

Initiative of Secondary Legislation for the Hydrocarbons Sector

On February 4, 2025, the Senate received the initiative with draft Decree issuing eight secondary laws and reforming three more related to the energy sector, which are part of the secondary legislation derived from last year's constitutional reforms to Articles 25, 27 and 28 (the **"Draft Decree"**).¹ With respect to the hydrocarbon sector, the Draft Decree includes the following laws: (i) Hydrocarbons Sector Law² (**"LSH"**, for its acronym in Spanish); (ii) State-Owned Company Law, *Petróleos Mexicanos*³ (**"PEMEX Law"**); (iii) National Energy Commission Law⁴ (**"LCNE"**, for its acronym in Spanish); and (iv) Biofuels Law⁵ (**"LBIO"**). These laws will be submitted to Congress for further discussion and potential approval.

This Draft Decree confirms the transformation of *Petróleos Mexicanos* (**"PEMEX"**) into a State-Owned Company, establishing a new regulatory framework with increased government intervention in the planning and operation of the hydrocarbons sector.

The following is an executive summary of the secondary hydrocarbons law initiatives with the most relevant points:

A. Hydrocarbons Sector Law

The LSH -primarily- aims to focus on the public sector and certain exclusive strategic areas to enhance PEMEX role in hydrocarbons activities. As for the participation of the private sector in hydrocarbon activities, there are new schemes where private parties are allowed to participate but seeking to give priority to PEMEX activities. Additionally, the LSH repeals the Hydrocarbons Law (*Ley de Hidrocarburos*) of August 11, 2014. The most relevant modifications proposed in the LSH are detailed below:

- **Elimination of the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos*) and the Energy Regulatory Commission (*Comisión Reguladora de Energía*):**

The Ministry of Energy (**"SENER"**), through the National Energy Commission (**"CNE"**), will now be responsible for issuing and enforcing technical regulations for hydrocarbons.

1. Initiative with Draft Decree enacting the State-Owned Company, Federal Electricity Commission; the State-Owned Company, *Petróleos Mexicanos* Law; the Electricity Sector Law; the Hydrocarbons Sector Law; the Energy Planning and Transition Law; the Biofuels Law; the Geothermal Energy Law; and the National Energy Commission Law; Amendments to several provisions of the Mexican Petroleum Fund for Stabilization and Development Law and Amendments, Additions and Repeals of several provisions of the Income on Hydrocarbons Law and of the Organic Law of the Federal Public Administration.

2. *Ley del Sector Hidrocarburos*.

3. *Ley de la Empresa Pública del Estado, Petróleos Mexicanos*.

4. *Ley de la Comisión Nacional de Energía*.

5. *Ley de Biocombustibles*.

- **Hydrocarbons Activity Permits:**

The LSH introduces regulatory changes regarding permits for hydrocarbon activities:

- SENER will oversee permits for (i) import, export, storage, and transportation of crude oil; and (ii) import and export of natural gas, petroleum products, and petrochemicals.
- CNE will handle permits for (i) processing, transportation, storage, distribution, marketing, and retail of natural gas; (ii) formulation, transportation, storage, distribution, marketing, and retail of petroleum products; (iii) transportation, storage, and marketing of petrochemicals; and (iv) the management of Integrated Systems.

The LSH also establishes that import permit holders will be jointly and severally liable for tax matters related to other regulated activities associated with imports.

- **Exploration and Extraction Assignments**

The LSH establishes the following exploration and extraction assignment models:

- Own Development:** assignments granted for the exclusive use of PEMEX;
- Mixed Development:** assignments where PEMEX requests private sector participation to complement its technical, operational, and financial capabilities for hydrocarbon exploration and extraction activities; and
- Exploration & Extraction Contracts:** exceptionally, when PEMEX has no interest or capacity to develop an assignment, the LSH allows bidding processes for exploration and extraction contracts, enabling the private sector to carry out hydrocarbon exploration and extraction activities.

- **Exploration & Extraction Contract Assignments**

SENER will be the sole authority granting exploration and extraction contracts through public bidding. It will determine contract models, including service, profit-sharing, production-sharing, or licensing agreements. PEMEX and its subsidiaries may form alliances, mixed development schemes, or partnerships with the private sector and jointly participate in public bidding processes.

- **Priority to PEMEX in Integrated Systems**

Under the LSH, Integrated Systems (e.g., transportation and storage) shall give priority to the capacity needed for the activities of the State-Owned Companies (i.e., PEMEX and the Federal Electricity Commission) due to public interest. However, it is not clear if the priority will be regarding the available capacity or reserved capacity of the Integrated Systems.

- **Exclusion of PEMEX from Open Access Rules**

It remains stipulated that permit holders shall provide open, non-discriminatory access to their facilities and services for transportation, pipeline distribution, and storage of hydrocarbons, petroleum products, and petrochemicals. However, this open-access obligation does not apply to State-Owned Companies or their subsidiaries.

- **Possible Price Regulation**

The LSH mentions that certain methodologies for the distribution and sale of liquefied gas, petroleum, gasoline, and diesel may be established to ensure the well-being of the population and control inflation in petroleum products. This could lead to a price cap.

- **Arbitration**

Disputes related to Exploration and Extraction Contracts will be subject to arbitration based in Mexico City.

- **Social Impact Assessment**

The Social Impact Assessment (Evaluación de Impacto Social) changes its name to Social Impact Statement incorporating additional requirements with a human rights and social sustainability approach. However, the Social Impact Assessment will remain in effect until the issuance of administrative provisions that will regulate the Social Impact Statement.

The LSH further provides that, even if a Final Social Impact Authorization is obtained for the development of infrastructure projects, other authorities may impose additional requirements. The LSH does not specify what these requirements are, which authorities may request them, or at what stage they might be required (before or after the start of infrastructure development).

- **Volumetric Controls**

Existing volumetric controls requirements are now elevated to the status of law, incorporating obligations to submit weekly reports on volumetric controls.

- **Transitory Provisions**

Assignments, exploration and extraction contracts, authorizations, and permits granted before the publication of the LSH will remain valid under the terms and conditions originally granted, in accordance with applicable law and regulations in effect at the time of issuance. Requests for authorization, approval, or permit applications submitted before the LSH enters into force will be processed under the legal provisions in effect at the time of submission.

The administrative provisions regarding bidding processes for Exploration and Extraction Contracts (published in the Official Gazette of the Federation on November 28, 2014) are repealed, and all bidding guidelines for awarding such contracts issued prior to the entry into force of the LSH are rendered void.

Finally, a new regulation for the LSH must be issued within 180 days after its entry into force. In the meantime, the regulations of the Hydrocarbons Law will remain in effect insofar as they do not contradict the LSH.

B. State-Owned Company Law, Petróleos Mexicanos

Under the Draft Decree, PEMEX becomes part of the Para-State Public Administration, subject to the PEMEX Law, its regulations, and, subsidiarily, public, civil, and commercial law. Additionally, the Mexican Petroleum Law (Ley de Petróleos Mexicanos) of August 11, 2014, is repealed.

- **Private Rights Over Oil Reserves**

Those who enter into agreements or contracts with PEMEX (e.g., through Mixed Development Assignments) will not be entitled to register oil reserves as their own assets. Although this prohibition was already included in the Mexican Petroleum Law, the provision allowing private parties to report the economic interest of their agreements or contracts with PEMEX has been removed. This provision was sometimes used by companies subject to asset disclosure obligations in financial markets or international securities institutions, or to secure financing for exploration and extraction activities. Nonetheless, although this language has been eliminated, there is no explicit prohibition on reporting economic interests.

- **Vertical Integration of PEMEX**

Through the transitional regime of the PEMEX Law, the following subsidiaries are dissolved: Pemex Exploration and

Production (Pemex Exploración y Producción), Pemex Industrial Transformation (Pemex Transformación Industrial), and Pemex Logistics (Pemex Logística). This results in PEMEX's vertical integration, absorbing all rights and obligations of the dissolved productive subsidiaries.

- **Acquisitions**

PEMEX will continue to carry out its acquisitions, leasing, service contracting, and public works in accordance with Article 134 of the Federal Constitution, adhering to the principles of economy, effectiveness, efficiency, impartiality, and integrity. These activities will be subject to the PEMEX Law and the administrative provisions to be issued by PEMEX's Board of Directors.

- **Sustainability**

PEMEX and its subsidiary companies are explicitly required to contribute to sustainable development and the social well-being of the communities where they operate, fully respecting human rights. This must be achieved through social responsibility strategies and community engagement initiatives.

- **Transitory Provisions**

Contracts, agreements, trusts, concessions, authorizations, and permits granted by the dissolved productive subsidiaries will be understood as granted by PEMEX and will continue in effect under the regulations by which they were issued until their expiration. Likewise, regulations issued by the dissolved subsidiaries will remain in force insofar as they do not contradict the PEMEX Law, until competent authorities issue new regulations on the matter.

C. National Energy Commission Law

The CNE is established as a sectoral agency of SENER, responsible for regulating, supervising, and imposing sanctions on energy-related activities, including those in the electricity and hydrocarbons sectors governed by the LSH, the Electricity Sector Law (Ley del Sector Eléctrico), and related regulations.

- **Main Attributions**

The CNE will have, among others, the following attributions: (i) granting, modifying, updating, revoking, and terminating permits, authorizations, and other administrative acts related to energy activities; (ii) requiring third parties with business relationships with energy sector entities to provide information regarding issued authorizations and permits, contracts, assignments, and agreements; (iii) summoning public officials and private entities engaged in energy activities to ensure compliance with applicable regulations, including authorizations and permits; and (iv) imposing provisional or preventive measures, including facility closures and activity suspensions.

- **CNE's main attributions in the Hydrocarbons Sector**

The main attributions in hydrocarbons include: (i) regulating compensation, prices, and tariffs applicable to the hydrocarbon activities; and (ii) granting, modifying, terminating, and supervising permits for (a) processing, liquefaction, regasification, compression, decompression, transportation, storage, distribution, commercialization, and public sale of natural gas; (b) formulation, transportation, storage, distribution, commercialization, and public sale of petroleum products; and (c) transportation, storage, and commercialization of petrochemicals.

Permits and Authorizations Granted by CRE and CNH

Permits, authorizations, and other acts issued by the former Energy Regulatory Commission (Comisión Reguladora de Energía) and the National Hydrocarbons Commission (Comisión Nacional de Hidrocarburos) remain in effect until their expiration in accordance with applicable regulations. However, the CNE may oversee compliance and, if necessary, revoke them before their expiration.

D. Biofuels Law

The LBIO aims to regulate and promote the sustainable development of biofuels, defined as gaseous, liquid, or solid fuels derived from direct biomass energy utilization or its processing.

- **New Regulated Activities**

New regulated activities are established requiring a permit from the Ministry of Agriculture and Rural Development (Secretaría de Agricultura y Desarrollo Rural) or SENER, as applicable. Production, import, export, storage, transportation, commercialization, distribution, and public sale of biofuels will require a SENER permit.

- **Tax and Financial Incentives**

Federal public administration agencies may promote and foster tax, financial, or market instruments to encourage (i) the use and valuation of organic waste and wastewater treatment for direct use such as biofuels or biofuel production; (ii) sustainable biomass production for direct biofuel use or biofuel production; and (iii) biofuel production and its sustainable use.

It is important to note that, by the date this document is being published, the Draft Decree remains subject to the legislative process and may be subject to further modifications.

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