

# CLIENT ALERTS

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## Labor and Employment Issues are Causing Major Disruption in Mexico's Supply Chains

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### What is going on?

For the past 30-years, Mexico has enjoyed a relative peaceful labor climate. That may change soon. As part of the new USMCA deal (Chapter 23) and international obligations assumed by Mexico in the ILO Convention 98 on rights to organize and bargain collectively, Mexico is now required to reform its labor laws before the USMCA may be passed in the U.S.

The two main objectives of the Mexican reforms are to 1) achieve labor union democratization, transparency, and liberty; and 2) shift dispute settlement process from local employment courts (*Juntas de Conciliación y Arbitraje*) to the judicial power. It is widely claimed that Mexican labor unions leaders do not legitimately represent the interest of their members, unions lack transparency in their governance, and are purposefully structured to advance unions' leadership interests over workers' rights.

The reforms are currently under discussion in Mexico's Congress and are expected to pass this month or the next. Moreover, if Mexico wants to increase the possibilities of USMCA passage in the U.S. Congress, the new labor law should also address enforcement concerns that have been voiced by labor organizations and Democratic Members of the US House of Representatives. While the labor reforms are long overdue, they will dramatically affect the form and cost of doing business in Mexico.

### Consequences of the reforms to Mexico's labor laws

The prospect of the new reforms and the new President's philosophy has bolstered labor unions and workers' confidence to demand improved labor conditions from their employers. Since January, more than 65 companies in the border town of

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Matamoros (near Brownsville, TX) have suffered workers' strikes. Railways have been blocked by protesting employees causing trains to stop delivering their cargo. Many experts believe that the strikes and employee unrest will continue to spread further across industries and to other cities. Especially because the majority of collective bargaining agreements in Mexico are renegotiated during the first five months of the year. **Thus, it is likely we will see in the upcoming months more companies with disrupted operations as a result of the employment conflicts.** As an inevitable result, some companies have been unable to meet their contractual obligations to their U.S. clients and suppliers. Conservative estimates point to millions of dollars lost every week.

### **What may be done?**

Multinationals that once operated seamlessly with their employees are now forced to carefully monitor the progress of the new labor law in Mexico's Congress and the emergence of union activism within their organizations. It is now imperative that senior management is appraised of the consequences that a workers' strike may have in their contractual obligations.

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