INSTITUTE OF THE AMERICAS

SPECIAL REPORT

COVID-19 and Latin America's Energy Sector:

Today, Tomorrow and Beyond the Crisis

The impacts of COVID-19 and efforts to control it have been unprecedented and well-documented. Indeed, the implications for Latin American economies and specifically the energy sector are wide-ranging – and still developing. The exact depth of the impact is still not entirely clear, but extrapolating rapidly evolving global trends point to major shocks. Moreover, the fiscal implications could also be quite grave.

In an effort to better understand the current situation on a regional level, the Institute of the Americas invited energy experts from across Latin America to answer three questions:

- Where do things stand today in your country's energy sector vis-à-vis COVID-19?
- What are you most worried about?
- What is the single most important energy policy government should consider implementing coming out of the immediate health care crisis?

INTERVIEWS WITH REGIONAL ENERGY EXPERTS


Andres Chambouleyron
Argentina


Alvaro Rios Roca
Bolivia


Nelson Narciso Filho
Brazil


Kevin Ramnarine
Caribbean


Silvia Alvarado
Central America


Ronald Fischer
Chile


Raul Gallegos
Colombia


Walter Spurrier
Ecuador


Leonardo Beltran
Mexico


Beatriz De la Vega
Peru


Marta Jara
Uruguay


David Voght
Venezuela

Our goal with the interviews and document is to capture a regional snapshot of key insights into the crisis and energy sector, but also a look ahead to the critical areas that policymakers should consider as we move from crisis to recovery.

What follows is a compilation of the insights from a wide-range of experts from almost every corner of the region. We asked the experts to limit their responses to 500 words in an effort to make this a short synopsis instead of an exhaustive diagnosis. This is certainly an ongoing evaluation and discussion and the Institute of the Americas will continue to analyze the energy policy implications for Latin America derived from the COVID-19 crisis.

Andres Chambouleyron

Andrés Chambouleyron is an economist specialized in the regulation of energy markets. He has been Undersecretary of Energy Tariff Policy and Chairman of the Board of Argentina's Electricity Regulator (ENRE). He is currently a non-resident fellow at the Institute of the Americas and a private consultant. He holds a M.A and a Ph.D in economics from the University of Texas at Austin.

Argentina

The COVID -19 pandemic has had two major impacts on Argentina's energy sector: the first has been the sharp fall in oil and liquefied natural gas (LNG) prices that has a direct impact on the possibilities of developing the Vaca Muerta oil and gas reservoir and the second is the abrupt reduction in electricity demand and therefore in system operator CAMMESA's revenues. On the former subject, oil and LNG prices were already below the breakeven levels before the pandemic arose. With a WTI oil-price reference hovering around US$ 25 per barrel, without access to capital markets and with a weak institutional environment, investment in both exploration and production of natural gas and oil will become increasingly difficult. Although current prices might still be above operating costs, non-conventional production requires a steady cash inflow that now has too high an opportunity cost rendering local production too expensive hence favoring imports. One potential solution that is being discussed locally is to set a local oil price above the market clearing level as a way to absorb external shocks but it is not clear that investment will pick up in exchange for only a promise, investment needs long term institutional commitments. On the electricity side, industrial consumption fell by 50% the first week of the mandatory lockdown creating a serious problem for both industries and for distribution companies that do not collect enough revenues to cover either fixed costs or wholesale purchases. That revenue shortfall is being transmitted to the system operator CAMMESA that has to honor Power Purchase Agreements (PPAs) signed with generators (in US dollars) thus increasing its already bloated deficit and requiring more and more government funding support.

My main concern is that due to the mandatory lockdown we may have a potential major disruption in the payment chain from final users (mainly industrial and commercial ones accounting for 60% of total electricity and gas demand) to distributors and finally to generators (through CAMMESA) and gas producers creating a wave of contract non-compliances and bankruptcies with the need for a massive government bailout. Argentina's government is currently running a high fiscal deficit without the possibility of borrowing from capital markets hence the only way to finance it will be through money printing that could translate into higher inflation. Higher inflation will necessarily mean a larger gap between (already frozen) tariffs paid by end users and electricity generation and gas production costs thus requiring more and more government subsidies to bridge the gap.

The single most important energy policy that the government should consider implementing should be the one preventing the scenario described above, that is, preventing the disruption in the payment chain. It is essential to keep payments flowing from users all the way through to generators and producers avoiding contract breaches that may deepen the recession. This bail out could take the form of cheap loans with subsidized rates or outright subsidies. Another important policy measure should be to extend a social tariff for both electricity and natural gas to more residential users as families will start falling in arrears with monthly bills if not provided with some kind of financial assistance. In sum, the government should provide enough liquidity to companies and final users to prevent any disruption in the payment chain thus avoiding bankruptcies and contract breaches.

Alvaro Rios Roca

Alvaro Rios Roca is managing partner of Gas Energy Latin America. He is a former Minister of Hydrocarbons of Bolivia and executive secretary of OLADE (Organización Latinoaméricana de Energía).

Bolivia

The drop in oil demand due to COVID-19 will cause oil-linked prices to go down in both export markets this year. We estimate that export will be 35% lower than 2019 exports and 70% lower compared to 2014 when volumes and prices were at their peak for Bolivia during the Evo Morales administration.

The potential for social unrest in Bolivia greatly worries me. Thousands of small formal and informal entrepreneurs can't operate their businesses and they need day to day cash flow. Small and medium companies also are greatly impacted as they cannot operate nor are they able to fire employees. It is quite complex.

Concluding an additional interruptible and firm contract in Brazil in addition to the one with Petrobras to provide additional cash flow is key.

Nelson Narciso Filho

Nelson Narciso Filho is an engineer with 40 years of experience in the oil and gas industry in Brazil and abroad. He served as Director of Brazil's National Petroleum Agency (ANP) and is currently a non-resident fellow at the Institute of the Americas and is the President of NNF Energy Consultancy.

Brazil

The COVID-19 pandemic has shaken the world and put it on hold. The Brazilian energy sector is no different as uncertainty and economic recession looms. State governments have sanctioned lockdown measures to contain the spread of the virus. These measures led to a reduction in industrial activities and an average daily cut of 10% in energy consumption in March. The Ministry of Mines and Energy (MME) has announced the postponement of three electric power auctions and two transmission auctions scheduled for this year. Likewise, the MME has suspended the 17th Concession Round for E&P areas. Another postponement is of the highly anticipated privatization of Eletrobras.

In the oil and gas industry, the COVID-19 crisis has reduced upstream and downstream operations as demand collapsed. Moreover, the sharp drop in international crude prices has forced oil giant Petrobras to drastically revise its plans, including a US$ 3.5 billion cut in investments and reduction of daily production by 200,000 barrels. The company has also suspended the sale process of eight refineries that were part of the its divestment plan.

Overall, despite the economic measures announced by the government, the Brazilian economy is expected to be strongly affected by COVID-19. The official projection for 2020 GDP fell from 2.25% to 0.02%. The moderate scenario expects a 1.57% contraction.

The devastating pace that the virus spreads amongst humans is met by the frightening speed to which COVID-19 impacts the foundations of the economic process, as it undermines a nation's productive and financial bases. The Brazilian energy sector will suffer greatly as disruptions in global supply chains reduce industrial activity and demand for goods and services decline, which might lead to defaults. Lockdown measures and travel restrictions may also affect the schedules for equipment construction, installation and maintenance.

In addition to the consequences in the health system, my concern is that international oil prices will hit rock bottom. For Brazil, and especially the pre-salt zone, this is a catastrophe. The global recession that looms ahead undermines the prospects of energy consumption growth. There is supply glut in the oil market and depressed demand. Future decisions will depend on how the global economy reacts to the upcoming crisis.

In the electricity sector, the MME and Congress should concentrate on implementing bills and guidelines needed to tackle the consequences of the crisis, especially regarding penalties for not meeting contractual commitments, such as payments default, delays and other topics.

In the oil and gas sector, the government should accelerate implementing the natural gas agenda. The New Natural Gas Market, a government program aimed at creating an open and competitive gas market, needs to be fully implemented and embraced by the market. It is important that the new Gas Law, currently stuck in Congress, is ratified.

Even though this pandemic is the biggest global crisis since World War II, there is a fundamental difference in scenarios: productive infrastructure will remain intact. Industrial production will be resumed, and due to the challenges, the expected global recession will propose, the domestic industry will need to be more productive and competitive. For this, natural gas will play an essential role, as long as the commodity comes cheaper for the industry.

Kevin Ramnarine

Kevin Ramnarine served as Minister of Energy of Trinidad and Tobago from 2011 to 2015. Prior to being appointed Energy Minister, he held positions in the Energy Chamber of Trinidad and Tobago and at British Gas where he worked as the Lead Economist.

Caribbean

Before COVID-19, the Trinidad & Tobago energy sector was in a state of decline and that had manifested itself in the closure of plants at the Point Lisas industrial estate, the closure of the Petrotrin refinery and falling oil production. COVID-19 simply made things a lot worse as prices collapsed. We must, however, not forget that natural gas prices had fallen by about 40% in Europe and Asia in 2019 vs 2018. So, the point is a bad situation was made a lot worse. No one can say what the future looks like but at least Trinidad continues to produce oil, natural gas and petrochemicals and these are still being exported. So at least revenue is coming in albeit at lower than 2019 levels. As for Guyana, they have had a rough start to their oil industry. They have the triple whammy of a political crisis, low oil prices and COVID-19. The result of all this is companies will begin to shift some capex into 2021. However, I don't see ExxonMobil reducing its capex levels in Guyana given the low breakeven price in that country of around the low twenties. Guyana will remain central to ExxonMobil's growth strategy for 2020 to 2025. I would, however, think that the political crisis in Guyana would be a source of concern to ExxonMobil and other investors.

I am worried about the loss of investment in Trinidad and Tobago. Before COVID-19, it was clear that the fiscal regime in Trinidad and Tobago was not attracting levels of capex to keep new projects coming along. Now CVOID-19 will cause companies like BP, Shell and BHP to look again at their portfolio and decide where capex has to be chopped. The least capital efficient provinces will be the first to go. In Guyana, ExxonMobil and Hess are committed for the long-haul given the investment they made pre first oil, the size of what has been discovered and the low breakeven price. What also worries me is the lack of capacity in Venezuela to manage a COVID-19 crisis and how that risk can spill over into Trinidad, Guyana, Brazil and Colombia. I think Venezuela could become a huge threat to the stability the region if their refugee crisis continues and if it is exacerbated by COVID-19.

Oil and gas companies need to survive, and Governments need to make that happen. That means they need to stay profitable to the extent that profitability ensures survival. Governments, therefore, need to make sure fiscal regimes adapt to the reality of low oil and gas prices and thereby allow companies to weather the storm. The last thing you want is companies to start closing doors and sending workers home. We can also use this crisis to make it easier to do business in Trinidad, Guyana and Suriname. Less Government red tape allows for faster implementation of projects.

Silvia Alvarado

Silvia Alvarado is an independent consultant with over 30 years of experience in regulatory and market issues in Central America and the Caribbean. She previously served as a Director at the Guatemalan Energy Regulatory Commission, CNEE, and now runs her own consulting firm, Energy Intelligence Consulting based in Guatemala.

Central America

To date, most governments in Central America, except for Nicaragua, have mandated quarantines of their populations that by now surpass three weeks, as well as suspension of economic activities except those related to food and essential supplies to maintain economic production like electricity telecommunications, fuel supply, etc. Power demand has decreased on the order of 10-15% and governments have announced different measures to support their populations in affording the cost of electricity supply among other things, during the suspension period and the subsequent months.

There is concern that the slowdown of commercial and industrial activities may jeopardize the payment chains that are key to the functioning of the power sectors. In open markets like Guatemala, El Salvador and Panama, unregulated users like industries, hotels, ports, airports, etc. will be directly affected by the shutdown of their activities and therefore, pressures over their power suppliers will affect their ability to comply with payments to generators and brokering companies.

There is concern that in light of the pressure of economic slowdown and eventual recession, governments and politicians might be tempted to carry out in-depth modifications to regulatory frameworks and destroy legal certainty for investments in exchange of achieving short term objectives like electricity rates reductions. The Honduran Congress for instance, has announced its intention to modify the electricity law, whose implementation is incipient, in order to "take full advantage" of the decrease in oil prices, threatening to force purchase and dispatch of thermal generation ahead of renewable energy as the current legislation establishes. In Guatemala and El Salvador, Congress and the President respectfully, have declared their intention to suspend the collection of electricity bills during the current health and sanitary emergency, forbidding distribution companies to interrupt service to those customers delinquent with their payments. Short-term measures such as this would may only serve to reverse the progress achieved in the last years towards sustainable and competitive power markets in the region.

It is important that countries maintain the long-term vision of the benefits of the generation matrix diversification to have a sustainable energy market.

Putting in place programs for quick economy recovery and the allocation of funds to directly subsidize lower income users that can't afford the full cost of electricity until the effects of the COVID-19 crisis are over.

Ronald Fischer

Ronald Fischer is an expert in regulation, industrial organization and international trade. He is a full professor in the Department of Industrial Engineering at the University of Chile. He has served as a consultant to the IMF, World Bank, IDB and CAF, as well as government and private companies. He participated in the Commissions for Electric Development as well as Energy 2050. He holds a PhD in Economics from the University of Pennsylvania.

Chile

There has been a large reduction in electricity demand due to social distancing and local quarantines, and this has put strain on generators. However, there seems to be no major problem, nor information about potential bankruptcies.

A potential problem is the proposal by some congressmen to have people not pay utility bills during the pandemic. To compensate firms, utility bills would be raised afterwards, but there would be no interest or penalties for non-payment. This proposal is unlikely to be approved. Nevertheless, utilities have been told by government not to cut off service for non-payment by households during the pandemic.

An unrelated problem (i.e., not associated to the pandemic) is that due to the rise of the exchange rate, a fund designed to stabilize the prices of electricity will be depleted before intended. This fund was established to flatten an expected hump in prices caused by high priced conventional energy contracts for regulated utilities signed in 2015 and which started supplying this year. Since in 2016-2018 there were additional supply contracts which included renewables at much lower prices, the rise in retail prices was temporary. The Fund – imposed on generating firms -- lowers the price this year and part of the next, and it is compensated by smaller reductions in price in the future. However, this fund had a pre-defined size, and due to the rise in the exchange rate, it may run out of funds before the time at which the lower priced contracts commence.

In terms of concerns, there two. First, the danger arising from a streak of populism in the present Congress that disregards the economic logic of the energy market. Thus, we have proposals to reduce rates, or have people not pay utility rates, etc. So far, however, the electric system is working well. There is a lot of new investment in renewables which should restart after the pandemic, and the political interventions have not been too damaging. This, of course, depends on how long the pandemic lasts.

Second, the opposition to new transmission lines. We need new transmission because the centers of production of renewables are far from the centers of demand. There is a lot of environmental opposition to transmission lines, even when they bring in renewable energy. This raises costs, reduces competition among suppliers and increases the use of non-renewables.

The Ministry of Energy should introduce a major reform of the distribution sector. It will provide better incentives for innovation and to invest in smart distribution equipment. There will be competition among suppliers to serve small consumers, and measures to improve the dismal quality standards in terms of SAIDI (a measurement of the quality of the electric system for consumers). This reform has been studied by groups of experts in collaboration with the Department and with input from firms and the public for the last two years. In other respects, I believe the system is sound: there is a lot of investment in renewables, without subsidies.

Raul Gallegos

Raul Gallegos is a political risk adviser for Control Risks, a global risk management consulting company. He leads a team of consultants who advise companies operating in the Andean region and the Guianas.

Colombia

The dual crisis of low oil prices and COVID-19 is deeply impacting Colombia which still relies heavily on extractive exports. The dual crisis is already leading to fields closing and thousands of layoffs in the oil sector as well as a paralysis in all non-crisis related policymaking, which will mean delays in the pilots for fracking that were expected to begin this year. They will likely not begin until 2021. The future of fracking in Colombia is currently in the hands of Council of State which was expected to have a session to rule on the matter on April 22, but that will likely be delayed due to COVID-19.

There are concerns that social unrest and opposition to the oil sector in small communities will flare up in coming months as a decline in oil prices means fewer revenues going into the coffers of the national, region and local governments, and people begin to feel the pinch in government services and decreased company investment in certain areas. Already the oil sector faces distrust and opposition in a number of jurisdictions and future pilots face entrenched environmental opposition too. This will only worsen in a period of fiscal difficulties. Another concern and worry is that a lack of leadership from the government to advance fracking in a bid to increase the country's reserves will mean that Colombia will be dealt a setback in replenishing its dwindling reserve base.

As with many other sectors there is not one single move but a combination of decisions that will make a difference. If the government wants to fortify the industry and take steps to increase domestic supply of gas and increase its hydrocarbon reserves in the future it will be forced to become more flexible. This will mean rethinking the fee structure for crude transport in state-owned oil pipelines, the need to accelerate the approval of rules, licenses and permits needed for fracking pilots to proceed.

Walter Spurrier

Walter Spurrier is president of Grupo Spurrier, director of Weekly Analysis of Ecuadoran Issues and of Análisis Semanal. He is based in Guayaquil, Ecuador.

Ecuador

On the upstream side, oil services contracts have had to persuade communities in the Amazon region where oilfields are, to allow them to bring in drilling equipment. The authorities have established new rules for the coming and going of employees in the field: they must work for 28 consecutive days and then are moved back to the city for a 28-day leave. A strict biological protocol has been established for motor vehicles entering the populated area surrounding oilfields.

On the downstream side, refineries have had to reduce throughput as domestic fuel sales have collapsed on account of the Covid-19 lockdown.

Regarding marketing, most of Ecuador's crude is already sold to Asian traders. The most recent spot sale was cancelled as there were just two bidders, which demanded a steep markdown from WTI prices.

The domestic fuel sales drop sales and thus refining reduction means there is more crude than usual available for export. It would have to be sold in the spot market. If prices fall again below $20 for WTI, as they were at the end of March, it is possible that there would be no takers for Ecuador's crude. In which case storage facilities would be completely filled in a matter of days and Ecuador would have to reduce output.

Most of Ecuador's oil production is nominally operated by State-owned Petroamazonas, which contracts private services companies. At low prices, part of the companies' fees is carried forward, to be paid when the price recovers, with any outstanding debt extinguished when the contract expires. If the outlook is for a prolonged period of rock-bottom prices, beyond the date its contract expires, a services company may withhold investment and output would fall.

Ecuador should put an end to Petroecuador's fuel distribution monopoly at government-set prices. Low-grade gasoline and diesel oil are sold at prices normally well below market, and that leads to rampant corruption and waste. Roughly one-third of gasoline that comes out of Petroecuador distribution centers never gets to service stations. Presumably much is diverted to Colombian laboratories of illicit drugs. Part of the fuel in the domestic market is imported and sold at a substantial subsidy.

The authorities should take advantage of current low fuel prices, and go to international market prices. Instead, they could set a subsidy for mass-transit fares, to isolate the low income population from a surge in oil prices. Petroecuador should fade out as a fuel distributor and allow private oil companies to take over.

Leonardo Beltran

Leonardo Beltrán is non-resident fellow of the Institute of the Americas and executive fellow of the University of Calgary; consultant to the IDB and OLADE; member of the Board of Sustainable Energy for All, and of Fundación Por Mexico; and former Deputy Secretary of Energy for Planning and Energy Transition in the Mexican Government. He holds a Master in Public Administration in International Development from Harvard University.

Mexico

On March 31st, the Mexican Department of Health published a set of extraordinary measures to respond to the health emergency caused by COVID-19; as part of those measures, all critical infrastructure including energy were exempted from closing. However, all new power auctions and oil and gas rounds have been stopped since the beginning of the administration.

The chaos gripping the international oil market has affected the price of the Mexican Mix, causing it to slide to just over US$10/per barrel. Yet, the price of gasoline has not completely reflected this as prices at the service stations have decreased 30%.

President Lopez Obrador in his address to the nation on April 5th noted that his administration will announce an investment plan for the energy sector on the order of US$13 billion. He also announced as part of the proposed actions to support the economy during the crisis two actions for the energy sector:

• The continuation of its rehabilitation plans of the National Refinery System and the construction of the Dos Bocas Refinery in Tabasco, his home state.

• A US$2.5 billion reduction in the fiscal burden of PEMEX as a result of the new fiscal regime applied to the company this year.

I am most worried about the institutional architecture of the energy sector. A new administration naturally has a learning curve, because of the changes in leadership and key personnel in the teams running the departments, the time it takes to design their policies, and the process to construct an agreement to implement their plans. Yet the sector continues to move, whether it is to meet a growing power demand, to expand the pipeline infrastructure to spur economic development in a given region, or to supply the bulk of fuels needed across the country, irrespective of the status of the new policies and regulation.

But most importantly, the design of the new rules of the game has to take into account the need to issue a set of mechanisms that allow the private sector to help the government meet the needs of the economy and achieve their objectives.

However, there seems to be a complete lack of trust in the private sector, and the role they can play in leveraging the new energy policy of President Lopez Obrador's administration. The longer the government takes in developing the avenues for the private sector to take part in the energy sector, the larger the impact for the economy, which is now further compounded by the COVID-19 pandemic.

A social energy investment framework in which there is room for public-private partnerships to develop natural resources in a sustainable fashion must be a key objective. This framework could issue calls to develop areas with high-energy resource potential. The administration can publish public calls for social partnerships to develop a given resource (wind, solar or hydro power) in a certain region (the ones with the most potential and/or the areas hardest hit by the economic downturn). The model could have a pre-set distribution of the cost and benefits to the different shareholders, including the local community, the government (local, state and federal), and the developer, or alternatively the distribution of cost and benefits can become the variable to award the project, in other words, the most competitive distributional structure wins the project.

The government already has a map of the areas with the highest resource potential which can provide an immediate road map to plan targeted interventions. The state governments are looking into ways of attracting investments to spur development within their borders, which in turn would expedite the process to be ready to implement this social energy investment framework in their states. The communities know best the challenges and opportunities in developing a given resource, and would ensure the integrity of the natural capital. State-owned enterprises along with the private sector, would have the support of the government, the endorsement of the community, and an adequate risk and reward structure that would immediately put the economy in recovery mode after the pandemic.

Beatriz De la Vega

Beatriz De la Vega is Partner, Energy Leader at EY Peru. She holds an LLM from University of Aberdeen in Oil & Gas Law and is an LLM Candidate Law Center of University of Houston in Energy, Environmental and Natural Resources Law.

Peru

There was already a pending review of a bill of law to amend the Oil & Gas Law and a proposal to re-negotiate r oyalties, which are still on hold. Today, the Oil & Gas associations are requesting emergency measures to continue producing. Although the Central Government already published regulations to delay annual Income Tax 2019 obligation and current monthly tax payments for March and April 2020, delays in monthly obligations only apply to taxpayers with 2019 net revenues up to approximately US$ 6 million. Most critical is to postpone royalties' payments to mitigate impact on cost production under a context of unstable oil international prices.

On the other hand, since the supply of energy is considered an essential service, operators are struggling to maintain service reliability due the lack of personnel commuting to their workplaces. Indeed, the Peruvian government issued strict measures to restrict constitutional rights of freedom and free transit during the quarantine to protect the population from the spread of virus. The result is reduction on consumption and, therefore, big cuts in revenues that may be worsened as a result of postponing the collection of bills from consumers.

Peru is a net importer of oil. Last year imports grew on average to 86,000 barrels per day (BPD), whereas domestic production was 59,700 BPD. In terms of energy security, even though the current context could create opportunities in terms of cheaper access of hydrocarbons, there are also supply risks due to the limitations imposed by other countries within their borders, which limits the flow of international trade. Therefore, if claims from the local producers to obtain relief on royalties are not attended, the risk could be higher with the need to import more quantities to cover domestic consumption requirements.

A key goal for the government is to clarify if the country's Oil & Gas sector is included within the reactivation measurements that it is preparing for the 45-day legislative period (from March 28) granted by the Congress in response to the COVID19 crisis. In that framework or as an additional measure, it is critical to grant forbearance on royalty payment delays and other elements connected with the re-negotiation of royalties, including new methodologies more linked with price fluctuations. Adjustments to royalties could be implemented quicker as they fall under the jurisdiction and faculties of the Central Government. In connection to energy supply, it is critical to obtain a quick response from regulators to facilitate for the energy sector the framework to insure reliability and adequate labor conditions of personnel either working onsite or remotely.

Marta Jara

Marta Jara most recently served as the President of Uruguay's National Oil Company, ANCAP. She took over ANCAP after more than 20 years working around the world for Royal Dutch Shell with experience in Mexico, Argentina, the UK and Venezuela. She left her position as President of Shell Mexico to return to her native Uruguay.

Uruguay

Responses to COVID-19 kicked in relatively early in Uruguay (March 13th as the first case was confirmed) and just as a new government was taking office (March 1st). Deciding to err on the side of being "too speedy" appears to have been a good decision and is so far being widely supported by the public. No mandatory quarantine has been imposed but service industries have been shut down as well as construction work, while most office work has moved to homes. All this is helping the control of the pandemic but taking its toll on the economy with obvious impact on energy consumption. The good news is that the local system has proven extremely resilient, with oil/oil products supplies at levels equivalent to 3 months of normal consumption (now falling on the order of more than 50%), electricity generation prepared to cope with the past summer's drought but based on a strong renewable matrix, and natural gas supplies (depending on Argentina) challenged as usual, but more of a long-term concern than a short-term one.

Whereas supplies per se are not of concern, the already high costs of energy have been and will become even more so. Crude prices (Uruguay is an importing country) have practically been locked in for the full year at levels (Brent – US $47/per barrel) well above current market prices and the local refinery will probably have to shut down at some point to cope with the abrupt fall in demand. Similarly, electricity PPAs will have to be honored driving higher unit costs for users. It is important to keep in mind that driving down the fiscal deficit (5%) is one of the key objectives of the new administration in Uruguay. Plans will have to be revisited but the imperative remains and energy tariffs and SOEs performance are a source of fiscal income, which will keep the pressure on energy costs to the final users.

As we look ahead to the "day after," the call for deep measures towards higher efficiency will have to see a renewed sense of urgency. State-owned enterprises, which dominate the sector, its trade unions and policymakers, must face tough choices. The country's national energy policy - supported by all parties with parliamentary representation in 2008 - clearly needs an update as many of its objectives have been reached and new realities have surfaced. The ability to assess risks, how we understand the timing and implications of an imminent tipping point vis-a-vis energy transition, can keep Uruguay ahead of the curve and contribute to its positioning as one of the most developed states in Latin America.

How the ongoing management of the public health as well as economic and social impacts of the pandemic will determine if we can sustain a rational debate and achieve to grow into a more modern, more sustainable "new normal."

David Voght

David Voght is Managing Director of IPD Latin America, a consulting firm specializing in oil, gas, and power markets throughout Latin America. He has thirty years of experience advising on business strategy, political and economic risk, and business-to-government relations. Having resided in Venezuela from 1991 to 2011, David is a leading expert on that country's energy industry. In 1999 he founded IPD, which provides advisory services to multi-national energy developers, oilfield service companies, foreign governments, and financial institutions.

Venezuela

Venezuela is bracing for a pandemic at a time of unparalleled political crisis, and economic and infrastructure collapse. Local consulting firm Ecoanalitica expects COVID-19 to lower Venezuela's GDP by 15% in 2020, on top of a previously forecast 10% decline.

On March 16, Venezuela imposed a nationwide quarantine and travel ban. Because most Venezuelans depend on daily wages to survive, only limited areas of major cities have observed lockdown. The country's political crisis has precluded it from accessing international aid, including multi-lateral financing, as organizations like the IMF find themselves unable to collaborate with state institutions that lack legitimacy.

Venezuela's oil production has been in freefall. Average output in March came in 155 thousand b/d below January levels. U.S. sanctions and crashing oil prices have severely restricted exports. COVID-19 is compounding PDVSA's woes, as employees are unable to get to work. We expect to see production fall 45% month-on-month in April.

Power supply, gasoline availability and access to potable water will be major short term challenges. Bloomberg cites a Central University of Venezuela study, published January 30, 2020, that shows Venezuela's hospitals have recently averaged 342 hours each month without electricity, and eight of every ten hospitals confirm weekly interruptions in water supply. Roughly 80% of the population does not have regular access to potable water.

To make matters worse, water levels at the Guri hydroelectric facility, which supplies 60% of Venezuela's power, are currently in the emergency zone, at 247 meters above sea level. If the dry season is prolonged, and Guri generation is curbed, the risk of national blackouts will increase exponentially. COVID-19 critical care requires ventilators, which cannot operate without electricity.

Venezuela's internal market typically consumes 140 thousand barrels of gasoline each day. PDVSA has not received a single cargo of finished gasoline since February 29. The collapse of domestic refining capacity has caused a gasoline supply shortage that will likely lead to food distribution bottlenecks in the coming weeks. So even if international aid does reach the country, there may not be enough gasoline to fuel transport and emergency vehicles. Food shortages will inevitably exacerbate virus transmission as people rush stores for basic goods or are unable to self-isolate because they cannot achieve adequate food stocks at home.

It will be impossible to implement critical energy policy immediately after this health crisis without first achieving political resolution. Once Venezuela's democracy and institutions are restored, U.S. sanctions must be quickly lifted. The government will have to move fast to secure financing for the maintenance of the country's power generation capacity and, equally as critical, transmission and distribution infrastructure.

The Institute of the Americas would like to thank and recognize the efforts made by our collaborators for their time and contributions to this report.

The Institute of the Americas' Energy & Sustainability Program works to foster a deeper understanding of the Western Hemisphere's most critical energy and sustainability issues.

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