

Changes in Manufacturing Guidelines in Mexico: How Will Your Company's Operations be Affected?

3/9/2021

Manufacturing and supply chain are critical industries that have endured many challenges in the U.S. causing many companies to move their operations to foreign soil, including Mexico. However, companies that maintain operations or supply chains in Mexico are facing new challenges as Mexico accelerates implementation of its new labor law through the United States-Mexico-Canada Agreement (USMCA). Manufacturers are the principal focus of this new law.

In May 1999, Mexico enacted significant labor law reforms that overhauled the country's labor laws to allow for and encourage labor unions similar to U.S. labor unions. These reforms are intended to lessen an employer's reliance on "protection contracts," which are agreements between an employer and employer-sponsored union that provides favorable terms to the employer with limited or no benefits to workers.

Under the USMCA, the United States has the authority to enforce Mexico's labor law reforms through:

- A mandatory dispute resolution procedure established between the two countries to address nationwide compliance; and
- A unique arbitration mechanism that authorizes the United States to take action against a particular facility in Mexico for denying workers the right of free association or collective bargaining required under the USMCA.

Mexico contemplates a four-year schedule to fully enact its labor law reforms. The Trump Administration had sought faster reforms that affected manufacturers that rely on Mexico. It is not yet clear how the Biden Administration will react.

Manufacturers must keep a close eye on these sweeping changes that are expected to be enacted within the next four years and review their operations (and supply chains) in Mexico carefully and thoroughly to ensure they comply with the new labor laws enacted in Mexico. Failure to understand these new laws and how they impact a company's manufacturing operations may adversely affect the ability to manufacture in Mexico and contain the cost of goods manufactured and shipped from that nation.