

Unofficial English Translation

To Norges Bank

18.11.2024

**Recommendation to exclude Petroleos
Mexicanos from investment by the
Norwegian Government Pension Fund
Global (GPFG)**

Summary

The Council on Ethics recommends that Petroleos Mexicanos (Pemex) be excluded from investment by the Norwegian Government Pension Fund Global (GPFG) pursuant to the criterion relating to gross corruption or other serious financial crime set out in the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

Pemex is a fully integrated oil and gas company, with a total workforce of approximately 130,000. The company is wholly owned by the Mexican state. Through its three divisions/subsidiaries, Pemex Exploration and Production, Pemex Logistics and Pemex Industrial Transformation, Pemex engages in the exploration, production, refining, sale, storage and transport of oil and gas, as well as the development and production of other petrochemical products. At the close of June 2024, the GPFG owned fixed-income securities in the company worth around NOK 1,443 million.

The Council's investigations have revealed that Pemex may be linked to multiple allegations or suspicions of corruption in Mexico in the period 2004–2023 where a significant number of employees in the company are supposed to have received bribes. The allegations and suspicions encompass many former Pemex employees, and several of the cases have led to legal settlements in the USA. It is still unclear how many of the cases concerned have ended in penalties being imposed on those involved in Pemex. Nor is it clear how much in total is supposed to have been paid in bribes. However, given that Pemex's former CEO is alleged to have received almost USD 14 million in bribes, the indications are that substantial sums have been involved.

As a state-owned company, Pemex has a governance system that enables normal control mechanisms to be more easily set aside. This represents a major inherent risk of corruption. The important factor is therefore whether Pemex clearly signals that it takes allegations of corruption seriously. The Council considers that Pemex's information about possible corruption and other financial irregularities relating to contracts is insufficiently transparent. Rather than providing information on the cases that have been highlighted in the media, the company rejects information published in the media out of hand, calling it untrue and sensationalised. This weakens trust in whether the company has an adequate response to these cases. In this connection, the Council on Ethics will also point out that the situation for journalists who write about corruption in Mexico is extremely challenging.

Given that the company's former CEO has been under investigation since 2017, and that the company may be linked to a substantial number of corruption cases over the past

20 years, the Council considers that the “tone from the top” at Pemex is too passive with respect to corruption.

Pemex has an anti-corruption system that appears to contain many of the elements required by internationally recognised recommendations. At the same time, however, the Council considers that the company grants too little insight into how this system works in practice. Pemex has not shared any detailed information about the most important findings of its latest corruption risk assessment, how the company's anti-corruption work is organised and performed in practice, or how many employees are actually engaged in the prevention of corruption. Nor has Pemex shared documentation about the way it handles specific contracts or whistleblowing reports, as requested by the Council.

Furthermore, the Council considers it vital that corrupt acts are met with an adequate response – either from the company itself or from the responsible authorities – and in a timely fashion. It is the Council's understanding that fraud is primarily penalised by bodies external to Pemex, since the company discloses that it has no information about how specific cases are followed up. In light of this, the Council considers that Pemex does not accord sufficient weight to the enforcement aspect of the fight against corruption. In this connection, the Council would also like to highlight the more overarching risk picture. Here, Mexico has a very low standing on the corruption indexes issued by both the World Bank and Transparency International, while Freedom House and other organisations report weak enforcement and a high level of impunity in the country.

Taken together, this does not provide reasonable assurance that Pemex has implemented adequate measures to prevent, detect and respond to corruption, or that this is something that is adequately prioritised by the company's board and executive management. The Council therefore deems the risk of gross corruption in relation to Pemex's operations to be unacceptably high.

Content

1	Introduction	1
1.1	Grounds for the Council's assessment	2
1.2	Sources	3
2	Background.....	3
2.1	The allegations/suspicions.....	3
2.1.1	More recent cases.....	3
2.1.2	Other cases in the period 2004–2013	7
2.1.3	Allegations of preferential treatment for companies linked to a former employee.....	9
2.2	Corruption risk in the company's business sectors and countries of operation	11
3	Anti-corruption standards	13
4	Corporate governance	18
5	Measures implemented by Pemex to prevent, detect and respond to corruption.....	19
5.1	Tone from the top	19
5.2	Risk assessments	20
5.3	Guidelines and plans	21
5.4	Training.....	22
5.5	Organisation.....	22
5.6	Use of third parties and due diligence thereon	23
5.7	Whistleblowing reports, internal inquiries and punitive sanctions.....	25
6	Information provided by the company	27
7	The Council's assessment.....	29
8	Recommendation.....	32

1 Introduction

The Council on Ethics for the Norwegian Government Pension Fund Global (GPFG) has assessed the Fund's investment in Petroleos Mexicanos¹ (Pemex) against the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global (the ethical guidelines).² Pemex may be linked to multiple allegations or suspicions of corruption in Mexico.

Pemex is a fully integrated oil and gas company that is wholly owned by the Mexican state. At the close of December 2023, Pemex employed a total of 128,616 people. Through its three divisions/subsidiaries Pemex Exploration and Production, Pemex Logistics and Pemex Industrial Transformation, Pemex engages in the exploration, production, refining, sale, storage and transport of oil and gas, as well as the development and production of other petrochemical products.³

At the close of June 2024, the GPFG owned fixed-income securities in the company worth approx. NOK 1,443 million.⁴

¹ Issuer ID: 143123

² Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global:
https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05_gpfg_guidelines_observation_exclusion.pdf

³ Pemex 20-F for 2023, pp. 1, 157:
https://www.pemex.com/ri/reguladores/ReportesAnuales_SEC/PEMEX_20-F_2023.pdf.

⁴ NBIM, GPFG's investment in Pemex at the close of the first half of 2024:
<https://www.nbim.no/no/oljefondet/investeringene/#/2024/investments/fixed-income/9237/Petroleos%20Mexicanos>.

1.1 Grounds for the Council's assessment

Pemex may be linked to multiple allegations or suspicions of corruption in Mexico in the period 2004–2023. Pursuant to section 4(g) of the ethical guidelines, a company may be excluded from investment by the GPFG or placed under observation if there is an unacceptable risk that it is contributing to, or is itself responsible for, gross corruption or other serious financial crime.

In keeping with its established practice, the Council applies the following definition of gross corruption:⁵

Gross corruption exists if a company, through its representatives,

a) gives or offers an advantage – or attempts to do so – in order to unduly influence:

i) a public official in the performance of public duties or in decisions that may confer an advantage on the company; or

ii) a person in the private sector who makes decisions or exerts influence over decisions that may confer an advantage on the company,

b) demands or receives a bribe

and

c) the corrupt practices mentioned in a) and b) are carried out in a systematic or extensive way.

In its assessment of future risk, the Council attaches importance firstly to the extent to which a company has taken effective steps to prevent, detect and respond to corruption. The risk of corruption in the business sector and the countries in which the company operates are important factors in the Council's assessment. The Council also accords weight to whether the company has assisted in clarifying the situation and takes the position that, if the Council is to consider the risk to the GPFG to be acceptable, it is up to the company to substantiate that it is working effectively to prevent corruption.

⁵ Council on Ethics' recommendations relating to gross corruption:

<https://etikkradet.no/recommendations/gross-corruption/>

1.2 Sources

The information obtained about the allegations of corruption derives primarily from international and Mexican media, as well as documents relating to legal proceedings in the USA. The assessment of the company's anti-corruption measures is based on information published on Pemex's website and in its annual reports, as well as written communications between the Council and the company.

The company has also commented on a draft version of this recommendation.

2 Background

The Council's investigations have revealed that Pemex may be linked to multiple allegations or suspicions of corruption in Mexico in the period 2004–2023. The allegations and suspicions encompass many former Pemex employees, and several of the cases have led to legal settlements in the USA. However, it is still unclear how many of the cases concerned have ended in penalties being imposed on those involved in Pemex. Nor is it clear how much in total is supposed to have been paid in bribes during the period in question. However, given that Pemex's former CEO is alleged to have received almost USD 14 million in bribes, the indications are that substantial sums have been involved.

2.1 The allegations/suspicions

2.1.1 More recent cases

Bribes paid by Vitol to win contracts for Pemex

At the beginning of December 2020, the Dutch energy and commodities company Vitol agreed to pay fines totalling USD 135 million in a legal settlement with the US and Brazilian prosecuting authorities. It had been alleged that Vitol paid bribes to public officials in Brazil, Ecuador and Mexico over a 15-year period to win contracts and obtain other illegitimate benefits for the company. The legal settlement also revealed that Vitol had paid bribes to Pemex.⁶ Further details concerning this part of the settlement

⁶ U.S. Department of Justice, 3 December 2020: *Vitol Inc. Agrees to Pay Over \$135 Million to Resolve Charges for Bribery Schemes in Latin America*, <https://www.justice.gov/usao-edny/pr/vitol-inc-agrees-pay-over-135-million-resolve-charges-bribery-schemes-latin-america>; United States of America against Vitol Inc.

emerged at the end of August 2023, when a former Vitol employee was indicted by US authorities for violation of the Foreign Corrupt Practices Act (FCPA) in connection with the payment of bribes to employees of Pemex. The indictment alleges that, between August 2017 and July 2020, the person concerned offered and paid bribes to Mexican public officials in order to win and retain contracts with Pemex and Pemex's wholly owned subsidiary Pemex Procurement International (PPI). In August 2024, the defendant pleaded guilty to paying a total of USD 600,000 in bribes in the period concerned to two PPI employees to win contracts for Vitol relating to the supply of ethanol to Pemex.⁷

Corruption cases relating to Pemex's CEO from 2012 to 2016

The largest and most well-known of the cases for which a former CEO is under investigation relates to bribes received from the Brazilian contractor Odebrecht. In connection with the legal settlement that Odebrecht entered into with the US authorities in December 2016 for violation of the FCPA, it emerged that the company had paid USD 6 million to a high-ranking executive at a state-owned and state-controlled Mexican company in return for the recipient helping Odebrecht to win a contract with that company.⁸ In April 2017, Brazilian media named the former CEO as the key recipient of the bribes paid by Odebrecht. The media reports cited leaked transcripts of police interviews carried out in connection with the Brazilian investigation into Odebrecht.⁹

Deferred Prosecution Agreement. United States District Court Eastern District of New York. AES/CC:DCP/DF:MEB/AS/DE. F. # 2020R00957. S. A-18.

⁷ United States Attorney's Office. Southern District of Texas, 21 August 2023: *Houston oil trader charged in international bribery scheme*, <https://www.justice.gov/usao-sdtx/pr/houston-oil-trader-charged-international-bribery-scheme>; U.S. Department of Justice, 22 August 2024: *Former Energy Trader for Vitol Inc. Pleads Guilty to International Bribery Scheme*, <https://www.justice.gov/opa/pr/former-energy-trader-vitol-inc-pleads-guilty-international-bribery-scheme>.

⁸ United States District Court Eastern District of New York, 21 December 2016. United States of America against Odebrecht S.A., Cr. No. 16-643 (RJD), <https://www.justice.gov/opa/press-release/file/919911/download>.

⁹ Veja, 11 April 2017: *Odebrecht relata propina no México, Venezuela, Argentina e Angola*, <http://veja.abril.com.br/politica/odebrecht-relata-propina-no-mexico-venezuela-e-angola/>.

More detailed extracts from these interview transcripts were published by both Brazilian and Mexican media outlets over the course of 2017. According to the interview transcripts, the former CEO was the main recipient of the bribes, which were alleged to have been paid between 2012 and 2014. It was further disclosed that the amount involved totalled approx. USD 10 million and not USD 6 million as previously reported. The primary purpose of the bribes was to win the contract for groundwork at the Miguel Hidalgo refinery in Tula, Mexico.¹⁰

Another case relates to the company Altos Hornos de Mexico (AHMSA), one of Mexico's largest steelmakers, which Odebrecht helped to transfer USD 3.7 million in bribes via a shell company. According to the allegations, this money also went to the former Pemex CEO. The money is alleged to have been transferred some weeks after AHMSA concluded the controversial sale of a fertilizer plant to Pemex in 2014. The plant – ProAgro (Agronitrogenados) – was sold for USD 475 million, although its real value has been estimated at just USD 50 million.¹¹

¹⁰ Aristegui Noticias, 13 August 2017: *El Expediente Secreto de Odebrecht (Reportaje Especial)*, <http://aristeginoticias.com/1308/mexico/emilio-lozoya-es-quien-recibio-los-sobornos-de-10-millones-de-dolares-de-odebrecht/>; O Globo, 13 August 2017: *Odebrecht aponta para executivo ligado a presidente do México*, <https://oglobo.globo.com/brasil/odebrecht-aponta-para-executivo-ligado-presidente-do-mexico-21700591>. A video recording of the interviews in question was published by certain Mexican media outlets in December 2017: Aristegui Noticias, 5 December 2017: *Los videos secretos que incriminan a Lozoya con Odebrecht*, <https://aristeginoticias.com/0512/mexico/los-videos-secretos-que-incriminan-a-lozoya-con-odebrecht/>; Sinembargo, 11 December 2017: *De 2013 a 2016, Emilio Lozoya abrió y cerró entre 7 y 9 cuentas en dólares, euros y francos suizos*, <http://www.sinembargo.mx/11-12-2017/3360943>; The Wall Street Journal, 14 August 2017: *Former Pemex CEO Emilio Lozoya Took Bribes, Ex-Odebrecht Officials Say*, <https://www.wsj.com/articles/former-pemex-ceo-emilio-lozoya-took-bribes-ex-odebrecht-officials-say-1502760808>.

¹¹ Reuters, 28 May 2019: *In bold anti-graft push, Mexico sets sights on ex-president's confidant*, <https://news.yahoo.com/bold-anti-graft-push-mexico-sets-sights-ex-044028887--business.html>.

A third case involves the sale of the fertiliser producer Fertinal to Pemex in 2015. The case, which is also reported to be under investigation by the US authorities, involves the former president of Mexico in addition to the former CEO of Pemex. Pemex paid USD 635 million for Fertinal, despite clear warnings by multiple auditing companies and Mexico's own Auditor General's Office that the company was on the verge of insolvency.¹²

Allegations of corruption and failure to follow up whistleblowing reports at the Antonio Dovalí Jaime refinery

At the end of February 2023, an engineer whose employment contract had recently been terminated publicly blew the whistle on alleged irregularities at the Antonio Dovalí Jaime refinery. The whistleblower, who had worked at the refinery as an engineer for 23 years, claimed that the company had sacked him in retaliation for repeatedly submitting internal reports concerning risks relating to pollution, emissions and fires at the plant, as well as suspicions of corruption, since 2015.¹³

At the end of October 2023, it emerged that the whistleblower had disclosed that three companies – Química Apollo, Recursos Omega and Instituto Mexicano del Petróleo – had had contracts with the refinery worth a combined total of approx. USD 62.5 million in the period 2019–2023 for services that had not been performed. The contracts encompassed chemical treatment of waste water from the refining process, as well as the cleansing of oil that had been recovered from these processes. However, according

¹² El Universal, 18 June 2019: *U.S. investigates former President Peña Nieto for bribery*, <https://www.eluniversal.com.mx/english/us-authorities-are-investigating-former-president-pena-nieto-bribery>; The Wall Street Journal, 8 April 2021: *How an Obscure Fertilizer Deal Enriched a Mexican Billionaire*, <https://www.wsj.com/articles/how-an-obscure-fertilizer-deal-enriched-a-mexican-billionaire-11617894757>.

¹³ Urbano 24 Horas, 1 March 2023: *Lo despiden por denunciar corrupción en la refinera Antonio Dovalí Jaime*, <https://www.urbano24horas.com/2023/03/lo-despiden-por-denunciar-corrupcion-en.html>.

to the whistleblower, Pemex had paid the companies despite this work not having been carried out.¹⁴

There were several major fires and emission incidents at the refinery between 2015 and 2024.¹⁵

2.1.2 Other cases in the period 2004–2013

Pemex or the company's subsidiaries are the subject of other allegations or suspicions of corruption. These cases came to light either through the investigations of the US Securities and Exchange Commission (SEC) or through investigations carried out by Mexico's Ministry of Public Administration (*Secretaría de la Función Pública* (SFP)), Auditor

¹⁴ El Financiero, 25 October 2023: *Pemex paga millones por servicio fantasma en Salina Cruz*: <https://www.elfinanciero.com.mx/opinion/lourdes-mendoza/2023/10/25/pemex-paga-millones-por-servicio-fantasma-en-salina-cruz/>.

¹⁵ The San Diego Union-Tribune, 24 November 2015: *8 Injured in refinery fire in Mexico*, <https://www.sandiegouniontribune.com/en-espanol/sdhoy-8-injured-in-refinery-fire-in-mexico-2015nov24-story.html>; NDTV, 15 June 2017: *Fire Breaks Out At Mexico's Top Refinery, Nine Injured*, <https://www.ndtv.com/world-news/fire-breaks-out-at-mexicos-top-refinery-nine-injured-1712409>; El Heraldo de México, 7 August 2021: *Explosión en refinería de Salina Cruz, Oaxaca, asusta a ciudadanos*, <https://heraldodemexico.com.mx/nacional/2021/8/7/explosion-en-refineria-de-salina-cruz-oaxaca-asusta-ciudadanos-323677.html>; Reuters, 17 April 2022: *Mexico's Pemex says fire under control at Salina Cruz refinery*, <https://www.reuters.com/business/energy/mexicos-pemex-battles-fire-salina-cruz-refinery-2022-04-16/>; Mexico Business News, 11 November 2022: *Four Oil Spills in 40 Days in Salina Cruz, Oaxaca*: <https://mexicobusiness.news/oilandgas/news/four-oil-spills-40-days-salina-cruz-oaxaca>; Bloomberg, 18 May 2023: *Pemex Says Second Refinery Fire in Two Days Was Contained*, <https://www.bloomberg.com/news/articles/2023-05-18/pemex-sees-second-refinery-fire-in-two-days-outlets-report>; Imparcial Oaxaca, 9. september 2024: *Cada día más recurrentes incendios en la refinería*, <https://imparcialoaxaca.mx/oaxaca/889910/cada-dia-mas-recurrentes-incendios-en-la-refineria/>.

General's Office (*Auditoría Superior de la Federación* (ASF)) or Centre for Investigation and National Security (*Centro de Investigación y Seguridad Nacional* (CISEN)).

The cases include, among others:

- Allegations of bribery by Siemens in 2004, in connection with the modernisation of a refinery in the Cadereyta region.¹⁶
- Allegations of favouritism with respect to certain suppliers and attempts to submit inflated invoices in connection with repairs to the petrochemical facility in Escolín in 2007.¹⁷
- Allegations of bribery by Hewlett-Packard to win an IT contract in the period 2008–2009.¹⁸
- Allegations of bribery by the US oil service company Key Energy Services (KES) in the period 2010–2013 in return for help with procurement processes and the extension of contracts.¹⁹

¹⁶ U.S. Securities and Exchange Commission, 12 December 2008, Complaint, SEC vs. Siemens AG, Case: 1:08-cv-02167.

¹⁷ Expansión, 2 February 2011: *SFP sanciona a 12 funcionarios de Pemex*, <https://expansion.mx/negocios/2011/02/02/pemex-corrupcion-sindicato-cnnexpansion>; Portal Automotriz, 2 February 2011: *Sancionados 12 funcionarios de Pemex y 3 empresas por corrupción*, <https://www.portalautomotriz.com/noticias/combustibles/sancionados-12-funcionarios-de-pemex-y-3-empresas-por-corrupcion>.

¹⁸ U.S. Department of Justice, Criminal Division, 9 April 2014: *Re: Hewlett-Packard Mexico, S. de R.L. de C.V.*, <https://www.justice.gov/sites/default/files/criminal-fraud/legacy/2014/04/10/hp-mexico-npa.pdf>; La Jornada, 11 April 2014: *Identifican a ex funcionarios de Pemex relacionados con soborno*, <http://www.jornada.unam.mx/2014/04/11/economia/026n1eco>; Negocios, 11 April 2014: *Identifican a 2 ligados al soborno HP-Pemex*, http://www.milenio.com/negocios/Identifican-ligados-soborno-HP-Pemex_0_278972122.html.

¹⁹ U.S. Securities and Exchange Commission, 11 August 2016, Administrative Proceeding, File No. 3-17379. In the matter of Key Energy Services, Inc.

- Allegations of favouritism with respect to the oil service company Oceanografía S.A. de C.V. in connection with the award of contracts in the period 2003–2013.²⁰

2.1.3 Allegations of preferential treatment for companies linked to a former employee

At the beginning of March 2014, it was alleged in the Mexican National Assembly that the northern regional office of Pemex Exploración y Producción (PEP) had been engaged in bid-rigging since December 2012. This practice was alleged to have resulted in preferential treatment being given to several oil service companies that were owned by a former vice president at the regional office. The majority of these companies had the word “Sepec” in their names.^{21, 22}

In the period 2014–2017, multiple enterprises accused Pemex of unfairly favouring Sepec companies. However, these allegations had no impact on relations between them. In April 2015, the owner of the Sepec companies was reported to the authorities by several competitors because they suspected the individual of being the author of sabotage incidents in which vehicles, machinery and other equipment had been set on fire, as well as threats. The incidents were alleged to have taken place in September and November 2014, and in March and April 2015.²³

²⁰ Reuters, 7 March 2014: *Troubled past haunts Mexico oil company at center of Citi scandal*, <https://www.reuters.com/article/us-citigroup-mexico-oceanografia-insight/troubled-past-haunts-mexico-oil-company-at-center-of-citi-scandal-idUSBREA2613H20140307>; Contralínea, 30 March 2014: *Cisen investiga a exsecretario de Energía y tres directores generales de Pemex por caso Oceanografía*, <https://contralinea.com.mx/portada/cisen-investiga-exsecretario-de-energia-tres-directores-generales-de-pemex-por-caso-oceanografia/>.

²¹ Abbreviation for Servicios Petroleros Especializados del Centro.

²² Sinembargo, 6 March 2014: *Documentos de MC revelan que el Pemex de EPN también dio contratos a empresas ligadas a Oceanografía*, <http://www.sinembargo.mx/06-03-2014/923461>.

²³ Noreste, 3 November 2014: *Mafia en las licitaciones de PEP; exigen se investigue a [redacted]* (last visited 16 February 2018); Milenio, 11 May 2015: *Acusan a [redacted] por "terrorismo corporativo"*, [link to the article](#); Noreste, 24 January 2017: *Secuestra [redacted] a región norte de PEMEX* (last visited 16 February

In January and February 2017, in connection with new allegations of irregularities relating to contracts between Sepec companies and Pemex, it also became clear that the suspicions encompassed several executives at the regional office in question.²⁴ At the beginning of March 2017, therefore, a Mexican senator asked the Auditor General's Office to perform an audit on the activities of the northern regional office, and investigate a specific contract between PEP and one of the Sepec companies.²⁵

At the beginning of October 2017, it emerged that the Ministry of Public Administration had discovered that 26 Pemex employees had unlawfully obtained just over MXN 200 million (approx. NOK 90 million). One of these was vice president of PEP's northern regional office. Four of the Sepec owner's companies were fined a total of USD 54 million for falsifying information for the purpose of winning contracts for PEP. Furthermore, two of the companies were excluded from participating in public procurement competitions for a period of five years, while two others were excluded for ten years.²⁶ In August

2018); Newsweek Veracruz Edición 47, 10 February 2017: *Gana contratos en Pemex quemando a compañías competidoras y extorsionando a funcionarios* (last visited 21 March 2018).

²⁴ Noreste, 24 January 2017; Newsweek Veracruz Edición 47, 10 February 2017.

²⁵ Diario de los Debates de la Cámara de Senadores del Congreso de los Estados Unidos Mexicanos. Sesión Pública Ordinaria Celebrada en la Ciudad de México, 7 March 2017, pp. 479–81. The request is available here: http://sil.gobernacion.gob.mx/Archivos/Documentos/2017/03/asun_3493504_20170302_1488473416.pdf.

²⁶ Aristegui Noticias, 1 October 2017: *La corrupción de cada día: 76 funcionarios amasaron fortuna de casi 500 mdp*, <https://aristeginoticias.com/0110/mexico/la-corrupcion-de-cada-dia-76-funcionarios-amasaron-fortuna-de-casi-500-mdp/>; Vanguardia, 1 October 2017: *Secretaría de la Función Pública revela megafraude que vincula a exfuncionario de Pemex*, <https://vanguardia.com.mx/noticias/nacional/secretaria-de-la-funcion-publica-revela-megafraude-que-vincula-exfuncionario-de-pemex-OQVG3336282>. The companies concerned are, respectively, Servicios Petroleros Especializados del Centro, S.A. de C.V. (SEPEC): https://www.dof.gob.mx/nota_detalle.php?codigo=5497875&fecha=20/09/2017#gsc.tab=0; Sepec Cts, S.A. de C.V.:

2021, the exclusions of all four companies were lifted. The public announcements gave no grounds for the reversal.²⁷

2.2 Corruption risk in the company's business sectors and countries of operation

Sectoral risk

It has long been known that oil and gas is among the business sectors with the highest risk of corruption in the world. For example, in Transparency International's *Bribe Payers Index* from 2011, oil and gas was ranked as the fourth most corrupt of the 19 business sectors surveyed.²⁸ In the OECD's *Foreign Bribery Report* from 2014, the extraction industry, to which oil and gas belongs alongside mining, was ranked as the most corrupt

https://www.dof.gob.mx/nota_detalle.php?codigo=5497876&fecha=20/09/2017#gsc.tab=0; Sepec Well Services, S.A. de C.V.:
https://www.dof.gob.mx/nota_detalle.php?codigo=5497877&fecha=20/09/2017#gsc.tab=0; Petrodata Services, S.A. de C.V.:
https://www.dof.gob.mx/nota_detalle.php?codigo=5497878&fecha=20/09/2017#gsc.tab=0.

²⁷ Servicios Petroleros Especializados del Centro, S.A. de C.V.:

https://www.dof.gob.mx/nota_detalle.php?codigo=5628223&fecha=31/08/2021#gsc.tab=0; Sepec CTS, S.A. de C.V.:
https://www.dof.gob.mx/nota_detalle.php?codigo=5628224&fecha=31/08/2021#gsc.tab=0; Sepec Well Services, S.A. de C.V.:
https://www.dof.gob.mx/nota_detalle.php?codigo=5628225&fecha=31/08/2021#gsc.tab=0; Petrodata Services, S.A. de C.V.:
https://www.dof.gob.mx/nota_detalle.php?codigo=5628226&fecha=31/08/2021#gsc.tab=0. See also: Entérate México, 17. september 2023: *La 4T sigue beneficiando con contratos por dedazo al ex subdirector de Pemex Exploración y Producción, [REDACTED]: en agosto pasado le entregó obras por más de 40 millones de dólares: [Link to article](#).*

²⁸ Transparency International: *Bribe Payers Index 2011*, p. 15,

<https://www.transparency.org/en/publications/bribe-payers-index-2011>.

of all business sectors.²⁹ The high corruption risk must be seen in light of several factors. The extraction of natural resources has traditionally been associated with extraordinary returns on investment (resource rent), which may inherently create powerful incentives for corruption. Furthermore, oil and gas production projects are often highly complex and comprise many different components and actors. This may make it extremely difficult for outsiders to gain an overview of what is going on.³⁰ Projects are often also large and of long duration, and it can take a long time (years) before the companies begin to reap a reward from their invested capital. This may make it more difficult to resist demands for bribes that may pop up during the project's course.³¹ Moreover, oil extraction is dependent on licences from authorities, and often takes place in jurisdictions where there is a high risk of corruption.

The country in which Pemex operates

Mexico ranks low down on both the World Bank's *Control of Corruption* index and Transparency International *Corruption Perceptions* index, and over the past decade, developments overall have worsened.³²

The *Freedom in the World* report for 2024, published by Freedom House, confirms that corruption in the public sector remains a serious problem in Mexico. Although Mexico has fairly extensive anti-corruption legislation, Freedom House maintains that enforcement is weak and there is a high degree of impunity. It is further pointed out that

²⁹ OECD. 2014. *Foreign Bribery Report. An Analysis of the Crime of Bribery of Foreign Public Officials*, p. 21, <https://www.oecd.org/corruption/oecd-foreign-bribery-report-9789264226616-en.htm>.

³⁰ GAN Integrity, 6 July 2018: *Corruption Risk in Oil and Gas: Why We See So Much*, <https://www.ganintegrity.com/en/blog/oil-company-corruption/>.

³¹ U4 Anti-Corruption Resource Centre: *Basic guide to corruption and anti-corruption in oil, gas, and mining sectors*, <https://www.u4.no/topics/oil-gas-and-mining/basics> (last visited 22 March 2024).

³² World Bank Group, World Governance Indicators: <https://www.worldbank.org/en/publication/worldwide-governance-indicators/interactive-data-access>; Transparency International, Corruption Perceptions Index 2023: <https://www.transparency.org/en/cpi/2023/index/mex>;

the political system is heavily influenced by the billions of US dollars that flow into the country each year from the US drug trade, as well as widespread fraud relating to public procurement contracts and other government business. Attempts to prosecute public officials for corruption have also been made more difficult due to a lack of capacity on the part of the police, the prosecuting authority and the courts.³³

At the centre of this picture is also the security situation for the country's journalists, which Freedom House characterises as extremely challenging. It has been thoroughly documented that Mexico is one of the most dangerous countries in the world to operate in as a journalist. This includes journalists who write about corruption. Only a tiny fraction of the crimes committed against journalists ever lead to a conviction.³⁴

3 Anti-corruption standards

In its assessment of the future risk of corruption linked to the company's business operations, the Council refers, among other things, to international standards and guidelines for best practice regarding compliance and anti-corruption in multinational companies. On the basis of these standards, some key principles can be deduced with

³³ Freedom in the World 2024: Mexico,
<https://freedomhouse.org/country/mexico/freedom-world/2024>.

³⁴ Article 19, 28 March 2023: *Mexico: Voices Against Indifference*,
<https://www.article19.org/resources/mexico-voices-against-indifference/>; Article 19,
4 May 2023: *Mexico: AMLO attacks ARTICLE 19 on World Press Freedom Day*, <https://www.article19.org/resources/mexico-amlo-attacks-article-19-on-world-press-freedom-day/>; Atlantic Council, 18 September 2023: *Violence against journalists: A tool to restrict press freedom in Mexico*,
<https://www.atlanticcouncil.org/in-depth-research-reports/books/violence-against-journalists-a-tool-to-restrict-press-freedom-in-mexico/>; Amnesty International, 6 March 2024: *Mexico, Killings of journalists under state protection show urgent need to strengthen federal mechanism*,
<https://www.amnesty.org/en/latest/news/2024/03/mexico-killings-journalists-strengthen-federal-mechanism/>; Global Investigative Journalism Network, 18 July 2024: *New Documentary Shows Mexican Journalists Have Nowhere to Turn*, <https://gijn.org/stories/new-documentary-shows-mexican-journalists-have-nowhere-to-turn/>.

respect to the steps a company should take to establish and implement an effective anti-corruption programme.³⁵ In addition, the OECD has also adopted separate principles for good corporate governance, which in several key areas have a significant impact on companies' work on anti-corruption.³⁶

The Council also relies on international conventions and other key guidelines relating to governments' efforts to prevent and deal with corruption, where this is relevant for the overall risk picture within which companies operate. With respect to Mexico and Pemex as a state-controlled company, the Council considers that any restrictions on the role of the media and reporters in the fight against corruption should be taken into account.³⁷

³⁵ Internationally recognised guidelines and principles for how an anti-corruption programme can be structured may, for example, be found in: ISO 37001:2016: *Anti-bribery management systems – Requirements with guidance for use*; UNODC. 2013a. *An Anti-Corruption Ethics and Compliance Programme for Business: A Practical Guide*, available at https://www.unodc.org/documents/corruption/Publications/2013/13-84498_Ebook.pdf; U.S. Department of Justice (DOJ) and U.S. Securities and Exchange Commission (SEC). 2012. *A Resource Guide to the U.S. Foreign Corrupt Practices Act*, available at <https://www.justice.gov/sites/default/files/criminal-fraud/legacy/2015/01/16/guide.pdf>; OECD. 2010. *Good Practice Guidance on Internal Controls, Ethics and Compliance*, available at <https://www.oecd.org/daf/anti-bribery/44884389.pdf>; Transparency International (TI). 2013. *Business Principles for Countering Bribery*, available at <https://www.transparency.org/en/publications/business-principles-for-countering-bribery>.

³⁶ OECD. 2015. *G20/OECD Principles of Corporate Governance*, https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2015_9789264236882-en.

³⁷ UNODC. 2013b. *Reporting on Corruption. A Resource Tool for Governments and Journalists*, https://www.unodc.org/documents/corruption/Publications/2013/Resource_Tool_for_Governments_and_Journalists_COSP5_ebook.pdf; OECD. 2018. *The Role of the Media and Investigative Journalism in Combating Corruption*, https://www.oecd-ilibrary.org/governance/the-role-of-the-media-and-investigative-journalism-in-combating-corruption_7590ec9d-en.

Compliance:

All standards for best practice presume that top management must be genuinely involved in this effort if a company is to be capable of preventing corruption effectively. It is important that management clearly communicates zero tolerance of corruption, and that the company communicates the importance of its corruption-prevention activities to its workforce, business partners and representatives.³⁸

To be able to define systems and an anti-corruption programme tailored to the specific business, corruption risk must be systematically identified and assessed in all areas of the operation. It is a minimum requirement that a company implements robust preventive measures in those areas in which it is most exposed to risk.³⁹

To achieve the effective implementation of these systems, good training programmes must be developed for employees and those business partners over which the company has a controlling or decisive influence. Senior executives, middle managers and employees in high-risk positions must, in particular, receive specially tailored training.⁴⁰

Furthermore, it is important that the company performs due diligence on third parties, that third parties in high-risk areas are given anti-corruption training and are followed up on a regular basis, and that payments to such third parties are checked and verified

³⁸ UNODC (2013), Chapter III(A); OECD (2010), Annex II(A)(1); TI (2013), point 6.1. See also World Bank Group (WBG). 2010. *Summary of World Bank Group Integrity Compliance Guidelines*, point 2.1, available at <https://thedocs.worldbank.org/en/doc/06476894a15cd4d6115605e0a8903f4c-0090012011/original/Summary-of-WBG-Integrity-Compliance-Guidelines.pdf>.

³⁹ This follows, for example, from UNODC (2013), Chapter II; OECD (2010), Annex II(A); DOJ and SEC (2012), Chapter 5, pp. 58–59; UK Ministry of Justice. 2011. *The Bribery Act 2010 Guidance*, Principle 3, available at <https://www.gov.uk/government/publications/bribery-act-2010-guidance>. A more detailed guide on how to perform such risk assessments may be found in the Global Compact's *A guide for anti-corruption risk-assessment* (2013), available at https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/RiskAssessmentGuide.pdf.

⁴⁰ UNODC (2013), Chapter III(H); OECD (2010), Annex II(A)(8); TI (2013), point 6.4; WBG (2010), point 7.

as being proportionate to the work performed.⁴¹ The follow-up of third parties may, for example, include regular reviews and updates of risk assessments and due diligence processes, repeated online and database searches to identify new red flags, and regular and/or risk-based audits.⁴²

Management must express clear expectations that employees will behave in compliance with the anti-corruption programme and report any suspected breaches of internal regulations. Systems should be established by which employees and others can report wrongdoing anonymously and without risk of retaliation.⁴³ The company should have a clearly defined procedure for investigating reports of rule violations, and the sanctions imposed on individuals who breach the rules must be made widely known.⁴⁴

The anti-corruption programme must be monitored and improved on the basis of both internal experience, changes in the company's risk exposure, and new laws and standards for best practice.⁴⁵

According to such standards, it is crucial that corruption prevention activities be delegated to a separate function or a person endowed with the necessary resources and autonomy. It is presumed that the compliance department has direct access to executive management and to the board of directors.⁴⁶ Furthermore, it is vital that the central compliance department has sufficient resources and competence.

⁴¹ OECD (2010), Annex II(A)(6)(i); TI (2013), point 6.2.; WBG (2010), point 5.

⁴² World Economic Forum-Partnering Against Corruption Initiative (WEF-PACI). 2013. *Good Practice Guidelines on Conducting Third-Party Due Diligence*, point 4(b), p. 14: http://www3.weforum.org/docs/WEF_PACI_ConductingThirdPartyDueDiligence_Guidelines_2013.pdf.

⁴³ UNODC (2013), Chapter III(I) and (J); OECD (2010), Annex II(A)(9) and (11)(ii); TI (2013), points 6.3.1 and 6.5.1; WBG (2010), points 8.1, 9.1 and 9.3.

⁴⁴ UNODC (2013), Chapter III(J) and (K); WBG (2010), point 10.

⁴⁵ UNODC (2013), Chapter III(L); OECD (2010), Annex II(A)(12); TI (2013), points 6.8 and 6.10; WBG (2010), point 3.

⁴⁶ This follows, for example, from DOJ and SEC (2012), Chapter 5, p. 58; OECD (2010), Annex II(A)(4); WBG (2010), point 2.3.

Corporate governance

Among other things, the OECD's principles state that a company's board of directors is responsible for supervising its day-to-day management on behalf of the shareholders. In order for the board to perform this function, it must be able to make objective and independent assessments. This normally presumes that a sufficient number of board members are independent of the company's executive management.⁴⁷

One of the primary functions of the board of directors is to safeguard the integrity of the company's accounting and financial reporting systems, including verification by an independent auditor. Furthermore, the board must ensure that the company has appropriate internal control systems in place, particularly systems for risk management, financial and operational control, and compliance with laws and relevant standards. As examples of relevant laws, regulations and standards, the OECD principles refer to national criminal statutes implementing the OECD's Anti-Bribery Convention, as well as legislation prohibiting other forms of bribery and corruption.⁴⁸

The role of the media and journalists in the fight against corruption

The UNODC states that the media and journalists, in particular investigative journalists, have a key role to play in the fight against corruption. They do this by helping the authorities to broadly disseminate information of public interest. According to the UNODC, this is reflected in Article 13.1(d) of the United Nations Convention Against Corruption (UNCAC), which states that each State Party shall take appropriate measures to raise public awareness regarding the existence, causes and gravity of and the threat posed by corruption. Such measures include "[...] *Respecting, promoting and protecting the freedom to seek, receive, publish and disseminate information concerning corruption.*"⁴⁹

The OECD also points out that news reporting in general and investigative journalism in particular are among the most important mechanisms for raising public awareness of corruption. Furthermore, the OECD makes it clear that corruption is often brought to light first through reports in the media, and that such reports can then form the basis for further investigation by the police and prosecuting authorities, or for companies'

⁴⁷ OECD (2015), Principle VI, p. 45, Principle VI.E, p. 50.

⁴⁸ OECD (2015), Principle VI.D.7, pp. 49–50.

⁴⁹ UNODC (2013b), p. 5, 21–23.

internal investigations or self-reporting. In this connection, the OECD also points to UNCAC's Article 13.1(d).⁵⁰ Mexico is a State Party to UNCAC.

4 Corporate governance

Pemex is wholly owned by the Mexican state. Five of its board members represent the Mexican government and are appointed by the country's president. This always includes the energy minister, who is the board's permanent chair and has a casting vote in the event of a tie, and the minister of finance. The country's president also nominates the independent board members. There may be up to five such representatives and they must be approved by the Mexican Senate. If necessary, it is also the president who dismisses board members. Through Pemex's corporate board, the country's president and government also control the boards of the three subsidiaries and thereby also the executive management teams at both Pemex and its subsidiaries.⁵¹

A new president was elected in Mexico on 1 October 2024. At Pemex's board meeting the following day, a new executive management team was appointed.⁵² Several of the Pemex CEOs who have been appointed since 2012 have had close ties to the president who appointed them or to the then sitting government.⁵³

⁵⁰ OECD (2018), pp. 4, 6.

⁵¹ Pemex 20-F filing for 2023; OECD, 19 July 2017: *Public Procurement Review of Mexico's PEMEX – Adapting to Change in the Oil Industry* (an OECD Public Governance Review), <https://www.oecd-ilibrary.org/docserver/9789264268555-en.pdf?expires=1729071032&id=id&accname=oid029201&checksum=C5FC4FDF47DA40850605B9A6E23BA8D7>.

⁵² Pemex, 2 October 2024: *El Consejo de Administración de Petróleos Mexicanos aprueba nuevos nombramientos*, https://www.pemex.com/saladeprensa/boletines_nacionales/Paginas/2024_18-nacional.aspx.

⁵³ The Guardian, 20 August 2020: *Mexico rocked by claims of corruption against three former presidents*, <https://www.theguardian.com/world/2020/aug/20/mexico-corruption-former-presidents-emilio-lozoya>; Bloomberg, 27 November 2017: *Pemex CEO Becomes Mexico's Finance Minister*, <https://www.bloomberg.com/politics/articles/2017-11-27/pemex-revolving-door->

Pemex discloses that it is the board that approves the company's compliance programme, including its anti-corruption measures. Pemex further points out that the board monitors the company's internal control activities through the Audit Committee. The Internal Audit function, which is responsible for auditing how the company performs internal control activities, reports directly to this committee.⁵⁴

5 Measures implemented by Pemex to prevent, detect and respond to corruption

5.1 Tone from the top

The Council has reviewed Pemex's sustainability reports for the past ten years. In these reports, it has been difficult to find written examples of the "tone from the top" with respect to anti-corruption. The Council has therefore asked the company to provide some concrete examples of steps that the Board Chair, CEO or other members of senior management have taken in the past five years to communicate zero tolerance of corruption to the company's employees, business partners and representatives. In response, Pemex has firstly referred to written statements concerning anti-corruption that its CEO and other members of senior management have posted on the company's website in the period 2021–2023. In addition, the company has referred to the brochure "The Moral Booklet" issued by the country's president.⁵⁵

[turns-again-as-ceo-becomes-finance-minister](#); Bloomberg, 27 July 2018: *Mexico's Next President Promises Pemex Investment, Names New CEO*, <https://www.bloomberg.com/news/articles/2018-07-27/octavio-romero-oropeza-is-named-chief-executive-officer-of-pemex>.

⁵⁴ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

⁵⁵ Letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023; https://www.pemex.com/etica_y_transparencia/etica/Paginas/default.aspx; https://www.gob.mx/cms/uploads/attachment/file/427152/CartillaMoral_.pdf.

5.2 Risk assessments

According to Pemex's Anti-Corruption Policies and Guidelines (ACPG), the company must identify corruption risks and establish effective preventive checks. The ACPG refers to separate guidelines for risk management, which apply to Pemex as well as the company's subsidiaries and associates. The guidelines are generic and refer to corruption only as an example of one type of risk.⁵⁶ However, a couple of the appendices to the ACPG provide more guidance on identifying specific corruption risks. According to Pemex, the company's Legal Affairs Department conducted an internal questionnaire-based survey at the end of 2019 and start of 2020 to identify functions and positions that are particularly exposed to corruption risk. The objective was to use this information to develop strategies and specific measures to prevent corruption.⁵⁷

The Council has also asked Pemex for a summary of the most important findings from the company's latest corruption risk assessment, and how these have been ranked in order of priority. The company has not replied to this request. The Council has further asked about the most important measures that Pemex has implemented on the basis of this assessment. Here, the company has pointed to several of the general compliance initiatives that it has introduced:

- Ethical guidelines (code of conduct) applicable to employees and suppliers, partners and third parties.
- Due diligence guidelines.
- Anti-corruption declarations and clauses in all contracts.
- Training of board members, managers and employees.
- Information and awareness-raising campaigns, and whistleblowing service.
- Disciplinary measures against employees who break the rules.
- Cooperation with the authorities with respect to the follow-up and sanctioning of employees who break the law.⁵⁸

⁵⁶ Pemex, 23 February 2018, *Políticas y Lineamientos de Administración de Riesgos Empresariales de Petróleos Mexicanos, sus Empresas Productivas Subsidiarias y en su caso, Empresas Filiales*.

⁵⁷ Letter from Pemex, dated 19 September 2024.

⁵⁸ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

5.3 Guidelines and plans

Pemex has had separate anti-corruption guidelines since September 2017. The current guidelines date from June 2021.⁵⁹ The guidelines, which apply to both employees and third parties, contain provisions relating to corruption risk assessments, conflicts of interest, due diligence assessments and the management of relations with third parties and politically exposed persons (PEPs), gifts and entertainment, the prevention of money laundering, internal control of accounting practices, sponsorships and political donations, whistleblowing, internal investigations and the sanctioning of wrongdoing.

The appendices to the guidelines also provide more detailed descriptions of different forms of corruption, an anti-corruption self-certification form, a questionnaire for an external evaluation of the corruption risk at Pemex, an internal questionnaire for the identification and prevention of corruption risk, an overview of different corruption risk factors etc. The original guidelines from 2017 contained the majority of the elements listed above, even though they have now been considerably revised.

The Council has asked whether Pemex has a separate plan for the company's anti-corruption endeavours. Here the company referred to its latest compliance programme, which was adopted in June 2023.⁶⁰ Anti-corruption has been designated one of the four main goals for this programme. However, the programme provides only an overarching description of the company's main goals in the compliance area and does not contain a more detailed description of how this work will be organised and implemented in practice.

⁵⁹ Pemex, June 2021: *Anti-corruption Policies and Guidelines for Petroleos Mexicanos, its Subsidiary Productive Companies and Subsidiaries and, as the case may be, Subsidiary Companies*,
[https://www.pemex.com/en/compliance/Documents/PEMEXanticorruption%201-19\(trad-eng\)%20plus%2020-48_V0.pdf](https://www.pemex.com/en/compliance/Documents/PEMEXanticorruption%201-19(trad-eng)%20plus%2020-48_V0.pdf).

⁶⁰ Pemex, June 2023: *Programa de Cumplimiento. Ética e Integridad, Anticorrupción, Cumplimiento Legal y Transparencia y Protección de Datos*,
https://www.pemex.com/etica_y_transparencia/etica/Documents/Programa_Pemex_Cumple.pdf.

5.4 Training

According to Pemex, the company runs an annual training programme, with the eLearning courses relating to its anti-corruption guidelines and conflicts of interest being mandatory for all employees, including executive management.⁶¹ The Council has also been given access to Pemex's information and training calendar for 2024. This shows which corruption-related information campaigns and courses are to be held for managers and employees through the year.

With respect to more specialised training in the anti-corruption area, Pemex discloses that it provides eLearning courses on how to deal with conflicts of interest. It further states that it regularly issues various types of information and training materials (infographics) to all employees through internal communication channels. This also includes anti-corruption-related materials. Pemex has shared some examples of such materials with the Council.

Pemex has also divulged the number of employees at various levels in the company who have taken courses on its anti-corruption guidelines and on conflicts of interest in the past five years. In addition, the company has shared figures showing how many subcontractors have received information materials relating to compliance and anti-corruption.

5.5 Organisation

According to Pemex, the company's Legal Affairs Department (*Dirección Jurídica*) is responsible for its compliance programme. It exercises this responsibility via the Compliance and Transparency Section (*Gerencia Jurídica de Cumplimiento Legal y Transparencia*). This includes efforts to prevent, detect/investigate and respond to corruption. The department had 44 employees as of December 2023. Pemex further states that it has 80 employees working with compliance at subsidiaries. Pemex has not answered the Council's query about the number of employees working specifically in the area of anti-corruption.⁶²

⁶¹ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

⁶² Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

Although it is a wholly state-owned company, Pemex has made it clear that it is autonomous from a technical, operational and management point of view. This means that the company's compliance activities are not dependent on the Mexican government's external control and enforcement bodies. However, Pemex also states that the company is subject to audit by Mexico's Auditor General's Office (*Auditoría Superior de la Federación*) in addition to the company's own internal auditing function.

5.6 Use of third parties and due diligence thereon

Pemex has had specific guidelines for the performance of due diligence on third parties since November 2018. The current guidelines date from June 2021.⁶³ Among other things, the guidelines are intended to prevent corruption, bribery, money laundering and the financing of terrorism. The appendices to the guidelines encompass, among other things, a questionnaire for third parties, a checklist of red flags and an overview of relevant measures to mitigate identified risks. The checkpoints, tools and processes described in these guidelines seem largely to comply with the requirements set out in the prevailing international guidelines.

Pemex has disclosed that, in the period June 2021 to August 2024, it approved more than 9,000 third parties as complying with its ethics and integrity requirements. A list of these third parties may be found on Pemex's website.⁶⁴ Pemex has also divulged how many third parties (suppliers and customers) have been rejected or whose contracts with the company have not been renewed because they failed to meet these requirements. However, Pemex has not answered the Council's query regarding the

⁶³ Pemex, 30 June 2021: *Policies and Guidelines for the Development of Due Diligence in Petroleos Mexicanos, its Subsidiary Productive Companies and, as the case may be, Subsidiary Companies, regarding Ethics and Corporate Integrity*, [https://www.pemex.com/en/compliance/Documents/EN_DD%202017%20Def_V1%20\(002\).pdf](https://www.pemex.com/en/compliance/Documents/EN_DD%202017%20Def_V1%20(002).pdf).

⁶⁴ The list of third parties may be found at https://www.pemex.com/etica_y_transparencia/etica/Documents/viabilidad%20comercial/viabilidad-comercial.pdf.

number of relevant third parties who have been rejected due to the risk of corruption/bribery being too high.⁶⁵

In 2019, Pemex PEP signed three different contracts, together worth hundreds of millions of Mexican pesos, with the company *Sepec Oilfield Services, SA de CV* (SOS) for work relating to PEP's oil wells.⁶⁶ SOS may be linked to the previously mentioned "Sepec owner" because it was founded in 2012 by this person's son and daughter-in-law.⁶⁷ The Council has therefore asked for a copy of the report from the due diligence performed by Pemex when it approved SOS as a supplier.⁶⁸

In its reply, Pemex confirmed that a due diligence assessment was performed on SOS. This is supposed to have included a check of red flags due to negative media reports, background checks on shareholders, legal representatives and associates, and clarification of negative findings. According to Pemex, SOS was ordered to implement mitigating measures, which the company is said to have done. However, Pemex has declined to share the actual report with the Council, citing internal regulations and Mexican legislation on data protection.⁶⁹

⁶⁵ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

⁶⁶ This relates, respectively, to Contract No. 641009818, signed 7 May 2019; Contract No. 641009825, signed 18 September 2019; and Contract No. 641009827, signed 18 September 2019. All of these may be found at <https://www.plataformadetransparencia.org.mx/>.

⁶⁷ La Chispa de Yucatán, 14 February 2022: *Entregan contrato de 6.6 MDD a firmas ligadas al ex subdirector de Pemex*, [link to article](#).

⁶⁸ Email from the Council on Ethics to Pemex, dated 20 June 2024.

⁶⁹ Email from Pemex to the Council on Ethics, dated 4 July 2024.

5.7 Whistleblowing reports, internal inquiries and punitive sanctions

Pemex has had a dedicated whistleblowing service since August 2017. As part of this scheme, it is possible to file reports anonymously via the company's website.⁷⁰ The company has also had specific procedures for handling whistleblowing reports since September 2017. Any reports received are first forwarded to a dedicated subcommittee (*Subgrupo de Análisis*) for analysis. This subcommittee is composed of specialists in the various subject matters that the whistleblowing system is meant to deal with. The subcommittee acts as a kind of secretariat for the Ethics Committee (*Comité de Ética*), which makes a final decision on how the individual reports are to be handled. This includes deciding whether they should be submitted to the Liability Unit (*Unidad de Responsabilidades*) for further follow-up and response, including disciplinary action.⁷¹ According to Pemex, the company's whistleblowing system is regularly audited and approved by KPMG.⁷²

Responsibility for administering the whistleblowing services lies with the Legal Affairs Department, which is also responsible for investigating reports relating to corruption in particular. On its website, Pemex has published statistics showing the number of whistleblowing reports received since the service was introduced in 2017. These figures are broken down by topic.⁷³ According to Pemex, there have been cases during this period in which employees have enriched themselves at the expense of the company.

⁷⁰ Pemex Sustainability Report 2017, pp. 76–77;
<https://www.pemex.com/lineaetica/Paginas/default.aspx>.

⁷¹ Pemex, 11 September 2017: *Políticas y Procedimientos para el funcionamiento de la Línea Ética de Petróleos Mexicanos, sus Empresas Productivas Subsidiarias y, en su caso, Empresas Filiales*, <https://www.pemex.com/lineaetica/Documents/politicas-y-lineamientos-lineaetica-20170911.pdf>. A “Unidad de Responsabilidades” or “Liability Unit” is a special internal control entity found in state-owned production companies in Mexico. They report to the Ministry of Public Administration (Secretaría de la Función Pública).

⁷² Letter from Pemex, dated 19 September 2024.

⁷³ Pemex: Difusión Línea Ética 2022:
https://www.pemex.com/lineaetica/Documents/difusion-linea-etica_2022.pdf.

However, in response to the Council's query, the company states that it has not received any reports of possible active or passive bribery in its operations in the past five years.⁷⁴

The Council has asked for details of how Pemex has followed up the reports it has received at the Antonio Dovalí Jaime refinery. It has also requested an explanation of how the whistleblower's dismissal should not be considered retaliation. According to Pemex, it has not received any reports of corruption from this individual via the whistleblowing service (*Línea Ética*) – only a report of harassment, which was not confirmed. Furthermore, Pemex has disclosed that it is also aware that reports have been submitted via other channels, but that, to its knowledge, none of these has so far been confirmed or any penalties imposed. The company has not shared with the Council any further information about the follow-up of the whistleblowing reports. With respect to the question of retaliation, Pemex reiterated that it has not received any reports of corruption from the person concerned via its whistleblowing service. It further stated that the company's prevailing policy prohibits retaliation against whistleblowing employees.⁷⁵

Pemex has presented the current status of three of the older corruption cases to which the company may be linked. They are the "Vitol case" and two cases relating to the company's former CEO, namely the "Odebrecht case" and the "Agronitrogenados case". According to Pemex, the company is cooperating with the relevant Mexican authorities with respect to these cases. In certain other cases involving allegations of corruption, Pemex has referred these either to the Liability Unit for potential administrative sanctions or to the prosecuting authority for further investigation and prosecution for potential violation of the Mexican General Law of Administrative Liabilities (*Ley General de Responsabilidades Administrativas*) and other relevant criminal statutes. According to Pemex, the company has the authority to dismiss employees who breach its anti-

⁷⁴ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

⁷⁵ Respectively, email from the Council on Ethics, dated 20 June 2024, and reply from Pemex, dated 4 July 2024. Letter from Pemex to the Council on Ethics, dated 19 September 2024.

corruption regulations, when this is deemed necessary and in compliance with federal employment law (*Ley Federal del Trabajo*).⁷⁶

The Council has asked whether Pemex has any further information about the steps taken to investigate and, if necessary, prosecute/sanction the 26 Pemex employees who the Ministry of Public Administration (SFP), in October 2017, suspected of having unlawfully enriched themselves. However, Pemex has disclosed that the SFP does not report on its investigations and that it therefore has no more detailed information about what has subsequently happened in the cases concerned.⁷⁷

6 Information provided by the company

In addition to information published on the company's website and in its annual reports, Pemex has on several occasions since November 2023 furnished the Council with information about its anti-corruption measures and shared several of its internal guidelines. The description in Chapter 4 is based largely on this information. In September 2024, the company also commented on a draft recommendation to exclude it from investment by the GPFG. Several of the disclosures that the company made in this connection have been incorporated into Chapter 4. Apart from these, the company's most important points of view are presented below.⁷⁸

About the allegations and suspicions of corruption

As a general comment to this, Pemex wrote:

«Pemex has never been involved in any corruption case, nor has it received a subpoena or anything similar, nor has it been investigated or sanctioned by any national or international authority for violations of anti-corruption laws. The foregoing is relevant because the definition of serious corruption set forth in the document being answered does not apply to the company, since neither the company

⁷⁶ Respectively, letter from the Council on Ethics, dated 29 November 2023, and reply from Pemex, dated 27 December 2023.

⁷⁷ Respectively, email from the Council on Ethics, dated 20 June 2024, and reply from Pemex, dated 4 July 2024.

⁷⁸ Letter from Pemex to the Council on Ethics, dated 19 September 2024; email from Pemex, dated 27 September 2024.

nor its representatives have i) given or offered an advantage in order to unduly influence either a public official in the exercise of his duties or in decisions that may confer an advantage to the company; or a person in the private sector who makes decisions or influences decisions that may confer an advantage to the company; ii) demanded or received a bribe, much less that such practices are carried out systematically or extensively.»

With respect to the cases relating to Siemens, Escolín, Hewlett-Packard, Key Energy Services and Oceanografía S.A. de C.V., Pemex asserted that the company has not been investigated in connection with any of these cases, nor has it profited from the contracts concerned.

Pemex further points out that the company is cooperating with national and international authorities in their investigations into corruption in which former Pemex employees may have been involved by virtue of their position in the company. This includes the Vitol investigation in the USA.

In addition to the Vitol case, Pemex has also filed charges in the Odebrecht and AHMSA cases. According to Pemex, the company also has the status of aggrieved party in the Odebrecht case.

About information published in the media

In this connection, Pemex wrote:

“The information provided by the media is inaccurate, incorrect, unconfirmed, or sensationalist, and is categorically denied because it is considered untrue, since it does not come from an official source that has the elements that allow us to assert that it is reliable information.”

About the company's compliance system in general

Pemex disclosed that its compliance and anti-corruption reporting has scored highly in a survey of the 500 most important companies in Mexico (*Integridad Corporativa 500* (IC500)) that was carried out in 2023.

About the company's due diligence assessments

Pemex made it clear that the company's ethics and integrity due diligence procedures are followed to the letter in connection with the signing of all contracts. As far as possible, this is intended to ensure that third parties with whom the company enters into contracts are not exposed to risks that could prevent compliance with relevant

legislation in the areas concerned, and to provide a basis for measures to remove any residual risk, should this prove necessary.

7 The Council's assessment

Based on the documentation available, the Council has assessed the GPFG's investment in Pemex against the criterion relating to gross corruption and other serious financial crime in the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global.

The Council's investigations show that Pemex may be linked to multiple allegations or suspicions of corruption in the period 2004–2023. The allegations and suspicions relate to many former employees of Pemex, with several of the relevant cases ending in a legal settlement with the US authorities. It remains unclear how many of the cases concerned have ended in penalties being imposed on those concerned in Pemex. Nor is it clear how much in total is supposed to have been paid in bribes in the period concerned. However, given that Pemex's former CEO is alleged to have received almost USD 14 million in bribes, the indications are that substantial sums may have been involved.

Pemex points out that the company as such has not been investigated on the grounds of corruption in Mexico or abroad. However, the Council makes no judgement with respect to a company's potential criminal liability. Instead, it assesses whether the company in question has behaved in such a way as to create an unacceptable risk that it is contributing to, or is itself responsible for, gross corruption or other serious financial crime, and is therefore in breach of the ethical guidelines. The Council agrees that a company cannot automatically be said to be contributing to corruption if corrupt acts are carried out on a few separate occasions by low-ranking and disloyal employees. If, on the other hand, the issue of contribution relates to a relatively large number of cases that also involve high-level company executives, the Council considers that similar grounds for distinguishing between the company and its employees do not exist. In the Council's view, the payment of bribes to employees for the purpose of winning contracts for Pemex has been sufficiently substantiated. The Council further considers that the allegations and suspicions in question appear to be so extensive and systematic that they qualify for a more detailed assessment of the risk that Pemex will also in future be involved in gross corruption.

The fact that Pemex is state-owned and completely subject to state control makes it more difficult to assess corruption risk on the basis of corporate governance and preventive measures, as the Council normally does when assessing listed companies. Several of Pemex's CEOs over the past 12 years have had close ties to the country's

sitting president or government. The most serious allegations of corruption relate to a former chief executive.

Mexico now has a new government and Pemex is once again under new leadership. It is not possible for the Council to assess whether these changes will impact the risk of corruption. Nevertheless, it considers that a governance system where normal control mechanisms may more easily be set aside represents a significant inherent corruption risk. What is especially important in that case is whether Pemex clearly signals that it takes allegations of corruption seriously. This means that the allegations are properly followed up and that the company clearly communicates that violation of the law and its own guidelines will have consequences.

The Council considers that Pemex's information about possible corruption and other financial irregularities relating to contracts is insufficiently transparent and too focused on denying that irregularities may have occurred. Rather than providing information on the cases that have been highlighted in the media, the company rejects information published in the media out of hand, calling it untrue and sensationalised. This weakens trust in whether the company has an adequate response to these cases. In this connection, the Council on Ethics will also point out that the security situation for journalists who write about corruption in Mexico is extremely challenging.

Given that several extremely serious allegations of corruption against a former CEO are currently under investigation, the Council expects a considerable degree of transparency and an exceptionally clear "tone from the top", declaring unambiguously that corruption and other forms of fraud are unacceptable. Apart from the written statements by the CEO and other members of senior management that have been published on the company's website in the period 2021–2023, the company has failed to provide any other tangible examples of the "tone from the top" on the subject of anti-corruption. The Council considers senior management's approach to be too passive in light of the fact that the former CEO has been under investigation since as far back as 2017 and that multiple corruption cases have been uncovered in the past 20 years. Furthermore, the Council expects the company to investigate all suspicions of corruption and inform the public of the outcome of its investigations.

The Council also considers it to be vitally important that confirmed acts of corruption receive an adequate response – either by the company itself or the responsible authorities – and in a timely fashion. Yet after almost seven years, the company has no further information to offer on what has been done to investigate and, if necessary, prosecute/sanction the 26 Pemex employees who the Ministry of Public Administration (SFP), in October 2017, suspected of illegally enriching themselves. The Council therefore

finds itself questioning whether Pemex places sufficient emphasis on the enforcement aspect of the fight against corruption. The Council also sees this in connection with the more overarching risk picture. Mexico has a very low standing on corruption indexes compiled by the World Bank and Transparency International, while Freedom House and others report weak enforcement and a high level of impunity in the country.

Pemex's anti-corruption guidelines (ACPG) seem largely to comply with the requirements set out in international standards. They also offer help to identify specific corruption risks. However, it is not possible for the Council to assess the extent to which the risk assessment guidelines are complied with in practice, since Pemex has failed to disclose further details about the most important findings from its latest corruption risk assessment. Furthermore, although Pemex seems to have a relatively large compliance organisation, it is difficult to assess how the company's anti-corruption endeavours are organised and implemented in practice, when the company has been unable to produce a specific plan for this work or disclose how many people within the company actually work on anti-corruption-related matters.

The company's training programme also gives the impression that the company is giving priority to training its managers and employees. The material Pemex has shared with the Council is, however, generic and offers no basis for assessing whether it also provides more specifically tailored training to employees and managers in different roles and positions within the company.

Pemex has previously been accused of having excessively close relations with certain subcontractors. The Council therefore attaches considerable importance to the company's performance of due diligence on suppliers and other third parties. Pemex's third-party due diligence guidelines are extensive and seem largely to comply with prevailing international standards. The Council further notes that all approved third parties are listed on the company's website. Nevertheless, Pemex has declined to disclose how many third parties have been rejected because a due diligence assessment found the risk of corruption/bribery to be too high. This makes it impossible for the Council to evaluate the extent to which these processes take account of corruption risk.

A key test in this respect is whether the company performs the necessary checks when a great many red flags are thrown up in connection with a potential supplier. Based on extensive reporting in the media and elsewhere, the Council considers that this was the situation when Pemex signed several contracts with the company Sepec Oilfield Services, SA de CV (SOS) in 2019. According to Pemex, all the necessary inquiries were carried out before the contracts were entered into. However, the company has declined to provide the Council with a copy of the report covering the inquiries into SOS. It is

therefore impossible for the Council to perform a qualified assessment of whether the company's checks on this supplier were sufficient in relation to the risk of corruption.

The Council notes that Pemex has had a whistleblowing service in place since 2017. According to the company, it has not received any reports of possible active or passive bribery in the company's operations in the past five years. The Council finds this somewhat remarkable, given the company's history of corruption, risk profile and size. Pemex has neither shared any further details of its follow-up of the whistleblowing reports submitted by the former employee at the Antonio Dovalí Jaime refinery, nor adequately answered the Council's questions concerning possible retaliation against that person. In the Council's view, therefore, the company has not substantiated that its whistleblowing system works in practice.

Overall, this does not provide reasonable assurance that Pemex has implemented adequate measures to prevent, detect and respond to corruption, or that this area is sufficiently prioritised by the company's board and executive management. The Council therefore concludes that the risk of gross corruption relating to Pemex's business activities is unacceptable.

8 Recommendation

The Council on Ethics recommends that Petroleos Mexicanos be excluded from the Norwegian Government Pension Fund Global due to an unacceptable risk that the company is contributing to or is itself responsible for gross corruption.

Svein Richard
Brandtzæg
Chair

(Sign.)

Siv Helen Rygh
Torstensen

(Sign.)

Cecilie
Hellestveit

(Sign.)

Vigdis Vandvik

(Sign.)

Egil Matsen

(Sign.)