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**Client Alert**

# Initiative to reform the Petróleos Mexicanos Law

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## Background

As a result of the 2013 constitutional reform, Petróleos Mexicanos ("**PEMEX**") was transformed into a productive state-owned enterprise directed by a General Director and a Board of Directors. Currently, each of them has specific powers regarding the operation, management and strategic direction of aforementioned company, as well as human resources, preparation of the business plan, investments, prices of goods and services, responsibilities and audits. This separation in the management of PEMEX intends to be in accordance with the best corporate practices at an international level.

## Reform initiative

On January 9<sup>th</sup>, 2019, the Parliamentary Group Morena presented, to the Permanent Commission of the LXIV Legislature of the Congress of the Union, an initiative that proposes to amend the powers of the Board of Directors and the General Director of Petróleos Mexicanos, as outlined in the Petróleos Mexicanos Law ("**PEMEX Law**"). This initiative may be amended and, prior to its implementation, must be approved by the House of Representatives and the House of Senators, promulgated by the President of the Republic and published in the Federal Official Gazette.

The purpose of the initiative is to provide the Federal Executive, through the General Director, a greater influence in the conduction of aforementioned company, for which it proposes to amend the following powers:

- a. The central management and strategic direction of the business, economic and industrial activities of aforementioned company will be carried out by the General Director of PEMEX and not by the Board of Directors.
- b. The powers to: (i) approve PEMEX's human resources and remuneration policies; (ii) appoint and remove PEMEX executives holding positions within two immediate hierarchical levels below the General Director; (iii) approve policies and procedures to enter into transactions with related parties of PEMEX; among others, will be transferred from the Board of Directors to the General Director.
- c. The exclusive powers of the Board of Directors with respect to: (i) the approval of the organization and corporate structure of PEMEX; (ii) the approval of the PEMEX Business Plan; (iii) the approval of the guidelines, priorities and general investment policies; (iv) the fixing and adjusting of prices of goods and services; among others, will be exercised upon proposal of the General Director.

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With respect to the integration and operation of the Board of Directors, it proposes that the General Director be a standing invitee, with voice but without vote. Likewise, it proposes to eliminate the Human Resources and Remuneration Committee to create an Investment, Procurement, Works and Services Committee.

It outlines a proposal to amend article 8 of the PEMEX Law in order to lift the ban of entering into Contracts for Exploration and Extraction with third parties. This amendment would imply the need to reform the Hydrocarbons Law and to issue secondary provisions, in order to regulate the execution and administration of these contracts by a body other than the National Hydrocarbons Commission.

Finally, it also proposes to establish that PEMEX must update its Business Plan when addressing scenarios of economic crisis, substantial changes in the international oil market or when contemplating the undertaking of new large-scale projects; e.g., the case of the construction of a new refinery.

## Implications of the reform initiative

As previously mentioned, the initiative seeks greater participation of the Federal Executive, through the General Director, in the operating of PEMEX (*i*) transferring powers from the Board of Directors to the General Director; (*ii*) limiting the exercise of some other powers by the Board of Directors and (*iii*) amending the integration and functioning of aforementioned Board.

Note that the initiative does not amend the organizational structure of PEMEX in its productive subsidiary enterprises and subsidiary companies, nor does it propose the extinction of existing ones.

We reiterate that the initiative can be amended, and, prior to its implementation, it must be approved by the House of Representatives and the House of Senators, promulgated by the President of the Republic and published in the Federal Official Gazette.

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