector investment (both intraregional and from outside the region) across the clean energy/energy transition/decarbonization value chain. Investor interest among a wide array of strategic and financial investors reflects several, consecutive years of directed policy efforts by governments throughout the region. According to a recent International Energy Agency (IEA) report, governments in the region have spent $14 billion since 2020 in initiatives to stimulate energy transition, which reflects the region's commitment.

Latinvex: What sectors will drive growth in the region? Renewables? Oil and gas? Power?

Ossa Daza and Kamine: We see growing investment opportunities in: (i) a wide range of renewable energy generation and energy storage projects; (ii) much needed upgrades and expansions in transmission and grid infrastructure, in no small measure to integrate renewables; (iii) across the EV value chain, including equipment manufacturing, electrification of existing public transportation, and charging stations; (iv) energy efficiency, especially of the built environment; (v) investments in a range of decarbonization projects targeting high-emission industrial and commercial activities (e.g. steel and cement production); and (v) green hydrogen, biofuels and other newer technologies intended to achieve net-zero targets and position Latin American countries as leading suppliers of these new technologies and products. The realization of these opportunities will depend on continued supportive policy making and international cooperation. In terms of expanded investment for addressing the increasing energy demand in the region, there is increasing investment in wind, solar, and battery energy storage systems (BESS). Transmission will have to follow along with additional grid investment to permit the integration of renewables.

We also expect to see growth in electric vehicle and electric vehicle infrastructure. The market is expected to witness a rapid growth due to the rising EV sales, development of legislation frameworks, public and private initiatives and the launch of decarbonization goals in the region.

In the quest to get to net-zero, the expansion of renewable energy technologies such as hydropower and bioenergy has taken off as the region is deepening its commitment to sustainability. The region can play a particular role in the push for low-carbon hydrogen, which is a critical element in order to get to a net-zero future.

In addition, there is an important need for investment in transmission and energy storage in order to better utilize renewable generation.

According to market reports, renewable sources will drive approximately 90% of additional electricity production in the region this year. Latin America continues to lead in making key contributions to global net-zero goals through its embrace of renewable energy. Particular countries, outlined below, are at the forefront of this energy transition.

The potential to produce low-emission fuels and significant resources of critical minerals make Latin America one of the key drivers of the global energy transition. The pace and scale of investment in the region will turn on investors assessments of the long-term political climate, clarity of the enabling frameworks and investment climate for foreign investors.

KEY MARKETS

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

Ossa Daza and Kamine: The countries to watch from our perspective are Brazil, Chile, Colombia and Mexico. We also continue to expect compelling opportunities in the Dominican Republic and Panama, and potentially Argentina and Peru. Broadly speaking, we expect Brazil and Chile may see the greatest growth investment in the energy sector via investments in solar, wind, battery storage and green hydrogen. We expect to see Colombia continue to accelerate the diversification of its electricity matrix by encouraging deployment of renewable generation and battery storage. U.S. nearshoring policies and opportunities have already generated intense interest in investing in Mexico and Central America's industrial base, which in turn will require significant investment in reinforcing and expanding those countries' energy and infrastructure to support the additional manufacturing and export capacity.

In the first nine months of 2023, Brazil generated nearly 93% of its electricity from clean energy sources, which makes it among the largest clean power producers among major economies. Brazil also has the potential to become a leading, global producer of green hydrogen.

Chile has one of the highest shares of wind and solar, and has become one of the most successful Latin American countries in the field of renewables due to a combination of factors including rich natural resources, ambitious political goals to decarbonize its energy matrix and an investment climate viewed as friendly to foreign investment. Chile's clean energy goals include investing $30 billion to generate 15 GW of renewable energy and building transmission and storage infrastructure. So far, Chile has made advances on its storage goals having completed 12 storage projects totaling 1.3 GW of capacity and with 85 storage projects totaling 6.4 GW under development, but with room for investment and new projects. Additionally, Chile has implemented green hydrogen production systems and incentives to promote the development of electric mobility.

Colombia will be a key market in 2024 for renewables and energy transition projects. More details will be provided in response to question 4.

In Mexico, we expect to see continued M&A activity in the energy sector. In addition, we see a need for new investment in energy and infrastructure to satisfy growing increased demand from expanded industrial and manufacturing facilities due in part to nearshoring trends. We are cautiously optimistic that the next administration elected in elections this June will pursue policies that encourage and enable private investment on a scale that will address these needs.

Argentina will also be an interesting market to watch this year. The newly elected government is trying to implement reforms to de-regulate and privatize the energy sector, which could potentially facilitate the access of foreign investors in the market.

Finally, in Peru, the government's investment promotion agency, ProInversion, has reemerged after a challenging political period to announce a sizeable pipeline of new infrastructure PPPs, among which it plans to award 15 energy projects for $937 million. We are watching ProInversion for those opportunities to expand investment in the energy and infrastructure sector.

Latinvex: Colombia's government has stated it wants to end traditional oil exploration in favor of renewables. How do you view the outlook for renewables in that country?

Ossa Daza and Kamine: Colombia has long been known to have great potential wind, solar and geothermal resources that could be harnessed to broaden, diversify and complement its existing base of hydro and thermal power generation. The government has emphasized its interest in accelerating energy transition and there are ongoing efforts to provide the necessary legal framework. The Ministry of Energy recently released Decree 2335, which regulates clean hydrogen sources. Among other provisions, the decree authorizes the creation of mechanisms to incentivize exploration and exploitation of clean hydrogen. Another interesting initiative to watch will be the auctions for offshore wind energy supply agreements which aim to create 1 GW of installed capacity by 2030, and up to 9 GW by 2050. Lastly, expanded investments in transmission and grid infrastructure will be key to realizing Colombia's renewable energy potential.

The key to fully developing these renewable energy resources will be navigating and balancing the requirements for developing and integrating these projects with the rights, needs and concerns of the local communities where the best resources are located, which also include environmentally-protected areas.

We will be watching to see how the government addresses the challenges facing the sector, particularly environmental and community concerns that have already affected important projects such as the transmission line in La Guajira.

KEY CHALLENGES

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

Ossa Daza and Kamine: As noted, we unequivocally see demand and opportunities to invest in energy throughout the region, but the scale, location and availability of those opportunities will turn on the rate of economic growth and recovery, the political and security situation in each country, and investment climate towards private investment in the sector. Recent studies have suggested that investments in the renewable energy sector must double by 2030, which will require additional investments totaling around $150 billion. A challenging macroeconomic environment, political and security questions, and rising inflation in the region may slow and even stall investor interest and appetite in the region, particularly given the competing opportunities in the U.S. and Europe with the IRA and comparable EU policies, respectively.

Other factors, such as the development of global markets for new energy products like hydrogen, specifically in terms of the size of demand side, may influence how development and investment in these efforts in Latin America unfolds. Additional investments in grid and transmission infrastructure are key to addressing energy needs and delays in those investments will adversely ripple through the market limiting new investments in generation, affecting the performance of existing projects, and delaying the economic expansion that depends on reliable electricity.

Private investors look for legal and regulatory transparency and stability. Any perceived changes (or lack of improvement) in the investment climate in a given country could adversely affect further investment, which is already challenged by higher capital and financing costs, political and regulatory uncertainty, and reduced access to credit, particularly in domestic capital markets. Lastly, governments are best positioned to help the private sector navigate and achieve ESG goals, particularly as they relate to land use and natural resource development, and address growing stakeholder and community concerns about these projects and the mining of critical minerals. The efficacy and quality of government efforts to attract investment in these sectors will be a function of its efforts to engage and satisfy all of these goals and stakeholder concerns.

While many challenges lie ahead, we view Latin America as well-positioned to thrive as a destination for investment, contribute to global net-zero goals, and satisfy the need for low-carbon energy supplies.

Nicole Khamis (Associate) and Gonzalo Orrego (Visiting Attorney) also contributed to this interview.

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