

On February 4, 2025, a bill containing the draft decree for the issuance of the new Law on the Public State-Owned Enterprise, Petróleos Mexicanos ("PEMEX Law" or the "Bill") was presented by the Executive Branch to the Senate. If approved, as expected, the PEMEX Law will come into effect the day after its publication in the Federal Official Gazette, repealing and replacing the Petróleos Mexicanos Law, which has been in force since August 2014.

The Bill aims to implement the reform to articles 25, 27, and 28 of the Mexican Constitution, which took effect on November 1st, 2024. The PEMEX Law follows a structure similar to the previous law, adapting the text of the latter to meet Bill's objectives.

In general, the Bill reflects the restructuring of Petróleos Mexicanos ("PEMEX"), which not only formalizes its shift in legal nature to a public state-owned enterprise (abandoning the "productive" characteristic), but also seeks to concentrate its operations and eliminate the figure of the productive subsidiary companies (*empresa productiva subsidiaria*), ordering the extinction of Pemex Exploración y Producción, Pemex Transformación Industrial, and Pemex Logística. The Bill provisions aim primarily to strengthen PEMEX to reduce its debt through austere operations, as well as to preserve the country's energy sovereignty, security, sustainability, self-sufficiency, and justice.

A. General purpose of the PEMEX Law

The Bill aims to regulate the organization, management, operation, control, evaluation, and accountability of PEMEX as a public state-owned enterprise, and to establish its special regime. The PEMEX Law is considered of public and social interest.

B. PEMEX' Purpose

PEMEX' purpose is the development of activities such as exploration, extraction, import, export, transformation, storage, commercialization, formulation, transportation,

distribution, and sale of hydrocarbons and their derivatives. It must be noted that PEMEX' purpose now includes **"the development of activities related to energy sources other than those derived from hydrocarbons"**, meaning it could venture into other areas of the energy industry.

In carrying out its purpose, PEMEX will be governed by the principles of transparency, honesty, efficiency, equity, sustainability, accountability, and social responsibility to preserve the country's energy sovereignty, security, self-sufficiency, and justice.

The Bill lists the activities that PEMEX may carry out, integrating the entire hydrocarbon and derivative production chain, as well as the development of activities related to renewable energy and lithium¹.

For these purposes, PEMEX will have a special regime regarding: (i) subsidiaries, (ii) remuneration and austerity, (iii) acquisitions, leases, and services, (iv) assets, (v) administrative responsibilities, (vi) budget and accounting, (vii) debt, and (viii) sustainability.

C. Legal nature of PEMEX

- PEMEX will become a public state-owned enterprise.
- It is an entity of the Federal Public Administration sectorized to the Ministry of Energy ("SENER"). The interpretation of the PEMEX Law corresponds to SENER.
- It will have technical, operational, and management independence, as well as its special regime, legal personality, and its own assets.
- The activities performed by PEMEX will not constitute monopolies (as a result of the exception contained in article 28 of the Mexican Constitution).
- PEMEX may carry out necessary activities, operations, or services for its purpose either by itself or through its subsidiaries, through contracts, agreements, alliances, or partnerships with individuals or entities from the public, private, or social sectors, whether national or international.

¹ It is important to highlight that, under the terms of article 27 of the Mexican Constitution, lithium has been classified as a strategic area exclusive to the State. While the decentralized organization "*Litio para México*" was created with the purpose of exploring, exploiting, benefiting from, and taking advantage of lithium, it is noteworthy that PEMEX also holds powers related to this resource.



- PEMEX may establish subsidiaries to expand its services, make partnerships, or share expenses, investments, risks, and other aspects of the activities it holds. The creation, merger, spin-off, or liquidation of subsidiary companies must be authorized by PEMEX' Board of Directors, with prior opinion from PEMEX Subsidiaries Committee.

D. Extinction of Productive Subsidiary Companies (PSCs)

- The extinction of the three PEMEX PSCs will occur the day after the Bill comes into effect.
- After the extinction of the PSCs, under the transitional provisions of the PEMEX Law, PEMEX will substitute all the rights and obligations of those PSCs.
- Contracts, agreements, trusts, concessions, authorizations, and permits granted by any authority to the extinct PSCs will be transferred to PEMEX and continue to be effective under the terms of these instruments.
- Any ongoing lawsuits, arbitrations, procedures, and proceedings involving the PSCs will be continued by the competent administrative units of PEMEX.
- The payment obligations and guarantees granted by the PSCs will remain unaffected, with PEMEX being considered the successor.

This corporate restructuring of PEMEX' entities will likely have significant consequences for its financial situation, as well as its perceived risk, since entities with better economic performance will now be incorporated into a single entity, reflecting the losses of other less efficient entities. Additionally, the different responsibilities of each of PEMEX' entities derived from their activities, which were previously kept separate, will now be consolidated into a single entity. We can expect financial analysts and rating agencies to soon evaluate the economic and risk implications of this change.

E. Internal reorganization and structure

- PEMEX will have the organizational structure deemed most appropriate to carry out its purpose, as determined by its Board of Directors, following the applicable austerity regime. This provision no longer includes the adoption of best practices.



- The management and administration of PEMEX will remain under the Board of Directors and the General Director. A new structure of committees within the Board of Directors will also be created.
- A program and reorganization plan, along with a new organizational statute, must be presented.

F. Board of Directors

- As with the previous structure, the Board of Directors will be the highest administrative body responsible for defining PEMEX' policies, guidelines (including those for the development of mixed entitlement contracts and the selection processes for participants), and the strategic vision for PEMEX and its subsidiaries.
- The Board of Directors will be reduced from ten to eight members, including: (i) the head of SENER (who will preside with a casting vote), (ii) the head of the Ministry of Finance and Public Credit ("SHCP"), (iii) the head of the Ministry of Environment and Natural Resources, (iv) the head of the Ministry of Science, Humanities, Technology and Innovation, (v) the General Director of the Federal Electricity Commission (*Comisión Federal de Electricidad*), and (vi) three independent board members.
- To be an independent board member, the original requirements remain, highlighting the following: (i) must have a professional degree obtained over 5 years ago in fields related to the industry; (ii) must have worked for at least 10 years in activities providing necessary experience for the role; (iii) must not have been convicted of crimes subject to prison sentences or patrimonial crimes; (iv) must not be disqualified or suspended for being a public officer; (v) must not have pending lawsuits with PEMEX or its subsidiaries; (vi) must not have been sanctioned due to administrative or criminal investigations for violations of national or foreign laws leading to a final judgment, and (vii) must not have conflicts of interest or personal, financial, or economic subordination.

G. Special regime

- PEMEX will operate under a special regime regarding: (i) subsidiary companies, (ii) remuneration and austerity, (iii) acquisitions, leases, services, and works, (iv) assets, (v) administrative responsibilities, (vi) budget and accounting, (vii) debt, and (viii) sustainability.



- This means that specific exceptions and regulations apply to PEMEX in these areas, differing from the general laws applicable to other governmental entities or companies. Public, civil, and commercial law will apply supplementarily.
- The aim of this special regime is to grant PEMEX sufficient flexibility and independence to fulfill its purpose.
- One key aspect of this regime is that PEMEX has budgetary autonomy, subject only to the financial balance and the spending cap approved by the Chamber of Deputies, as per SHCP's proposal. PEMEX is not subject to the General Government Accounting Law, so international financial reporting standards must be followed.

H. Contracting

- PEMEX may enter into contracts, agreements, alliances, or partnerships with individuals or entities from the public (from federal to municipal levels), private, or social sectors, both national and international, to carry out activities, operations, or services necessary for fulfilling its purpose.
- PEMEX may enter into all kinds of acts, agreements, contracts, issue credit instruments, and grant any type of guarantees for obligations incurred by itself or its subsidiaries, in accordance with applicable laws.
- PEMEX and its subsidiaries may enter into contracts with third parties or mixed development schemes that allow them to expand their services, including models that enable them to partner or share costs, expenses, investments, risks, and other aspects of the activities it holds, in accordance with applicable laws and the policies issued by the Board of Directors.
- A provision remains stating that those with whom PEMEX enters into acts or contracts will not have the right to register as their own the petroleum reserves that belong exclusively to the nation, eliminating the section where it was expressly stated that this did not prevent the reporting of the economic interest the act or contract would represent.

This provision should not have any effect in relation to contractors with whom PEMEX enters into service contracts. However, it could represent a concern for companies entering into entitlements for mixed development or "farm-outs", where the contract with PEMEX transfers an interest in an exploration area. In this regard, we believe the



prohibition for contractors to not register the reserves should not limit companies' right to report the economic benefits of such contracts for accounting or financial purposes, as they have been doing.

- The Board of Directors must approve, at the proposal of General Director, the establishment of partnerships, alliances, and mixed development schemes in accordance with the provisions of the Hydrocarbons Sector Law.² For this, the Board of Directors must issue guidelines, priorities, and policies for the formation of strategic alliances, mixed development schemes, and partnerships.
- If PEMEX carries out activities exclusively due to a contract for the exploration and extraction of hydrocarbons, PEMEX may not do so through its subsidiaries. If the activities are carried out through a participation agreement or a consortium, PEMEX may participate through subsidiaries, companies in which it holds a minority interest, or other allowed modalities.
- The Board of Directors may foresee different contracting modalities, such as ascending auctions, descending auctions, or first-price auctions, as well as restricted invitations or direct awards, as exceptions to public bidding in specific cases mentioned in the PEMEX Law.
- The Bill modifies the conditions under which PEMEX may opt for restricted invitations or direct awards, for example: (i) work that requires rural or urban labor will be capped at the amounts determined by the Board of Directors, and (ii) it adds the condition for hiring machinery, equipment, and fuel necessary to guarantee the physical security of PEMEX' facilities and personnel.

I. Guarantees

- In general, PEMEX is authorized to issue credit titles and grant all types of guarantees in the fulfillment of its purpose, maintaining exclusive ownership of the hydrocarbons in the subsoil by the Mexican State.
- Upon the extinction of the PSCs, PEMEX is exempt from granting any guarantee provided for in the contracts for the exploration and extraction of hydrocarbons.

² https://www.galicia.com.mx/links/en_publicacion?p=986.

- PEMEX' Board of Directors must issue guidelines related to corporate alignment, evaluation, and policies regarding its subsidiaries for granting guarantees among them.

J. Debt regime

- PEMEX will have its own regime for managing its public debt obligations, including submitting a global financing proposal to the SHCP for incorporation into a specific section of the Federal Income Law bill that the Executive Branch submits to Congress.
- PEMEX' Board of Directors will be responsible for approving, at the proposal of the General Director, the characteristics and policies for contracting public debt obligations (i.e., those arising from credits or financing), both direct and contingent.
- PEMEX may engage in official negotiations, informal or exploratory discussions regarding the possibility of accessing the internal and external money and capital markets and contracting the internal and external financing it requires, without needing SHCP approval.
- The public debt obligations of PEMEX are not guaranteed by the Mexican State.
- PEMEX may use its excess own revenues to cover, among other obligations, the payment of debt or liabilities it holds.
- PEMEX will be responsible for ensuring that the obligations it contracts do not exceed its capacity to pay.
- PEMEX' General Director must submit a biannual report to the Congress and the Executive Branch regarding the company's debt use, project profitability, financial conditions, management of resources associated with debt, execution schedules, disbursements, and risk profile.

K. Sustainability

- PEMEX' Board of Directors must approve, at least every three years, its sustainability plan, which must align with the planning instruments issued by SENER, national and international standards, and sustainability commitments.

- Additionally, the PEMEX development program, to be established annually with a 5 and 15-year perspective, must include the main strategies, actions, projects, and goals to achieve sustainable and long-term performance for PEMEX, including information on the use of clean and renewable energy for these purposes.
- Moreover, the creation of the Sustainability Committee will primarily aim to approve and apply transversal strategies, guidelines, priorities, and policies in environmental, social, and institutional strengthening matters. In carrying out its duties, the Committee must promote transparency in environmental, social, and institutional strengthening information and propose an annual sustainability report to the Board of Directors.

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