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FEATURED Q&A

Will the Pandemic Speed the Shift From Fossil Fuels?

Many analysts believe the Covid-19 pandemic will result in an accelerated shift away from fossil fuels. Offshore oil rigs are pictured above. // File Photo: ExxonMobil.

Q Oil majors including Shell and BP recently announced plans to write off as much as $22 billion and $17.5 billion worth of assets, respectively, after slashing their long-term price assumptions for oil and gas to reflect the effects of the Covid-19 pandemic. Additionally, BP said it expects the health crisis to accelerate the shift away from fossil fuels. Will the health crisis indeed speed up the energy transition—and if so, why and by how much? In what ways is the pandemic changing oil consumption patterns? Which Latin American countries will be most affected by such a shift, and what can they do now to prepare for the future?

A **R. Kirk Sherr, president of Clearview Strategy Group:** "No one knows the final impact Covid-19 will have on the energy transition and the move away from fossil fuels. However, the pandemic adds to other factors driving the transition. Technical studies show that financial returns on renewable projects already match returns on hydrocarbon projects. Meanwhile, wind turbines are getting larger, PV panel efficiency is increasing, and grid battery storage prices are dropping rapidly. Thus, financial returns of renewable projects will increase. Plus, the hydrocarbon disinvestment movement is growing, and the zoomer and millennial generations are more concerned about climate change than are boomers. Add to this growing international electric vehicle sales and now hydrogen as a transportation fuel source. So, the (current) diminished demand for oil is depressing prices and lowering returns for oil projects while making renewable projects even more attractive. BP is reacting to these factors, revising its projections

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TODAY'S NEWS

POLITICAL

Brazil Surpasses Two Million Cases of Covid-19

Brazil surpassed two million confirmed cases of Covid-19. The country also has more than 76,000 reported deaths from the disease. Brazil has more reported Covid-19 cases and deaths than any other country in the world except for the United States.

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BUSINESS

Former Pemex CEO Extradited to Mexico

Former Pemex CEO Emilio Lozoya was extradited from Spain to Mexico where he faces charges including money laundering.

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ECONOMIC

Puerto Rico Governor Orders Closures to Curb Virus

Puerto Rico Gov. Wanda Vázquez ordered the reclosure of several businesses as the number of Covid-19 cases soar in the U.S. territory.

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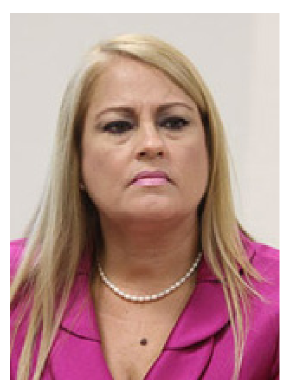

Vázquez // File Photo: Commonwealth of Puerto Rico.

POLITICAL NEWS

Brazil Surpasses Two Million Confirmed Cases of Covid-19

Brazil surpassed two million confirmed cases of Covid-19 on Thursday, with 43,829 new infections registered and 1,299 deaths recorded that day alone, Folha de S.Paulo reported. The newspaper has been collaborating with other media outlets in the country to collect data on the spread of the virus amid criticisms that the government of President Jair Bolsonaro, who since last week has tested positive twice for the virus, has failed to coordinate an effective national response to the pandemic. States including Rio de Janeiro this week reported problems registering their data with government health officials. Bolsonaro, who has said the costs of shutting down the economy to slow the spread of the virus outweigh the health consequences, has seen one health minister resign and fired another since the virus took hold in Brazil four months ago. However, local health experts warn that without slowing Covid-19, the economy will suffer more in the long term. "The disease has evolved not only over time, but also over geographies," Roberto Medronho, a professor of medicine at Rio de Janeiro Federal University, told Reuters. "We still have not reached the peak in Brazil because of these successive epidemics occurring in various regions." Brazil's federal health ministry on Thursday evening said the death toll had topped 76,000, the Associated Press reported. Only the United States, which has more than 3.5 million confirmed cases of Covid-19 and more than 138,000 reported deaths from it, has more reported infections and fatalities than Brazil, according to a count by Johns Hopkins University.

"We still have not reached the peak in Brazil..."

— Roberto Medronho

Peru's Vizcarra Appoints New Cabinet Ministers

Peruvian President Martín Vizcarra has made several changes to his cabinet, including the naming of a new cabinet chief and health minister, MercoPress reported today. Vizcarra tapped attorney Pedro Cateriano as the new prime minister to lead the cabinet, replacing economist Rafael Belaunde. Vizcarra also ousted his health minister, who had come under fire for the country's handling of the Covid-19 pandemic and tapped surgeon Pilar Mazzetti to fill the position. Mazzetti had served as health minister several years ago. Vizcarra kept his economy minister, María Antonieta Alva, in her position.

ECONOMIC NEWS

Governor of Puerto Rico Orders Closures as Covid Cases Rise

Puerto Rico Gov. Wanda Vázquez on Thursday announced major rollbacks in the reopening of the island's economy, including the closure of bars, gyms, marinas, theaters and casinos, as well as restricted use of beaches, as the U.S. territory sees a spike in Covid-19 cases, the Associated Press reported. Vázquez said the changes and an ongoing curfew from 10 p.m. to 5 a.m. will remain in place until the end of the month. "We've reached a level where we need to take more restrictive measures," she said. Among the modified measures, the government banned sales of alcohol after 7 p.m., limited restaurants' capacity to 50 percent and barred tourists from traveling to the popular nearby islands of Vieques and Culebra. Only people who are exercising will be allowed on beaches. The announcement came as Puerto Rico's health department reported 177 of coronavirus-related deaths in total, with five new daily deaths confirmed today. Authorities

NEWS BRIEFS

Maduro Meets With Richardson, Refuses to Free Jailed Americans

Former New Mexico Gov. Bill Richardson met with Venezuelan President Nicolás Maduro on Thursday but said he failed to get Maduro to agree to release several U.S. citizens jailed in the South American nation, the Associated Press reported. Among those in prison are Green Berets Luke Denman and Airan Berry, who were arrested in May for their involvement in a raid allegedly organized to oust Maduro. "We regret that we were not able to secure the release of the Americans," Richardson said.

Brazil's Deforestation Increases 64 Percent as Compared to Last Year

Nearly 3,000 square miles of tree coverage were lost in Brazil's Amazon rain forest during the 11 months ending June 30, according to preliminary numbers from the country's space agency, The Wall Street Journal reported Thursday. The figure is a 64 percent increase from the same period a year earlier, when 1,772 square miles of forest were destroyed. The acceleration in deforestation comes despite military deployments aimed at curbing illegal logging, according to the report. [Editor's note: See related **Q&A** in Tuesday's Advisor.]

Mexico Could Lose Investment Grade Rating: Bank of America

Mexico could lose its investment grade credit rating next year, as public debt is expected to amount to 60 percent of the country's GDP this year, Bank of America said in a report Thursday, Reuters reported. "We believe the fiscal deterioration along with a very weak economic recovery could lead rating agencies to downgrade Mexico to High Yield in 2021," the bank said. Debt made up 45 percent of Mexican GDP last year, the bank added.

warned, however, that the increase does not necessarily reflect the number of dead in the past 24 hours, but rather those confirmed to have died from the virus. Of the 177 deaths reported as related to coronavirus, 97 of them are still classified as likely deaths, rather than confirmed deaths, El Nuevo Día reported.

BUSINESS NEWS

Former Pemex CEO Lozoya Extradited to Mexico From Spain

A former chief executive of Mexican state oil company Pemex, Emilio Lozoya, arrived in Mexico early this morning, extradited from Spain on charges of money laundering, bribery and conspiracy, Univisión reported. Lozoya is due to appear in a court hearing today, an unnamed Mexican official told Reuters. Under Mexican law, he must make an initial statement to a judge upon entering the country. Lozoya stands accused of receiving bribes from Brazilian construction giant Odebrecht during former President Enrique Peña Nieto's campaign, and in exchange, prosecutors allege Lozoya awarded contracts to the Brazilian firm during his tenure as CEO of Pemex from 2012 to 2016, under Peña Nieto's administration. Additionally, Lozoya is accused of taking money for contracts from Mexican steelmaker Altos Hornos de México. Lozoya denies wrongdoing, and so do the bosses of the steelmaking company. Odebrecht has admitted to paying bribes in Mexico. Spanish police arrested Lozoya in the southern city of Málaga in February. "[Lozoya] agreed voluntarily and made a commitment to talk about what happened in these alleged frauds he is accused of, and I think he will talk about Odebrecht and other types of crimes," Mexican President Andrés Manuel López Obrador, who has made rooting out corruption one of the main tenants of his administration, said Thursday, the Associated Press reported. Lozoya was a close of ally of Peña Nieto, and Lozoya's lawyers have said he acted under Peña Nieto's orders, Reuters reported.

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and writing down asset values. They are not alone—a recent Deloitte study estimates that U.S. shale producers must write down $300 billion in project values. And many international oil companies will be forced to write down asset values, as well. Latin American policymakers can prepare for the impact by working with state energy companies to identify meaningful ways to improve their energy investment regime (especially for renewables), by focusing on state projects that create 'new energy' jobs and by holding large scale power auctions focused on renewable energy to lower electricity rates."

A **Andrés Chambouleyron, managing director of Berkeley Research Group and nonresident fellow at the Institute of the Americas:** "The health crisis has reduced the demand for both hydrocarbons and electricity, but the reduction has been steeper for the former. This is mainly because confinement has caused a sharper fall in the consumption of fuels due to lower demand for both public (fear of contagion) and private transportation (more teleworking and more online shopping) than in electricity (more teleworking and more online shopping!), a reduction that will probably have a permanent component. This steeper decline in the demand for fuels has led to a reduction in oil and natural gas prices that has not been matched by a corresponding reduction in electricity prices. This change in relative prices will probably hit investment in renewables, favoring thermal generation. Renewable sources are located away from consumption centers because they need to be where the primary resource is and because they require larger surfaces of land than conventional thermal generation. Consequently, they require additional investment in transmission and in storage (or back up) to reduce intermittency. Given this, it is likely that, facing lower electricity demand and lower relative prices of natural gas and liquid fuels, generators may find it more profitable to favor thermal projects, thus postponing investments in renewables until relative prices change. Does this mean that energy transition will be permanently hurt? Certainly

> **"This change in relative prices will probably hit investment in renewables, favoring thermal generation."**
> **— Andrés Chambouleyron**

not, it means that transition may be delayed until relative prices favor renewables again, either because the prices of oil and natural gas increase or because the price of renewable technologies and/or storage continues to fall."

A **Cecilia Aguillón, director of the energy transition initiative at the Institute of the Americas:** "The recession caused by the Covid-19 pandemic is providing ample reason and opportunity for Latin America to accelerate its transition to carbon-free economies. The health crisis has accentuated the importance of respiratory health. Lockdowns have resulted in the lowest demand for oil in recent history, accompanied by a dramatic decrease of carbon dioxide emissions, particularly in major cities where traffic and air pollution had been the norm. In addition, the concurrent drop in global oil prices is helping governments reduce or eliminate fuel subsidies, thus allowing renewables to compete on a more level field. Latin America has already experienced success with massive renewable energy deployment through mandates and auctions resulting in gigawatts of low-priced solar and wind projects and billions of dollars in direct investment. Capital markets have proven their ability and desire to invest in the region. Countries with national oil companies (NOCs) in Latin America could be the most affected by the

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shift to clean energy as their dependency on fossil fuel exports is high. However, NOCs also have the opportunity to be part of the shift. They could start to retrofit their infrastructure and retrain workers to produce clean fuels. Latin America can now attract new investments to deploy emerging technologies such as energy storage, electric mobility infrastructure and clean hydrogen. In fact, countries such as Chile and Uruguay are already focusing their recovery plans on the acceleration of their energy transitions. Their neighbors should take note and use the health crisis as an opportunity to make energy transition a key pillar to stimulate the restart of their economies."

A **Alfonso Blanco Bonilla, executive secretary of the Latin American Organization of Energy (Olade):** "The drop in economic activity in Latin America and the Caribbean due to the Covid-19 pandemic has led to a logical contraction in the demand for electricity and has hit supply. Considering projections of GDP contraction, final energy demand in 2020 is expected to fall 9 percent as compared to last year and 11 percent in a trend scenario. Electricity consumption in transportation, industry and commerce will fall between 13 percent and 25 percent, while the residential sector will see a 20 percent increase. There is still not enough information to understand the future evolution of the sector or predict the future of the region's energy transition. However, consumption patterns in the new normal are expected to be more influenced by factors such as health and care for the environment. It is likely that consumers will demand products with a better energy performance, the accelerated incorporation of new efficient technologies and renewable energies, and the establishment of public policies that actively act against climate change. However, the future will also be conditioned by factors that could potentially go against the progress of the energy transition: a context of lower relative oil prices, higher debt loads for emerging economies and weakened fiscal positions in the region will directly affect the weighted cost of new renewable projects. We could also see a trend toward greater use of individual transportation, to the detriment of public transportation. These are only a few possibly adverse factors. As such, key for the future of the energy transition in Latin America and the Caribbean will be public policies actively seeking to improve the conditions for the development of renewables, energy efficiency and a sustainable recovery. These conditions have not been widely developed by the countries in our region, and they require long-term strategies. The role of regional multilateralism will also be a crucial and conditioning factor in supporting policies that identify the energy transition as the engine of a sustainable recovery and resolving financing problems. We have institutions capable of responding to this need, and we must use them. But a political commitment, and the understanding that a sustainable recovery must integrate public and private efforts within a framework of collaboration, are also necessary."

> **"Considering projections of GDP contraction, final energy demand in 2020 is expected to fall 9 percent as compared to last year..."**
>
> **— Alfonso Blanco Bonilla**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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