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meet new standards

RISK, COMPLIANCE & EMERGENCY RESPONSE PROGRAMS AS PREVENTION TOOLS TO ENVIRONMENTAL ISSUES

ENVIRONMENTAL PRACTICE GROUP

MACKRELL INTERNATIONAL

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BACKGROUND

FEBRUARY 25, 2021

LEOPOLDO BURGUETE STANEK

Novartis, Volkswagen Focus on Improving Culture Following Compliance Setbacks

Executives from Novartis and Volkswagen discussed improving company culture after compliance setbacks, and the changing role of the compliance officer, during a panel discussion.



Biden plans to order a review of supply chains in auto, pharmaceutical and energy industries. [🔗](#)



A Tesla factory in Fremont, Calif. A global shortage in semiconductors — a crucial component in cars and electronic devices — has forced several major American auto plants to close or scale back production. *Justin Kaneps for The New York Times*

How Companies Can Create an Ethics Program for a New Era

It used to be that companies just had to make sure they didn't break the law to be considered ethical. Now, it's so much more than that.



A company's ethics are now judged according to its perceived performance on a vast range of issues, including things like diversity, carbon emissions and employee morale.

PG&E: California utility firm files for bankruptcy after deadly 2018 wildfires

Company is facing hundreds of lawsuits from victims of recent fires and tens of billions of dollars in potential liabilities



▲ A home burns as the Camp fire rages through Paradise, California, on 9 November. PG&E is facing billions of dollars in liabilities over 2018 wildfires. Photograph: Noah Berger/AP

Vale Agrees to \$7 Billion Settlement for Brumadinho Dam Collapse

Biggest settlement in Brazil's history seen as victory against impunity following disaster that killed 270 people



Brazilian prosecutors said the record settlement would compensate the state of Minas Gerais for socioeconomic and environmental damage from the 2019 disaster.

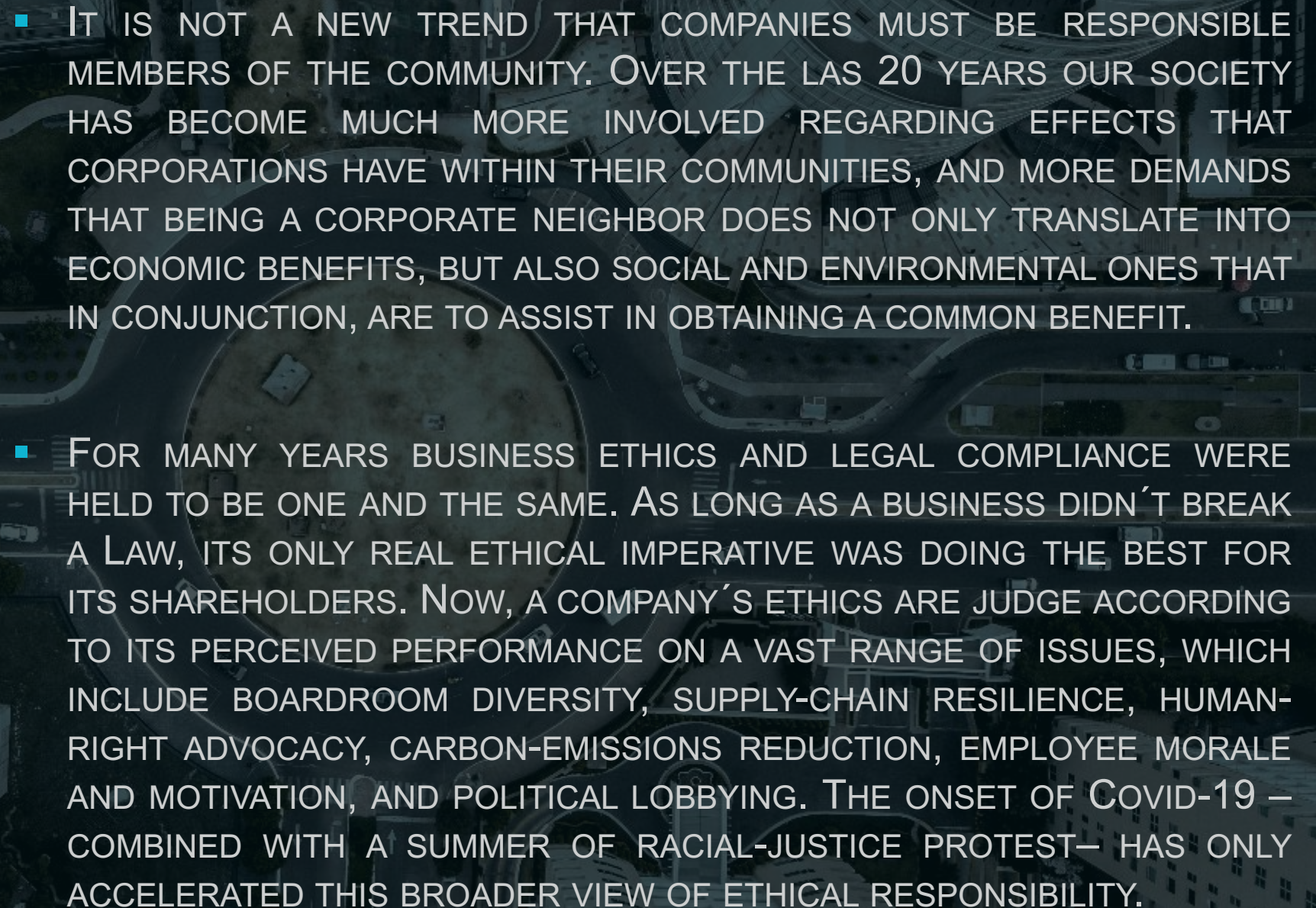
PHOTO: DOUGLAS MAGNO/AGENCE FRANCE-PRESSE/GETTY IMAGES

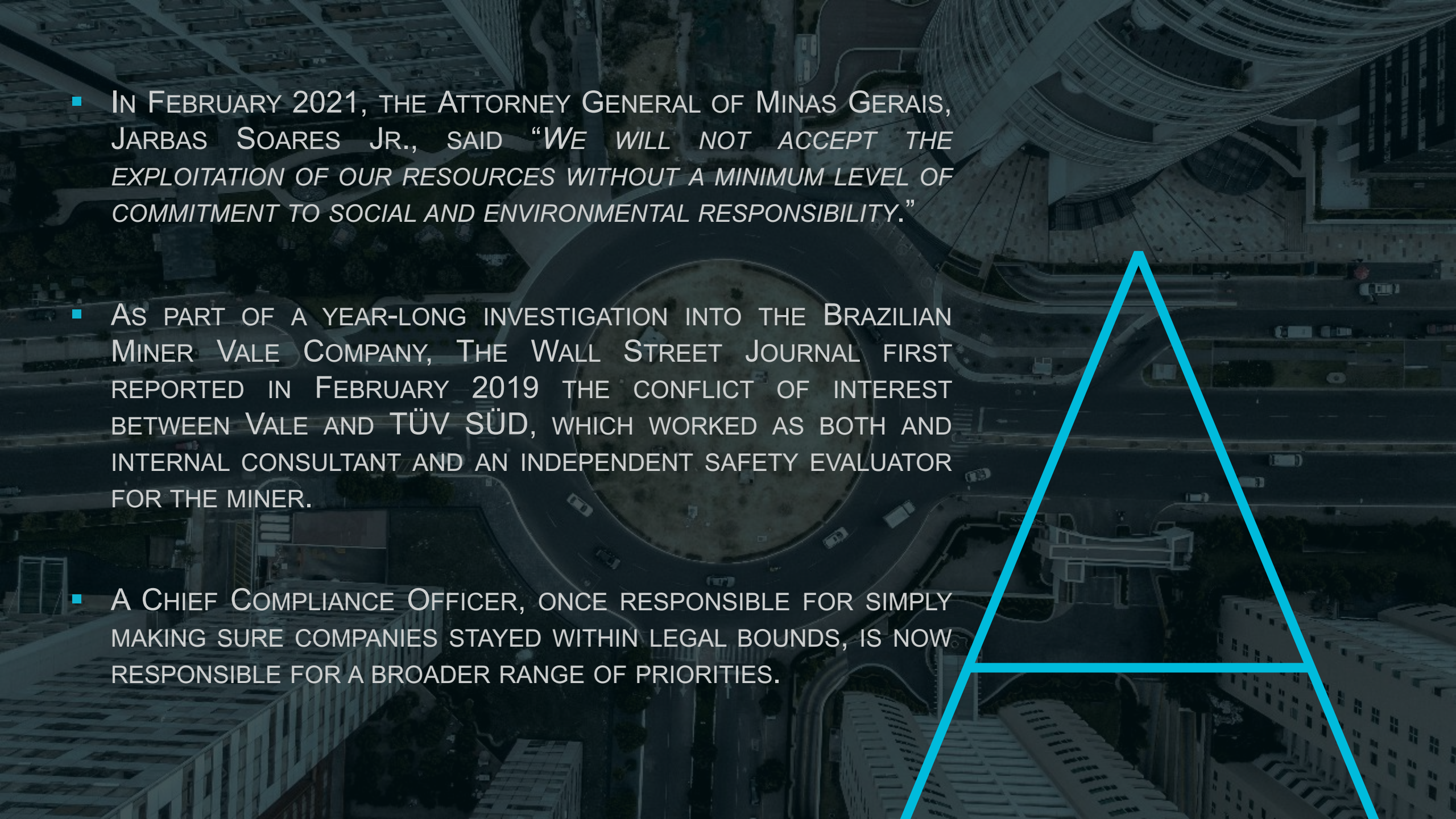
Rio Tinto admits decision to blow up sacred site in Pilbara 'irreparably damaged' ancient cave

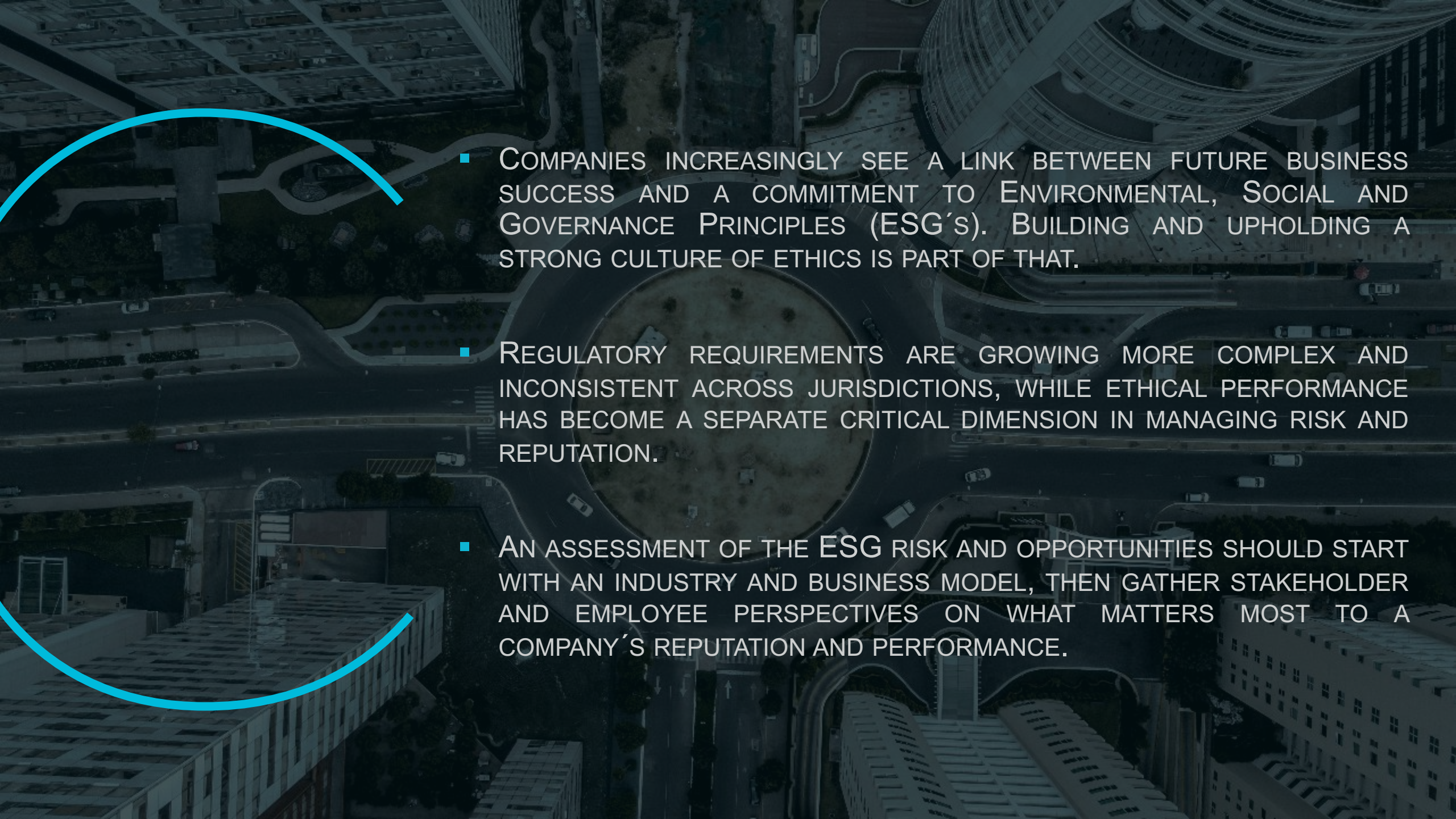
Mining giant Rio Tinto concedes its scandalous decision to blow up a sacred Indigenous site has caused irreversible damage.

Gerard Cockburn and Rebecca Le May

NCA NewsWire FEBRUARY 22, 2021 2:58PM

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- IT IS NOT A NEW TREND THAT COMPANIES MUST BE RESPONSIBLE MEMBERS OF THE COMMUNITY. OVER THE LAST 20 YEARS OUR SOCIETY HAS BECOME MUCH MORE INVOLVED REGARDING EFFECTS THAT CORPORATIONS HAVE WITHIN THEIR COMMUNITIES, AND MORE DEMANDS THAT BEING A CORPORATE NEIGHBOR DOES NOT ONLY TRANSLATE INTO ECONOMIC BENEFITS, BUT ALSO SOCIAL AND ENVIRONMENTAL ONES THAT IN CONJUNCTION, ARE TO ASSIST IN OBTAINING A COMMON BENEFIT.
 - FOR MANY YEARS BUSINESS ETHICS AND LEGAL COMPLIANCE WERE HELD TO BE ONE AND THE SAME. AS LONG AS A BUSINESS DIDN'T BREAK A LAW, ITS ONLY REAL ETHICAL IMPERATIVE WAS DOING THE BEST FOR ITS SHAREHOLDERS. NOW, A COMPANY'S ETHICS ARE JUDGE ACCORDING TO ITS PERCEIVED PERFORMANCE ON A VAST RANGE OF ISSUES, WHICH INCLUDE BOARDROOM DIVERSITY, SUPPLY-CHAIN RESILIENCE, HUMAN-RIGHT ADVOCACY, CARBON-EMISSIONS REDUCTION, EMPLOYEE MORALE AND MOTIVATION, AND POLITICAL LOBBYING. THE ONSET OF COVID-19 – COMBINED WITH A SUMMER OF RACIAL-JUSTICE PROTEST— HAS ONLY ACCELERATED THIS BROADER VIEW OF ETHICAL RESPONSIBILITY.

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- An aerial photograph of a city, likely Rio de Janeiro, showing a mix of modern and older buildings, roads, and green spaces. A large, bright blue triangle is overlaid on the right side of the image, pointing upwards. The text is overlaid on the left side of the image.
- IN FEBRUARY 2021, THE ATTORNEY GENERAL OF MINAS GERAIS, JARBAS SOARES JR., SAID *“WE WILL NOT ACCEPT THE EXPLOITATION OF OUR RESOURCES WITHOUT A MINIMUM LEVEL OF COMMITMENT TO SOCIAL AND ENVIRONMENTAL RESPONSIBILITY.”*
 - AS PART OF A YEAR-LONG INVESTIGATION INTO THE BRAZILIAN MINER VALE COMPANY, THE WALL STREET JOURNAL FIRST REPORTED IN FEBRUARY 2019 THE CONFLICT OF INTEREST BETWEEN VALE AND TÜV SÜD, WHICH WORKED AS BOTH AN INTERNAL CONSULTANT AND AN INDEPENDENT SAFETY EVALUATOR FOR THE MINER.
 - A CHIEF COMPLIANCE OFFICER, ONCE RESPONSIBLE FOR SIMPLY MAKING SURE COMPANIES STAYED WITHIN LEGAL BOUNDS, IS NOW RESPONSIBLE FOR A BROADER RANGE OF PRIORITIES.

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- COMPANIES INCREASINGLY SEE A LINK BETWEEN FUTURE BUSINESS SUCCESS AND A COMMITMENT TO ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRINCIPLES (ESG'S). BUILDING AND UPHOLDING A STRONG CULTURE OF ETHICS IS PART OF THAT.
 - REGULATORY REQUIREMENTS ARE GROWING MORE COMPLEX AND INCONSISTENT ACROSS JURISDICTIONS, WHILE ETHICAL PERFORMANCE HAS BECOME A SEPARATE CRITICAL DIMENSION IN MANAGING RISK AND REPUTATION.
 - AN ASSESSMENT OF THE ESG RISK AND OPPORTUNITIES SHOULD START WITH AN INDUSTRY AND BUSINESS MODEL, THEN GATHER STAKEHOLDER AND EMPLOYEE PERSPECTIVES ON WHAT MATTERS MOST TO A COMPANY'S REPUTATION AND PERFORMANCE.

CORPORATE GOVERNANCE

PEMEX – MEXICHEM

A REGRETTABLE CASE

FEBRUARY 25, 2021

GONZALO VARGAS ATECA

PEMEX HAD NEGATIVE EXPERIENCES WITH JOINT VENTURES

PEMEX AND MEXICHEM NEGOTIATED DURING 3 YEARS A JOINT VENTURE THAT ENABLED GREATER COMPETITIVENESS OF THE DOMESTIC PETROCHEMICAL INDUSTRY IN THE GLOBAL MARKET THROUGH THE FORMATION OF A NEW COMPANY, WHICH WOULD INTEGRATE VALUE TO THE VINYL-CHLORIDE CHAIN. CLOSING OCCURRED IN SEPTEMBER 2013.

THE JOINT VENTURE INCLUDED A CASH INVESTMENT AND ASSETS CONTRIBUTION UP TO THE AMOUNT OF USD \$518 MILLION, OF WHICH PEMEX PARTICIPATED WITH USD \$228 MILLION IN ASSETS WHILE MEXICHEM CONTRIBUTED BOTH, USD \$90 MILLION IN ASSETS AND USD \$200 MILLION IN CASH IN ORDER TO MODERNIZE THE VERACRUZ PETROCHEMICAL COMPLEX.

An aerial photograph of a city, likely Mexico City, showing a complex network of roads and buildings. A large, bright blue arrow is superimposed on the left side of the image, pointing from the left edge towards the right. The text is overlaid on the right side of the image.

INTERNALLY, WITH PEMEX, A SEPARATE JV WAS FORMED WITH A SPANISH NON-REGULATED VEHICLE, TO ALLOW FOR FLEXIBILITY IN THE LIFE OF THE JV WITH MEXICHEM.

THIS PARTNERSHIP WOULD CAPITALIZE ON THE STRENGTHS OF BOTH COMPANIES AND AS A RESULT INCREASE THEIR COMPETITIVE ADVANTAGES, IMPROVE THEIR TECHNOLOGY AND INFRASTRUCTURE, WHICH ARE ELEMENTS THAT SHOULD ENCOURAGE GREATER PRODUCTIVITY, VIABILITY AND COMPETITIVENESS OF THE PETROCHEMICAL COMPLEX.

THE PETROCHEMICAL COMPLEX EXPECTED TO PRODUCE IN THE FIRST YEAR 24,000 ADDITIONAL TONS OF VINYL CHLORIDE MONOMER, 146,000 TONS IN THE SECOND YEAR, AND IN 217,000 TONS IN THE THIRD YEAR IN ORDER TO REACH A CAPACITY OF 400,000 TONS PER YEAR, WHICH IN TURN WILL GENERATE PROPORTIONATE INCREASES IN THE PRODUCTION OF ALL PRODUCTS RELATED TO THE VINYL-CHLORIDE CHAIN.

GOVERNANCE

IN ADDITION TO A LARGE AND WELL INTEGRATED BOARD OF DIRECTORS, THE FOLLOWING COMMITTEES WERE CREATED:

- AUDITING COMMITTEE.
- EVALUATION AND COMPENSATION COMMITTEE.
- MANAGEMENT AND PLANNING COMMITTEE.
- ENVIRONMENTAL AND OPERATING MATTERS.

THE STRUCTURING, VOTING AND PERFORMANCE OF COMMITTEES WAS REGULATED.

POOR SUPERVISION

IN EARLY 2016, THE VERACRUZ PETROCHEMICAL COMPLEX SUFFERED AN EXPLOSION.



WINDING UP

- AFTER 2 YEARS OF INQUIRES AND FINGER-POINTING TOWARDS PERSONS, IT WAS DECIDED TO TERMINATE THE JV, AND PEMEX EXERCISED ITS RIGHT TO RE-ACQUIRE THE PLANT ORIGINALLY CONTRIBUTED.
- NOTWITHSTANDING THE EFFORTS OF THE GROUP OF ATTORNEYS THAT STRUCTURED THE JV, DURING THE LIFE OF THE PROJECT NO SUFFICIENT OR PROPER REPORTING WAS MADE TO PREVENT THE INCIDENT.
- PEMEX AND MEXICHEM ARE STILL DEALING WITH THE ENVIRONMENTAL AUTHORITIES DUE TO THE INCIDENT.

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BEST PRACTICES

FEBRUARY 25, 2021

RUBÉN FLORES

Risk, Compliance & Emergency Response

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BACKGROUND



OCCURRENCE PREVENTION

- **RISK MANAGEMENT**
- **COMPLIANCE**
- **EMERGENCY RESPONSE PROGRAMS**

INTEGRAL PART OF ORGANIZATION CULTURE.

RISK EVALUATION



- FREQUENT
- PROBABLE
- OCCASIONAL
- REMOTE
- IMPROBABLE

FREQUENCY

5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

SEVERITY

- CATASTROPHIC
- CRITICAL
- MARGINAL
- MINIMAL
- MINOR

- **COVID-19.**
- **TEXAS FREEZE.**
- **2008 - SUB-PRIME CRISIS.**
- **2001 - 9/11.**

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PREVENTION

- **MITIGATION.**
- **CONTROL.**
- **AUDITING.**



EMERGENCY PREPARATION

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