Crowell

Client Alert

Energy & Infrastructure Investment – What Now for Greenfield Projects?

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Over the past 2 years, our Energy & Infrastructure Team has seen first-hand the impact COVID-19 has had on greenfield infrastructure projects both in the UK and more globally from the US to the Middle East; from impact on cashflows to operational uncertainty in supply chains; from delays in government approvals to Government mandated shutdowns.

Since this article was first written, there has been the significant impact of the Russian invasion of Ukraine and the resultant disruptions, commodity price volatility, far-reaching sanctions and indeed broader geo-political uncertainty to contend with. If anything, the forces unleashed by the invasion will only compound the trends for infrastructure that we see over the next few years as the world moves from pandemic induced lockdown to the need to live with the virus.

Below, we look at some of the key emerging trends that we believe will shape the post Pandemic infrastructure landscape over the next few years.

Macro-economic forces

The need for investment in infrastructure was widely recognized even before the Pandemic set in and it is important to understand the macro-economic context against which there is an increasing demand for infrastructure spending which addresses changes in (i) demography (a growing population that is living longer), (ii) the climate (the impact of which will pose a significant challenge) (iii) technology (which is driving the replacement of existing infrastructure) and (iv) urbanization (leading to amongst other things increased waste and pollution).

The pressure COVID-19 has brought to bear on the global economy takes this need into uncertain territory. And, whilst is too early to assume that forced changes during the Pandemic will result in long-term shifts in the general public's behavior, what is certain is that governments around the world have a lot less money to spend on infrastructure than they had pre-pandemic.

At the same time, the need to adapt national energy policies to address climate change has been compounded by the crisis in energy supplies arising from the Russian invasion of Ukraine. Europe in particular now realizes that relying on supplies of oil and gas from Russia is not a sustainable policy and the need for far greater energy self-sufficiency (already implicit in some of the emerging strategies to address climate change) is if anything much more apparent. At the same time, the emerging trend of globalization of supply chains being weakened and beginning to split along geo-political lines continues.

Funding Challenges

Pressure on government budgets will be a particular challenge for public infrastructure spending and it is likely that the full impact of the pandemic will take years to play out. Yet, in the short term, we expect to see a shifting of funding sources away from public finance - as increasingly constrained governments tighten belts post-Pandemic - to private finance, with government support focused more narrowly on those strategically significant projects that would otherwise struggle to raise funding, for example to support emerging technologies.

We think there are likely to be more revenue supporting and end-user based revenue projects (such as user fees in water, power purchase agreements in energy) and less availability based contracts. This in turn is likely to lead to innovative forms of finance to leverage investments which - it is hoped - will unlock spending.

Spur on Economic Recovery

Recognizing the importance of infrastructure to boost economic growth, many governments (including the UK and US) see the revitalization of infrastructure as a priority. However, in our view, governments will need to prioritize and where relevant, facilitate the "right" projects to tackle macro-economic drivers and attract private investment. We expect there to be an ongoing shift in sectors, again driven by macro-trends to more of a focus on digital (fixed line and data centres) and renewable energy infrastructure. Some "challenged" sectors where demand has taken a significant hit post-pandemic such as toll-roads and airports are likely to struggle to attract investment in the short term.

The Pandemic is leading many to reconsider the viability of such projects and whether or not they continue to serve a purpose in a rapidly changing post-COVID world. Although the UK government eventually gave the go-ahead to the HS2 rail project from London to Birmingham, it is still scheduled to be completed at least seven years later than planned and significantly over budget. And, whilst transport will remain significant, the sub-sectors and methods of supporting these will change (for example, a move away from toll roads to more electric vehicle charging and cycling infrastructure schemes).

Direct Government Intervention

Where they can, we expect governments can and should play a role is in facilitating "shovel ready" projects that can be delivered quickly for short-term stimulus. Planning and improving the efficiency of procurement remain critical however, from an energy perspective, upgrading grid networks to enable intermittent forms of energy supply such as wind and solar is an increasing priority. Similarly greater investment in both short term (battery) and longer term (natural gas and hydrogen) storage solutions are likely.

But not all of these can be financed through the private sector/end users alone. To this end, in the Summer of 2021, the UK Government opened the doors of the Infrastructure Bank (headquartered in Leeds), which aims to fund projects that are less attractive to the private markets and help spur economic recovery in the wake of the

Pandemic. The bank will have a focus on capital projects that include clean energy, digital, transport, water and waste.

Impact on Global Supply Chains

In the UK, the double impact of a global Pandemic and Brexit has hit the construction industry hard. This has now been compounded by the crisis in Ukraine. Whilst we would have expected post-pandemic impacts on supply chain management (eg the delivery of materials and contractor solvency) and labour (eg availability of workforce due to lockdown or travel restrictions) to begin to ease over the next year, the crisis will inevitably cause further delays and disruption and mean these issues are likely to continue to impact for longer. Similarly, construction costs and inflation will continue to rise in part because of issues with workforce, supply chain and of course commodity price increases.

Road to Recovery

Our experience in the UK is that Net Zero and the importance of ESG for investors mean appetite for Renewable Energy deals will continue. We are seeing a lot of interest in battery storage, electric vehicles and hydrogen projects and the importance of green infrastructure is a key theme in in the UK Government's 'build back better' message. Again this is a trend that can only be reinforced as a result of the Russian invasion. Whilst governments around the world are desperately looking at alternatives to Russian gas and oil (including further investment in fossil fuels such as LNG and pushing for increased production from other big exporting countries), in practice we think renewables (particularly wind) will likely see the largest amount of investment in the coming years. In addition, renewed appetite for nuclear power, particularly the smaller modular reactors currently being developed (for example by Rolls Royce), is also likely.

Meanwhile in the US, it is hoped that the Infrastructure Investment and Jobs Act (aimed not only at re-building America's crumbing transport infrastructure but at expanding access to clean water, upgrading internet speed and tackling the climate crisis) will create jobs and grow the economy sustainably.

There are huge opportunities for developers and funders that adapt to a post-COVID world and new sectors; for those that do so, the outlook over the next couple of years is increasingly positive. And, whilst the last two years has seen a significant shortfall in greenfield projects closing because of the Pandemic, demand and need for infrastructure has if anything grown.

Summary report: **Litera® Change-Pro for Word 10.8.2.11 Document comparison done on 19/03/2022 14:29:37**
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Intelligent Table Comparison: Active
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Changes:

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Move To	6
Table Insert	0
Table moves to	0
Embedded Graphics (Visio, ChemDraw, Images etc.)	0
Embedded Excel	0
Format changes	0
Total Changes:	21

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