Natural Resource Governance Institute

Resource Governance Index

2021
Resource Governance Index
Mexico

Oil and Gas

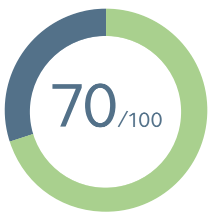
Mexico's oil and gas sector scored 71 out of 100 points in the 2021 Resource Governance Index (RGI), placing in the "satisfactory" performance band, up one point since the 2019 Interim Evaluation and three points from the 2017 RGI. While Mexico has advanced in national budgeting, key areas, such as the governance of social and environmental impact, are still in need of improvement.

- Mexico's ability to realize value from its oil and gas sector remained in the "satisfactory" performance band, driven by strong reporting practices by the National Hydrocarbon Commission.
- The governance of local impacts is "poor", mostly due to opacity around the disclosure of environmental mitigation plans, which are currently labeled as confidential by the government.
- Governance of state-owned Pemex placed in the "satisfactory" performance band but could be improved through the disclosure of disaggregated commodity sales information, as well as information on joint ventures and non-commercial activities.
- Revenue management improved due to the adherence and monitoring of fiscal rules and strengthened subnational resource revenue sharing disclosures.

Mexico oil and gas: 2021 Resource Governance Index and component scores

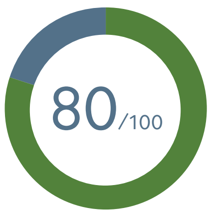
PERFORMANCE BANDS

- GOOD Scores over 75
- SATISFACTORY Scores 60-74
- WEAK Scores 45-59
- POOR Scores 30-44
- FAILING Scores under 30



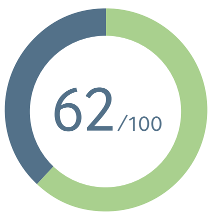
VALUE REALIZATION

Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises



REVENUE MANAGEMENT

Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds



ENABLING ENVIRONMENT

Measure of the general quality of governance in the country

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Improvements in revenue management offset by deteriorations in the governance of local impacts and Pemex

The hydrocarbon sector plays a fundamental role in the Mexican economy, with annual exports of oil and gas products accounting for roughly $30 billion of 6% all merchandise of exports in 2019.

The 2021 RGI assesses the period between 2019 and 2020, which covers the state of oil and gas governance during the first two years of President Andres Manuel Lopez Obrador's administration. The current administration has considerably shifted Mexico's oil and gas policy, enhancing the role of state-owned Pemex and introducing new measures, such as the cancellation of new bidding rounds for private oil investments, overhauling Mexico's refining infrastructure, and reducing Pemex's tax burden. The current government has voiced its strong disagreement with the 2013 Energy Reform framework and signaled the intention of rolling back parts of its legal framework. Despite this shift, the 2021 RGI found no major changes in terms of the institutional design of Mexico's upstream oil and gas sector so far.

The 2021 RGI is the third assessment of Mexico's oil and gas governance, following the 2017 RGI and 2019 Interim Evaluation. The oil and gas sector scored 71 points in the 2021 RGI, up by one point since the 2019 Interim Evaluation, with the revenue management component now in the "good" performance band. Despite the oil and gas sector now being governed by a very different set of principles since it was assessed in NRGI's 2019 Interim Evaluation, most of the subcomponent scores preserve the same scores as in the last assessment.

Mexico oil and gas sector scores in the 2017 RGI, 2019 Interim Evaluation and 2021 RGI

	2017 RGI Score	2019 Interim Evaluation	2021 RGI Score	Trend (2019-2021)
RGI COMPOSITE SCORE	68	70	71	1
VALUE REALIZATION	71	74	70	-4
Licensing	78	79	78	-1
Taxation	81	92	90	-2
Local impact	46	53	42	-11
State-owned enterprises	78	71	71	0
REVENUE MANAGEMENT	68	76	80	4
National budgeting	75	89	94	5
Subnational resource revenue sharing	57	57	62	5
Sovereign wealth funds	72	82	83	1
ENABLING ENVIRONMENT	65	62	62	0
Voice and accountability	70	72	70	-2
Government effectiveness	82	66	64	-2
Regulatory quality	82	80	81	1
Rule of law	60	48	46	-2
Control of corruption	43	35	42	7
Political stability and absence of violence	30	45	39	-6
Open data	90	85	91	6
LAW	81	85	85	0
PRACTICE	67	71	69	-2
GAP (PRACTICE LESS LAWS)	-14	-14	-16	-2

VALUE REALIZATION

Reporting practices remain in place despite strategic policy differences across administrations

Mexico scored 70 out of 100 points in the value realization component of the 2021 RGI. Improvements were registered across key policy areas in which Mexico's oil and gas sector already showed strength, demonstrating that while the institutional design has not changed across administrations, the implementation of these policies has improved since prior assessments.

Institutional strengths stem from the role of the sector regulator, the National Hydrocarbon Commission, which has continued to publish relevant information on the Mexican oil and gas operations. The cadaster and registry of licenses is publicly available and information on development plans, reserves, investments, and other key aspects of the Mexican oil and gas sector are all also available online. The National Hydrocarbon Commission has effectively implemented information portals for contracts with private parties and Pemex's direct concessions. "Rondas Mexico" and "Tablero de Asignaciones", two of the main governmental online portals present contextual information about the extractive sector.

The Hydrocarbon Law serves as the basis for this institutional design. Articles 7, 23, and 89 provide the grounds for establishing a clear licensing process, publishing relevant information about the operations, and supervising the fulfillment of contract clauses.

However, areas for improvement remain. There are currently no requirements in place for the public disclosure of the beneficial owners of extractive companies and challenges persist regarding the disclosure of financial assets and interests of public officials. Both areas require attention, as Mexico, through the Extractive Industries Transparency Initiative (EITI), has committed to developing disclosure procedures for financial interest information, as outlined in a roadmap submitted as part of its EITI candidature application in 2017. To demonstrate its continued commitment to the EITI standard and principles, Mexico's government should take urgent steps to act on these.

The most concerning areas of Mexico's oil and gas sector remain related to the governance of local impacts, which assess the environmental and social management of the sector. The score regressed to 42 points in the 2021 RGI, placing in the "poor" performance band, the lowest scored subcomponent across value realization and revenue management. While extractive companies are required to produce both social and environmental impact assessments, public disclosure is not required by law. Notwithstanding, the National Agency for Security and Environmental Protection of the Hydrocarbon Sector (ASEA), the Ministry of Energy as well as the National Hydrocarbon Commission had disclosed EIAs and SIAs until 2017. However, since 2017, these environmental and social evaluations are no longer disclosed. Additionally, another problematic area is around the closure of oil and gas projects. There are currently no procedures in place to govern the rehabilitation and closure of extractive projects within Mexican law, nor are they part of the extractive company contracts. Pemex has also not shared any project closure plans so far.

In the case of the state-owned Pemex, there are strong rules governing revenue transfers, financial reporting and financial audits, with frequent disclosures of production statistics. The implementation of these rules has been mainstreamed through government bodies such as the Central Bank of Mexico, the National Hydrocarbon Commission, and the Federation's General Audit Authority.

On the other hand, despite a legal framework in place to disclose information about Pemex's revenues and government transfers, actual disclosures have been lacking. While Pemex discloses some information on oil sales, such as volumes and values, these are only aggregate amounts and do not include detailed information on the buying companies, nor are the disclosures disaggregated down to the level of individual sales. This information is critical to ensure citizens understand the complete picture of revenues derived from extractive sector operations and to prevent any revenue leakage. Pemex should start disclosing commodity sales in more depth to further improve resource governance.

REVENUE MANAGEMENT

Mexico's revenue management improved on account of stronger national budgeting

Revenue management was the strongest component of Mexico's oil and gas assessment, scoring 80 out of 100 points in the 2021 RGI.

Mexico's National Hydrocarbon Commission's open data portal, which was made available after the energy reform, discloses reserves, production and exports of the oil and gas sector. While the strength of this portal resides in its depth and ease of use, there are areas to be improved. Mainly, CNH could publish the information in open standards (not just Excel) and improve its machine readability with the use of an API.

Mexico's government has firm numerical fiscal rules in place, established under the 2014 Federal Budget and Fiscal Responsibility Law, which places limits on annual fiscal spending, to ensure stable government expenditure even in times of high commodity revenues. The government has adhered to these fiscal rules during the 2019 fiscal year and the Superior Audit Office (ASF), an external monitoring institution, independently confirmed this, publishing the audit on its websites in October 2020.

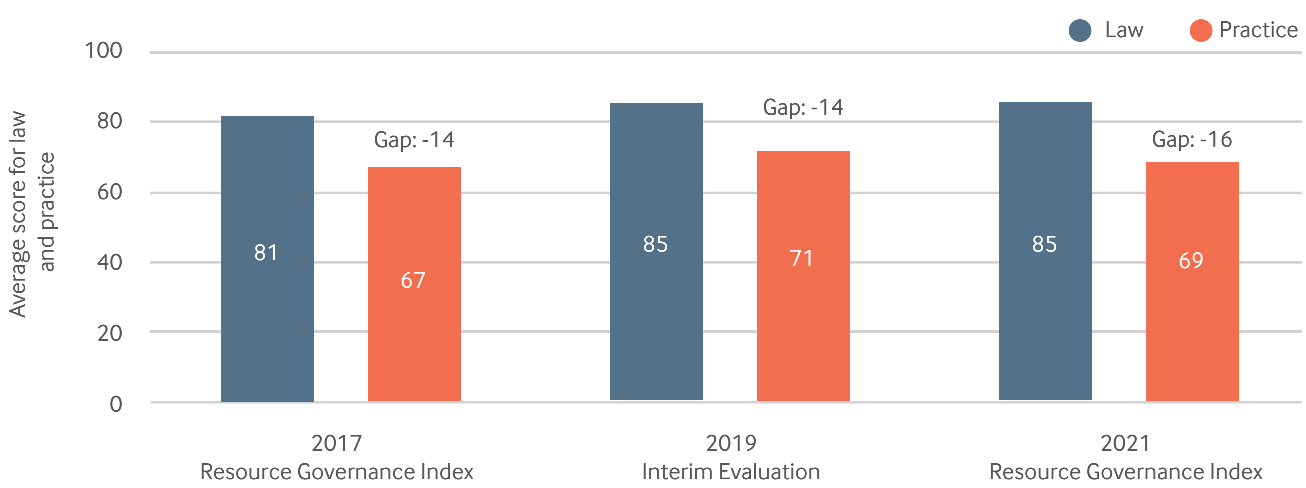
The subnational resource revenue sharing subcomponent obtained a "satisfactory" 62 points, improving by 5 points since both the 2017 RGI and 2019 Interim Evaluation. Nonetheless, transfers of extractive resource revenues to subnational governments were not audited by an external body, despite the Constitution and the Public Accounts Oversight Law (*Ley de Fiscalización de la Cuenta Pública*) establishing that the Superior Audit Office must perform a public audit of all transfers, including those coming from the different stabilization funds.

LAW AND PRACTICE SCORES

The gap between law and practice widens

The implementation gap between law and practice in Mexico's oil and gas sector has widened, from -14 in the 2019 Interim Evaluation to -16 in the 2021 RGI. Weak enforcement in some areas remain, especially in the implementation of external audits of subnational transfers. Regarding the sovereign wealth fund, although rules are in place requiring the legislature to review the fund's annual financial reports, these were not reviewed during the RGI's period of assessment between 2019 and 2020.

Evolution of the gap between law and practice in Mexico's oil and gas sector



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COMPARISON OF THE MINING AND OIL AND GAS SECTORS

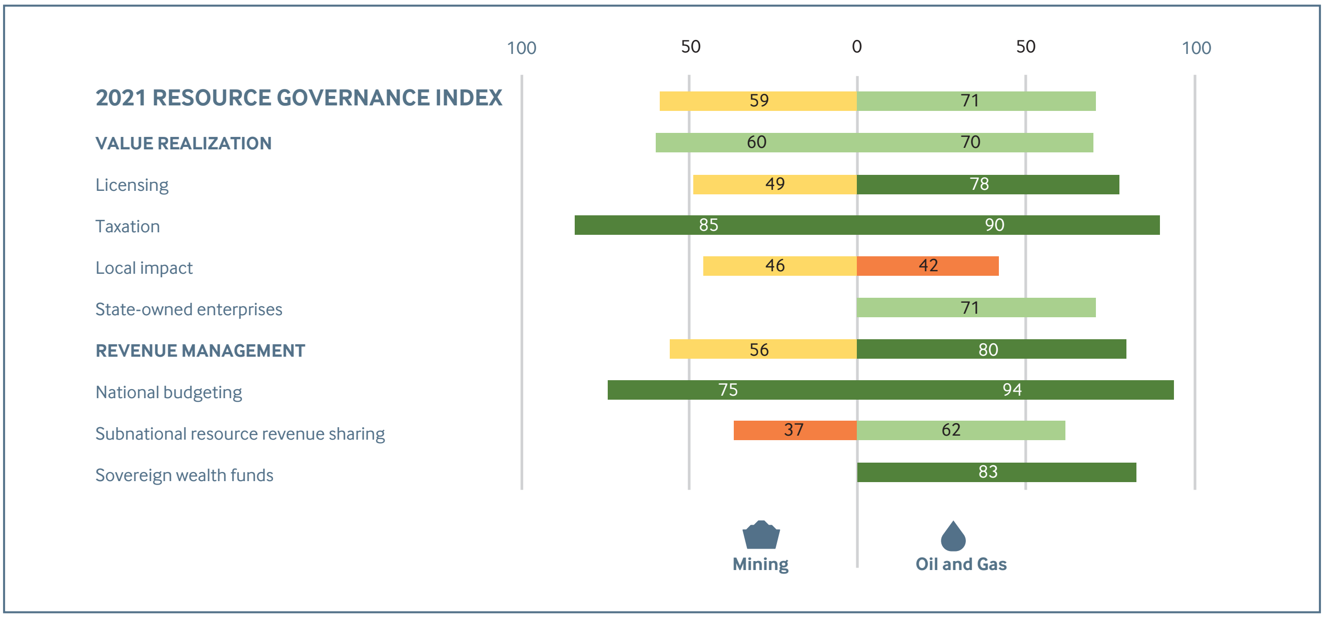
In addition to the oil and gas sector, NRGI has also assessed Mexico's mining industry (presented in a separate profile). There is a 12-point difference between the two sectors, with the oil and gas sector scoring 71 points and the mining sector 59 points.

This difference in the governance of the two sectors is partially due to a notable difference in the independence of the oversight bodies within the extractive sector. The oil and gas sector features three industry regulators: the National Hydrocarbon's Commission, the Energy Regulation Commission, and the Agency for Security, Energy and Environment. Even though the regulatory prerogatives of these institutions were influenced by the need to operate an open hydrocarbon market, some core functions have adapted to the current government's strategy. The equivalent of these regulators is absent in the mining sector.

This has allowed the hydrocarbon sector to advance in areas such as the timeliness and interoperability of different data sources, enabled through greater contract transparency. At an operational level, the hydrocarbon sector provides a clearer view of the development of the industry.

By contrast, the mining sector lacks oversight institutions, despite it being dominated by private companies. This affects the capabilities of the government to increase the level of oversight over the licensing and post-licensing processes. Transparency and accountability in the sector are also hampered by a lack of integrated processes and comprehensive online disclosures, a key strength that exists in the hydrocarbon sector.

Comparison between Mexico's mining and oil and gas sectors in the 2021 Resource Governance Index



RECOMMENDATIONS

To continue improving resource governance, NRGI recommends the following courses of action:

1. **The government** should bolster the role of industry regulators such as the National Hydrocarbon Commission, increasing their role and presence in the governance of the sector, especially considering possible changes to Mexico's energy policy.
2. **The Ministry of Energy, and the National Agency for Security and Environmental Protection of the Hydrocarbon Sector** have an urgent task to improve the quality of Environmental and Social Impact Assessments disclosures.
3. **Pemex** should improve transparency around spending and commodity sales. Information on production volumes, values and the buyers of the state-owned oil enterprise' production should be disaggregated down to each individual sale and available for public scrutiny. Non-commercial activities, and not only donations, should be acknowledged and publicly disclosed.
4. **The Ministry of Finance** should disclose disaggregated revenue streams which constitute transfers from the Stabilization Income Fund of Federative Entities to subnational governments.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.

Natural Resource Governance Institute

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.

Learn more at www.resourcegovernance.org

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