The mid- and long-term renewable energy projections for the Caribbean region remain positive. (Photo: MPC)

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Perspectives

Latin America/Caribbean Renewable Outlook Strong

Latin America/Caribbean outlook for renewable energy sector remains strong.

BY MARTIN VOGT

It is no secret that Latin America and the Caribbean, and indeed the world, has been hit by a health, social and economic crisis which is unlike any other in our generation. The effects of COVID-19 are expected to linger for some time and to affect economies in the region. The ramifications will affect businesses and people across many sectors and industries. However, there is always light at the end of the tunnel, and despite the toll that situations like these create, they also lead to opportunity.

The renewable energy sector has shown promising resilience in Latin American and Caribbean, and sustained investment in these infrastructure projects provide opportunities for investors, governments and citizens. It is the expected positive effects that has led to regional governments retaining their pledged commitments to meeting renewable energy and decarbonization targets. The Latin American Energy Organisation (OLADE) announced at the UN Climate Conference COP25 in Madrid in December "a regional goal of reaching at least 70 per cent of renewable energy in electricity in by 2030." In this climate of economic woes, this is to be applauded. However, the race to decarbonise the region is not the only reason for promoting the renewables sector.

ECONOMIC CONDITIONS

The Caribbean region is facing a major economic downturn. According to a COVID-19 report by the United Nations Economic Commission for Latin America and the Caribbean, states "must undertake planning activities to create the conditions needed to sustain and then stimulate supply and demand."

In the Caribbean region, energy generation is currently heavily concentrated on fossil fuels and the majority of utilities are urgently needing to upgrade current infrastructure in order to make it more efficient and cost-effective. This presents an opportunity to include renewable energy programmes in the COVID-19 economic response. The development of new renewable infrastructure projects can help shape positive conditions of recovery by creation new jobs and injection of capital into the region aiding the governments' efforts to minimise the economic impact of the pandemic.

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The architecture of the energy grid in the Caribbean consists primarily of monopoly highly integrated utilities. In promoting the renewables sector, governments may well be able to shift towards decentralized, distributed grids and to open up markets to competition. This may further their objectives for energy security and autonomy. Governments seek 'autonomy' for essential industries which can be addressed by decentralized renewable energy production without dependence on oil or gas imports. By implementing this 'autonomy', countries throughout the region will be saving funds that can then be reallocated. And this is despite the historically low oil prices at the moment. Low oil prices are not a threat for investments in renewable energy anymore given the strong commitments of public and private institutions to the energy transition.

MANAGING RISKS

There are risks inherent in the pandemic that have to be carefully managed. These risks vary according to where a project is in its lifecycle.

Construction-ready projects are potentially being delayed if key financing and construction contracts were not secured ahead of the pandemic. Furthermore, some project partners might be exposed to more severe economic impacts of the pandemic, unrelated to the actual project. There may be increased wariness of emerging markets, causing investors to shy away from Latin American or Caribbean region, or to 'pull-out' and focus on core-business or core-markets (outside the region) only. In this case, the replacement of such project partners might take longer during these uncertain times.

Assets that are currently under construction are facing challenges with respect to the supply of critical equipment, and as a result there are long-lead times. In the height of the crisis, there are labour market effects with challenges in mobilization of foreign as well as local workers. Furthermore, new health and safety measures on site add to complexity and costs during the construction process. Travel bans and closed authorities are also impacting the ability to continue with local project development.

Our expectations are that **advanced development projects** seeking to secure a PPA will likely struggle, especially if the offtake was supposed to come from a C&I consumer. Given the uncertain business outlook, corporates are likely to be extremely cautious when it comes to signing contracts that create long-term financial obligations such as a PPA. Whether this "pause" lasts for more than a few months is under scrutiny and part of the management of change.

Operational assets that are generating energy are least affected by the pandemic. Assets can be operated remotely and so are not significantly impacted by travel restrictions for workers. In fact, energy is an essential industry that benefits from exclusions of most of the restrictions imposed by governments while ensuring safe operations and continued energy generation.

Renewable technology infrastructure projects are medium-term in nature with an expected timeline of 2-4 years for project development. Therefore, the management of risk takes into account this horizon and operates with the assumption that the material impacts caused by Covid 19 will be temporary, and drops in energy demand will not be permanent.

Having experienced management teams, technical know-how, financial strength and responsive motivated local teams are now critical elements of the investment programme. It allows assets to remain operational, safeguards projects that are construction ready or already under construction and helps to manoeuvre successfully through this challenging period with planning for new projects. We expect to emerge unscathed with a deeper understanding and commitment to the region.

POST-PANDEMIC FUTURE

Moving forward and beyond the public health crisis, we are keen to see initiatives that will connect the 'green deal' with COVID-19 recovery plans in the region. In addition, we hope that there will be continued and deepening political support for renewable energies as part of the response fight climate change. The vulnerability and specific challenges of the Caribbean region with its fragile ecosystems is well known.

From a development point of view, the globalized supply chain for solar PV and wind farms is still materially exposed to China for raw materials, pre-products and assembly. It is possible that the sector may see a re-location of key manufacturing industries back to the EU or the US.

Other trends, such as the accelerated digitalization of the renewable energy industry or the introduction of more remote operation and management tools, are likely to give the renewable energy sector a boost, increasing the efficiency of these assets which in turn will drive the returns on investment.

Our mid- and long-term projections for the Caribbean region remain positive. In the short term, our response to the effects of Covid 19 is primarily to change the implementation or rollout schedule for projects. Our criteria for evaluating assets remains unchanged.

Governments' stimulus programs will ensure that period of low interest rates remains for the foreseeable future, resulting in access to financing at more competitive rates than prior to the pandemic. In addition, the structure of our business model, in which revenues are typically secured through long-term power purchase agreements, limits exposure to short-term price volatility and drops.

Moreover, real assets – renewable energy infrastructure projects being a prime example - have become increasingly attractive, given their low correlation to capital markets, and built-in inflation protections. These features, paired with the strong demand in the sector, offer strong value for investors looking to capitalise on what is likely to become one of the most prominent industries globally.

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