

# **Governance in the Mexican Petroleum Sector**

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**May 2009**

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## i. Country Profile

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### Country Information

- **Form of Government: Federal Republic**
- **Population: 109 million inhabitants**
- **Territory: 1.9 million km<sup>2</sup>**
- **Official language: Spanish**
- **Currency: Mexican Peso**
- **GDP per capita: 9,700 usd p.a. (2007)**



## i. Country Profile (2)

### Petroleum sector information\*

- **Production (liquid hydrocarbons):  
3.04 million BBLs/day**
  - **2.7 million BBLs of crude oil**
    - **Heavy (maya): 60%**
- **Reserves:**
  - **Proven: 14.2**
  - **Probable: 14.5**
  - **Possible: 14.7**

**3Ps: 43.6 billion BBLsCOe**
- **Refining Capacity:**
  - **1.5 million BBLs/day**
  - **6 refineries (7<sup>th</sup> on the way)**
- **Crude oil exports:**
  - **1.3 million BBLs/day (90% maya)**
  - **43 billion USD p.a. (2008)**



### - What is **Governance of the National Petroleum Sector**?

Systems and set of arrangements by which the issues related to the oil sector are directed, organized, conducted and supervised.

### - What is the **Governance Architecture**?

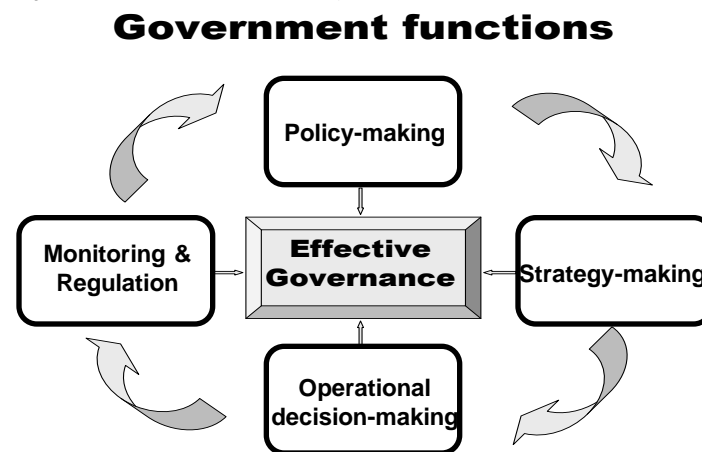
Laws, norms and customs that establish the objectives, rights, responsibilities and the parameters for the interaction between all the stakeholders.

### - What is different about **Governance in the public sector**?

Public Sector organizations have to satisfy a different range of objectives than their counterparts in the private sector. They are also subject to a wider set of limitations and constraints.

### - What are the **Governance Functions**?

1. Policy-making
2. Strategy-making
3. Operational decision-making
4. Monitoring & Regulation



## ii. Key Concepts (2)

### - **What are some key benchmarks of good governance?**

A sound governance arrangement will provide effective accountability, reject opacity and foster value-creation.

- **Accountability**

Process whereby public agencies submit their decisions and actions to scrutiny.

- **Transparency**

Effective governance requires transparent and timely information of those involved in the petroleum sector. It serves not only the purpose of reducing corruption, but also to detect areas of opportunity.

- **Value-Creation**

A well-run petroleum sector will have a positive impact in development plans.

## ii. Key Concepts (3)

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### - What is a Stakeholder?

Stakeholders are individuals, groups of people or organizations who have an interest in the set of activities related to the Mexican Oil Sector.

### - Which are some key stakeholders?

#### ▪ Government

- Ministry of Energy
- National Oil Company
- Regulators
- Ministry of Finance
- Congress

#### ▪ Non-Government

- Civil Society
- Business Groups

#### - The Early Years

- In 1938, expropriation of petroleum industry and creation of Pemex.
- Scarcity of capital.
- Seeking vertical integration.

#### - The Oil Sector Under ISI

- Oil sector was key to Import Substitution Industrialization.
- Supply of cheap & abundant fuel.
- Inward-looking.
- Oil-related revenue was used to finance subsidies.



### iii. The Mexican Oil Sector – Historical Review (2)

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#### - Looking abroad

- Discovery of massive fields in the 70s.
- Scope changed from inward to outward looking.

#### - The Boom years: hope unfulfilled

- Oil sector grew large, but in a disorderly fashion.
- Higher expectations about the duration of the boom.

#### - The 80s: Debt Service

- Price dropped.
- Oil related-revenue was mostly used to service debt.

### iii. The Mexican Oil Sector – Historical Review (3)

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#### - The 90s: limited reforms

- Country underwent process of market-oriented reforms.
- Limited transformation in the oil sector.
- Organizational structure of Pemex was transformed.

- **The involvement of government institutions in the Mexican oil sector is not monolithic.**
  - The Government is the steward of national resources and it can exercise rights over the hydrocarbon endowment.
  - Various public sector organizations are wholly or partly responsible for executing the key institutional functions described earlier.
  - Through the Ministry of Energy, it is responsible for directing the course of the energy sector by defining policy imperatives.
  - Through Pemex, it is responsible for exercising operational decision-making.
  - Monitoring & Regulation is exercised through various agencies.

## iv. Governance arrangement (2)

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- **How are governance functions distributed in the current governance arrangement?**
  - Policy-making
    - Ministry of Energy
  - Strategy-making
    - Ministry of Energy / Pemex Governing Body
  - Operational decision-making
    - PEMEX
  - Monitoring & Regulation
    - Ministry of Energy
    - Ministry of Public Function
    - Congress
    - Ministry of finance

**-The Mexican public administration structure is divided in two sectors:**

- Centralized : mainly comprised of Ministries.
- Decentralized: State-owned enterprises, credit institutions, public trust funds, etc.

**-State-owned enterprises (SOEs) are organized under a Sector Ministry Model.**

- SOEs are gathered according to affinity of economic activity and placed under the responsibility of a Sectoral Head.
- Pemex, the National Oil Company, is coordinated by the Ministry of Energy.

## v. NOC – Ministry of Energy Relationship (2)

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- **Pemex was created in June 1938 by a presidential decree that defines it as a technical, industrial and commercial decentralized entity with its own patrimony and legal personality.**
  - It's mission is to maximize the economic value of hydrocarbons and its by products in order to contribute to sustainable development in Mexico
  - Pemex holds the monopoly of exploration, production, refining, etc.
  - Pemex is run by a CEO with oversight from the Board of Directors
  - Organizational Structure
    - Exploration and Production
    - Refining
    - Gas & Basic Petrochemicals
    - Petrochemicals

**-The of Energy was created in 1994 when it replaced The Ministry for Mining and Parastatal Industry.**

- The Ministry of Energy is in charge of conducting national energy policy in order to guarantee a competitive, sufficient, high quality, economically and environmentally viable energy supply.
- Organizational Structure
  - Undersecretariat of Hydrocarbons
  - Undersecretariat of Electricity
  - Undersecretariat of Planning & Technological Development
- Additionally, as sectoral head it supervises the following:
  - Centralized
    - Comission for the Efficient use of Energy
    - Comission for Nuclear safety
  - Decentralized
    - Pemex
    - Federal Electricity Comission
    - Central Light & Power
    - Mexican Petroleum Institute
    - Electrical Studies Institute
    - Nuclear Studies Institute

## **v. NOC – Ministry of Energy Relationship (4)**

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**-The relationship between the NOC and the Ministry of Energy tends to be conflictual.**

**-They are involved in a principal-agent dynamic**

- Principals (Ministry of Energy) and Agents (Pemex) objectives may divert, at least partly.
- Pemex has often overpowered the Ministry.

**- National Vs Commercial mission**

- Pursuit of non-entrepreneurial objectives hinders performance.
- Pure entrepreneurial direction in pursuit of commercial gain may affect the overall development plan.



- **What factors determine the relationship between Pemex and the Ministry of Energy?**
  - Size
  - Asymmetry of information
  - Diffuse boundaries
  - Enablement
  - Fiscal issues

### - Ineffective governance in the Mexican oil sector produced:

- Questionable accountability.
- Poor Transparency.
- Poor operational results
  - Production peaked in 2004 and is going down.
  - Reserves are declining steadily.
  - Limited refining capacity (40% of domestic consumption of gasoline comes from imports).

- **In an effort to try to solve these maladies, in 2008 the Mexican Congress passed a series of acts that Reform the Energy Sector**
  - Expanding capacity in the Ministry of Energy
    - Determines oil production platform and oil reserves policy.
    - Provides new tools for long-term energy planning.
    - Promotes better enablement.
  - Creation of the National Hydrocarbons Commission
    - Promotes optimal use of oil-wealth.
    - Regulates and supervises exploratory and extractive activities.
    - Regulates transport and storage of hydrocarbons related to exploration and extraction projects.
    - Will assist the Ministry in establishing oil production platform and reserves policy.

- New Organic Law for Pemex
  - New and explicit mandate: to add value.
  - Liberty to modify its organizational structure.
  - Budgetary freedom when it comes to core-business investment projects and greater flexibility in other budgetary issues.
  - Decision-power over debt acquisition (with Ministry of Finance oversight).
  - Performance-based compensation for employees.
  - Board re-composition: addition of five professional (independent) directors.
  - CEO has the faculty to appoint second level officials.

## vii. Working towards better governance (3)

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- Transparency & Accountability
  - Internal Auditing Committee for performance evaluation.
  - Internal Control Organ will only deal with normative compliance.

*“Good governance and sustainable  
development are indivisible”*

Koffi Annan

# Governance in the Mexican Petroleum Sector

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