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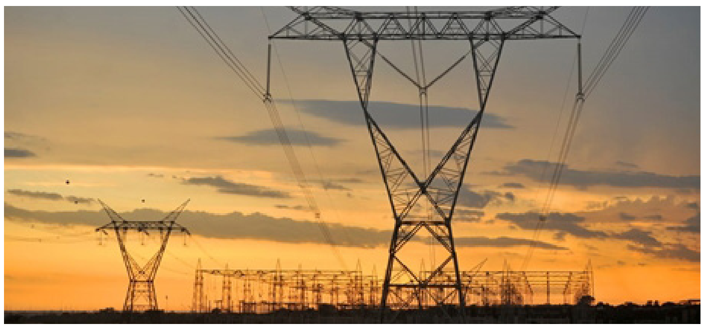
FEATURED Q&A

How is Covid-19 Shaking Up Brazil's Power Sector?



The Brazilian government has indefinitely delayed six energy and transmission auctions originally scheduled for this year. // File Photo: Brazilian Government.

Q **Brazil's government announced it has indefinitely postponed all six of its power generation and transmission auctions initially scheduled for this year due to the economic fallout from the Covid-19 pandemic. At the same time, the government revised down projections for power demand in Brazil, from 0.3 percent growth to zero percent growth this year, and from 2.8 percent growth to 2.3 percent in 2021. What are the most significant consequences of the government's decision to delay its 2020 energy auctions? In what ways is the Covid-19 outbreak affecting existing power contracts in Brazil, and will such projects be able to move forward as planned? How will the demand shock affect Brazil's power sector, and the development of renewables in particular, in the short and long term?**

A **Luiz Barroso, CEO of PSR Energy Consulting and Analytics and former head of Brazilian state energy research agency EPE:** "The two biggest impacts of Covid-19 on the Brazilian power industry will result from reduced demand and an increase in delinquency rates and default. In addition, the effects of the volatility in fuel prices and on the devaluation of the Brazilian currency will affect long-term energy prices, and these uncertainties justify the postponement of the electricity auctions, as it is difficult—and risky—for players to prepare their bids in such uncertain times. There is currently much speculation about the magnitude of these effects, which will be the main agents affected, and how and what will be the ways to resolve the issues. So far, electricity consumption has dropped about 15 percent on average. But the truth is that we don't even know if we have reached

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Sempra Plans to Wrap Up $3.59 Bn Peru Sale Soon

The San Diego-based company plans to sell the largest electric company in Peru to the biggest publicly listed power company in China later this month.

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Petroamazonas to Cut Output Due to Pipeline Damage

The Ecuadorean state oil firm said it would lower production to about 65,000 barrels per day.

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OIL & GAS

Mexico Agrees to Go Along With Some OPEC+ Cuts

The OPEC+ group, which consists of the Organization of the Petroleum Exporting Countries alongside other major producers including Russia and Mexico, unanimously reached a deal to cut global crude production by nearly 10 million barrels per day, said Mexican Energy Minister Rocío Nahle.

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Nahle // File Photo: Mexican Government.

OIL AND GAS NEWS

Mexico Agrees to Go Along With Some OPEC+ Output Cuts

The OPEC+ group, which consists of the Organization of the Petroleum Exporting Countries and other major oil producers including Russia and Mexico, on Sunday finalized an agreement to reduce oil output by nearly 10 million barrels per day (bpd) after Mexico initially resisted the cuts. OPEC said it would cut 9.7 million bpd in oil production in May and June, which represents nearly 10 percent of global supply, and will continue with lower reductions until April 2022 in a bid to stabilize global crude markets, the Financial Times reported. Oil prices plummeted to a nearly two-decade low last month after OPEC, led by Saudi Arabia, and Russia failed to reach a deal on production cuts, leading to an oversupply of crude at a time of dwindling demand as the coronavirus outbreak hits different regions of the world. The cuts would be more than twice those made by the cartel during the global financial crisis in 2008. OPEC said the reductions could end up being much greater, at around a fifth of global supply, including the forced drop in production for non-OPEC members after last month's price shock. Still, the current 10-percent decrease is just a fraction of the plunge in demand for crude, which some traders say equals as much as 35 million bpd, Bloomberg News reported. "Covid-19 is an unseen beast that seems to be impacting everything in its path," OPEC Secretary General Mohammed Barkindo said at the group's first meeting on April 9. "The supply and demand fundamentals are horrifying," he added, saying that the expected oversupply of oil, particularly in this year's second quarter, is "beyond anything we have ever seen before." The negotiations, which started on April 9, stalled after Mexico refused the group's initial demand for it to cut production by 400,000 bpd. Mexican Energy Secretary Rocío Nahle said Mexico would instead cut output by 100,000 bpd. Mexican President Andrés Manuel López Obrador said on April 10 that the country "couldn't manage" to cut 23 percent of its output, or the equivalent of the amount the group demanded, The Wall Street Journal reported. Nahle on Sunday said on Twitter that OPEC+ reached the agreement unanimously, but she didn't specify by how much Mexico would reduce production. Two unnamed Mexican officials confirmed to Reuters that the Latin American country would be cutting output by 100,000 bpd, adding that the United States would take responsibility for the additional 300,000 bpd in cuts that would correspond to Mexico. U.S. President Donald Trump on April 10 said he had spoken to López Obrador, adding that "the United States will help Mexico along, and they'll reimburse us at some later date when they're prepared to do so," Politico reported. Oil prices were volatile in reaction to Sunday's deal, with the price of Brent crude—the international benchmark—gaining as much as 8 percent, the Financial Times reported. Meanwhile, West Texas Intermediate crude—the U.S. benchmark—rose as much as 8.7 percent. However, prices swung again on Monday, with Brent trading 0.76 lower at $31.24, and WTI up 0.44 percent at $22.8 a barrel. Traders have cast doubts on whether the cuts can compensate for the collapse in demand, which is expected to be at least twice the size of the OPEC supply reductions.

Petroamazonas Cuts Oil Production Due to Pipeline Damage

Ecuadorean state oil company Petroamazonas said on Saturday that it would slash oil output by nearly 85 percent to 65,000 barrels per day (bpd), declaring force majeure on its crude exports after the rupture of two oil pipelines, El Comercio reported. A landslide last week caused two of Ecuador's main oil pipelines to break, Energy Minister René Ortiz said on April 10, adding that oil production had dropped to some 223,900 bpd, Reuters reported. The following day, Petroamazonas said it would halt operations at 16 of 23 blocks in the Amazon, including ITT, the country's largest and most important oil field. "In order to protect oil in-

NEWS BRIEFS

Turbines for 54-Megawatt Wind Project Arrive in El Salvador: CEPA

El Salvador's state ports authority, CEPA, announced that turbine components for the Central American country's first wind project had arrived at the port of Acajutla last week, Renewables Now reported Monday. The 54-megawatt Ventus wind farm will be located in the department of Santa Ana. CEPA said every turbine piece had been disinfected before leaving the port area as part of its preventive measures amid the Covid-19 pandemic.

PDVSA Partially Restarts El Palito Refinery: Sources

Venezuelan state oil company PDVSA has partially resumed operations of a crude distillation and other processing units at its 146,000-barrel-per-day El Palito refinery, Reuters reported Tuesday, citing two unnamed sources familiar with the matter. However, the refinery's fluid catalytic cracker, which is crucial for gasoline production, is still offline. Venezuelan authorities have set their sights on resuming gasoline production at El Palito in a bid to resolve acute fuel shortages that have hit the Andean nation.

Mexico to 'Not Bet Everything on Oil': AMLO

Mexican President Andrés Manuel López Obrador on April 10 offered some support for electricity generation from renewable sources during a speech mostly focused on the country's oil strategy, Renewables Now reported. "We will continue with oil extraction, take care of our reserves ... and also look for options to generate with alternative energies, not bet everything on oil," he said. The brief mention came weeks after López Obrador blasted a wind project in the state of Baja California, posting a video on Twitter in which he calls the wind turbines "fans" and expresses lament, saying they ruin the landscape.

stallations under these conditions, production will be gradually shut at these wells," the company said in a statement. Before the pipeline damage, the company was producing approximately 410,000 bpd, according to official figures, Reuters reported. Ortiz said that it could take between two and three weeks to repair the state-run SOTE pipeline and between three and four weeks to fix the privately held Heavy Crude Pipeline, or OCP. The Andean nation had been producing about 530,000 bpd before the pipeline rupture, including both Petroamazonas and fields that private companies operate. The pipeline burst prompted a crude oil spill in the country's Amazon region. The energy ministry said last week that it had placed barriers around the spill in an area where several indigenous communities live and near the source of drinking water for the city of El Coca, which has some 45,000 residents, Reuters reported. "This was big," Juan Baez, El Coca's potable water director, told the wire service. "Something like this has never happened," he added.

POWER SECTOR NEWS

Sempra Plans to Wrap Up $3.59 Billion Peru Sale This Month

California-based Sempra Energy said April 10 that it has received all the necessary government authorizations to wrap up a $3.59 billion cash deal to sell its business in Peru to the biggest publicly listed power company in China, The San Diego Union-Tribune reported. The sale to China Yangtze Power International includes Sempra Energy's 83.6 percent stake in Luz del Sur, as well as Tecsur, which provides electric construction and infrastructure services to Luz del Sur and third parties, and Inland Energy, Luz del Sur's generation business. In a statement, Sempra Energy also confirmed it continues to move forward with the sale of its equity interests in its Chilean business, including its 100 percent interest in Chilquinta Energía and Tecnored, to China's State Grid International Development Limited

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the bottom of the crisis on economic impacts, or if it will be deeper, as social isolation measures persist and the majority of the industry just recently stopped their activities. The most immediate problem in the sector is the cash position of agents, especially distributors, which needs to be addressed quickly. A systemic approach with some level of coordination is essential. The sector will have a (natural) conflict between proposed solutions that preserve companies, segments and/or the electricity sector itself. There will also be proposals that require different degrees of government interference in business environments. The situation is complex; the sector needs to find systemic solutions, consistent with the current overall business environment. However, fundamentals persist, with renewables and transmission leading the way in the investment opportunities, and mergers and acquisitions options will also emerge."

A **Camila Ramos, founder and managing director of CELA-Clean Energy Latin America:** "The auctions have been the most important source of demand for renewables in Brazil, contracting between 1.5 gigawatts (GW) and 4 GW of new solar and wind every year, through 20-year purchasing power agreements (PPAs) with utilities. The postponement of this year's auctions is an important development, especially if they do not take place this year. An alternative is the free market, where power generators negotiate bilateral PPAs with consumers, a market that has been growing faster than the regulated market. However, due to the economic crisis that the Covid-19 outbreak is creating, power demand from commercial and industrial clients is expected to slow down, presenting limited opportunities for bilateral PPAs. On a positive note, financing should be available. Several of the utilities in Brazil have recently notified power generators that they might not be able to acquire all the energy they contracted in some regulated auctions, as dwindling power demand is already hurting their finances. If this happens, it could be a negative precedent in the regulated market, where contracts are respected. Nonetheless, regulated auction projects should be able to move forward, if maybe delayed. In the free market, where contracts are negotiated bilaterally, arbitration could take place between buyer and seller, and projects may be delayed, and some may not move forward. The impact on the renewables sector will depend on the depth and length of the crisis. However, the government has already announced measures such as relief payments of 2 billion reais to support utilities, which should alleviate the impact in the short term."

"The impact on the renewables sector will depend on the length and depth of the crisis."
— Camila Ramos

A **Madeleine Tan, partner at Eversheds Sutherland:** "The Brazilian government's recent announcement to indefinitely postpone its power generation auctions is further evidence of the fallout from the Covid-19 pandemic. Although the auctions have been delayed and not canceled, the indefinite postponement puts into doubt the remaining auction dates planned for 2020 and 2021. This is a further blow to the distributed generation industry in Brazil, which was already facing investor uncertainties prior to Covid-19, resulting from proposed changes by Brazilian regulatory agency ANEEL to the regulation of distributed generation projects. The adverse consequences on investor confidence could be significant for the Brazil renewable energy market in the long term. Even though the supply chain

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(SGID) for approximately $2.23 billion in total cash proceeds.

POLITICAL NEWS

Colombia to Release 4,000 Prisoners Temporarily: Cabello

Colombia's justice minister said Wednesday that the government will temporarily release 4,000 prisoners and put them on house arrest in an effort to keep the novel coronavirus from spreading through the country's prisons, Reuters reported. More prisoners may be released to house arrest in coming days, Justice Minister Margarita Cabello said in a video news conference. "We analyzed the projections to get to the highest number of prisoners who could benefit," said Cabello. "But I have to be realistic, no measure that I could take is going to guarantee 100 percent that we will avoid infection." The effort will focus on prisoners who are pregnant, over age 60 or disabled, in addition to those with children younger than three years old and inmates with cardiac problems, cancer or diabetes, conditions that put people more at risk if they are infected with the virus. Inmates with prison terms of five years or fewer and those who have completed at least 40 percent of their sentences will also be eligible for the program. House arrests under the initiative will last for six months. Prisoners with pending requests for their extradition along with those convicted of sexual violence against children, war crimes, drug trafficking, crimes against humanity, corruption and money laundering are not eligible for the program. Visitors have been banned from Colombian prisons since the middle of March in an effort to curb the spread of coronavirus. Two people who were recently released from a prison in the Colombian city of Villavicencio died after being diagnosed with Covid-19. Thirteen other prisoners, an administrator and two guards at the same prison also contracted the disease. As in other countries in Latin America, Colombian prisons are overcrowded. The country has a capacity of 81,000 inmates across its 132 prisons, but it houses more than 121,000 prisoners, Reuters reported, citing government statistics. Last month, 23 prisoners were killed and 83 were injured in a prison riot in Bogotá as inmates protested sanitary conditions amid the pandemic. At the time, Cabello called the riot "a mass criminal escape attempt" and said sanitary conditions were adequate in the facilities. Colombia has 3,105 confirmed cases of Covid-19 and 131

ADVISOR Q&A

How Can Latin America Help its Most Vulnerable?

Q As Latin American and Caribbean countries grapple with the coronavirus outbreak, the region's informal sector—which is estimated to represent 53 percent of the employed population and a third of total GDP, according to the International Labor Organization—is especially vulnerable both to the health and economic aspects of the pandemic. In what ways is Covid-19 affecting informal workers in the Americas? Which governments have implemented the best measures to protect informal sectors, both in terms of health care services and economic relief, and which ones should ramp up their efforts? To what extent will the pandemic upend the region's labor dynamics and social safety nets in the long term?

A Santiago Levy, nonresident senior fellow at The Brookings Institution: "Informal workers are facing huge challenges in this pandemic, even ignoring issues of access to health services. If transmission rates are to diminish, they must stay home during the lockdown. But unless they are given some means of support during the lockdown, it is unlikely that they will comply, or at least that all will (unless tough and unwelcome policing measures are put in place). The state cannot ask someone to stay home and starve. Put differently, income transfers to these workers are an essential component of the strategy. Nothing relevant in the extremely short run will work very well, and rough-and-ready measures must be used to identify these workers and deliver them an income transfer: registries from health services (countries have publicly funded health programs for informal workers, parallel to those for formal workers), from municipalities, from tax authorities, and so on. Speed is of the essence, and precious time has already been lost. In parallel, during the pandemic, all available public health services should be used indistinctively for all workers; the formal-informal distinction should be irrelevant while the pandemic is controlled. Health services should be funded from general budget revenues. Once this is all over, the region will hopefully come to grips with the problem of informality. It is not a transitory nuisance, and it will not fade away with growth. The opposite is closer to the truth: unless it is tackled, there will be neither growth nor social inclusion."

"Speed is of the essence, and precious time has already been lost."
— Santiago Levy

EDITOR'S NOTE: More commentary on this topic appears in Monday's issue of the Latin America Advisor.

NEWS BRIEFS

Nicaragua's Ortega Reappears After Month-Long Absence

Nicaraguan President Daniel Ortega reappeared in public on Wednesday for the first time in 34 days, the Associated Press reported. In a televised address to the nation, Ortega said Nicaragua had only seen one death from the coronavirus pandemic and that the country's three confirmed cases were "imported." His government has taken no action to fight the spread of the highly contagious virus, instead encouraging Nicaraguans to participate in mass gatherings. Experts believe there are many undetected cases in the country, the AP reported.

Clinical Trial Underway in Cuba on Covid-19 Vaccine

A clinical trial for a Covid-19 vaccine is underway at the Luis Díaz hospital in Havana, according to the research director at Cuba's Center for Genetic Engineering and Biotechnology, the Caribbean Media Corporation reported Wednesday. The drug, known as CIGB 2020, is being tested on volunteers suspected of carrying the disease, said the official, Dr. Gerardo Guillén.

Two Brazilian Governors Test Positive for Covid-19

The governors of Brazil's Rio de Janeiro and Pará states said Tuesday that they have tested positive for the novel coronavirus, Reuters reported. In a video posted to Twitter, Rio de Janeiro Governor Wilson Witzel, 52, said he began feeling ill last Friday, with a sore throat, fever and a loss of smell, a prominent symptom of the virus. Pará Governor Helder Barbalho, 40, also said he tested positive, though he reported no symptoms, after other members of his staff contracted the disease. Some governors have dismissed President Jair Bolsonaro's calls to suspend social distancing. reported deaths. This week, Bogotá joined Panama in instituting a gender-based system designed to limit the number of people on the streets amid the pandemic, The New York Times reported. On odd-numbered days, only men can leave to obtain food and other essentials. On even-numbered days, only women may leave. Bogotá Mayor Claudia López said the gender-based system is the easiest way to limit the number of people outside in a way that police can verify. With a few exceptions, anyone caught breaking the order is subject to a fine of about $240, which is the approximate minimum monthly salary in the country.

ECONOMIC NEWS

Fitch Downgrades Mexico, Expects 'Severe Recession'

Fitch Ratings on Wednesday downgraded Mexico's sovereign rating by one notch to BBB-, the lowest investment grade, saying it expects a "severe recession" this year as a result of the coronavirus pandemic. "The economic shock represented by the coronavirus pandemic will lead to a severe recession in Mexico in 2020. A recovery starting in [the second half of 2020] will likely be held back by the same factors that have hampered recent economic performance, which has lagged rating and income level peers," the ratings agency said in a statement, citing the business climate for certain sectors and an erosion in the perceived institutional strength of the country's regulatory framework as the main obstacles. Fitch expects Mexico's economy to contract by at least 4 percent this year, with "a steep fall" in the first half. The agency noted, however, that "given the nature of the crisis, there is a higher than usual level of uncertainty around our forecasts, and the balance of risks is firmly to the downside." Last month, S&P Global Ratings lowered Mexico's rating to BBB from BBB+. Moody's has a rating of A3 for Mexico, with a negative outlook, The Wall Street Journal reported. A combination of many factors will hit Mexico's economy on several fronts, including falling oil prices, lower external demand for its manufacturing exports and a slowdown in remittances from Mexicans working in the United States. According to the median estimate of economists polled in a Citibanamex poll on April 3, GDP will likely shrink by 5 percent this year, with many analysts expecting a contraction in the high single digits.

Latin America GDP to Fall 4.6 Percent This Year: World Bank

The World Bank expects gross domestic product in Latin America and the Caribbean, excluding Venezuela, to shrink 4.6 percent this year, Bloomberg News reported Sunday. In its latest semi-annual report, the World Bank said the global coronavirus pandemic is hitting commodity producers in South America and exporters of manufactured goods and services in Central America hard. Brazil's economy, the region's largest, will shrink 5 percent in 2020 and grow only 1.5 percent in 2021, according to the report. The Covid-19 virus has also led to a collapse in tourism in most countries of the Caribbean. "We need to help people face these enormous challenges and make sure that financial markets and employers can weather the storm," said Humberto López, the World Bank's acting vice president for Latin America and the Caribbean. "That means limiting the damage and laying the groundwork for recovery as fast as possible." Existing social protection and social assistance programs should be rapidly scaled up and their coverage extended, the development bank said. López added that the lender is deploying up to $160 billion in financial support over the next 15 months to help countries protect the poor and vulnerable, support businesses and bolster economic recovery. Latin America and the Caribbean grew by a disappointing 1.7 percent in 2019.

The World Bank expects Brazi's economy to shrink 5 percent in 2020.

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in places such as China has started to ramp up, the domino effects of Covid-19 on other nations where the virus is starting to spread and citizens are facing quarantines, are slowing the demand side of the equation. In the short term, work on projects that have committed funding and investments will continue, but the concern will be in obtaining funding for new projects or expansion of current projects. If the shock of Covid-19 is prolonged, there may be a flight of foreign (and even domestic) investors away from power projects in Brazil, and the government may not be able to step in and fully assume the gap in funding that may result."

A **Natalie Unterstell, director of Talanoa.solutions in Brazil:** "The postponement of the auctions is a consequence of the Covid-19 outbreak. If carried out, the auctions could put into question the very credibility of the process, since the risk of offers proving to be economically unbalanced would be greater and, therefore, could create investment risks and have an effect on tariffs. The decision gives the government some time to plan a reaction. The greatest risks stem from the impacts of the economic crisis, such as reduced demand and potential defaults, in addition to the effects of the fuel markets and exchange rates. Worth mentioning is that the demand was no longer at the expected levels when the auctions were held in the last three years. It is still very difficult

> **"The government will have to manage and avoid potential over-contracting."**
>
> **— Nataile Unterstell**

to reasonably estimate how demand will behave with the Covid-19 outbreak. Thus, the government will have to manage and avoid potential over-contracting. Near-future auctions to adjust demand at specific times with the contraction of existing energy might become necessary. Meanwhile, the 'reduced demand' will have been stored in reservoirs, improving the overall supply situation. In the long term, one can expect a consolidation movement in the Brazilian electricity sector, as uncertainties will have increased and entrepreneurs will have to work in a more difficult environment where suppliers, customers, banks and investors will demand more guarantees. Large companies will probably be more capable of providing that."

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