MEXICO
JOB PRESERVATION PROGRAMME

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Enterprises in sectors focusing heavily on foreign trade and/or producing goods whose purchase can be deferred over time are most vulnerable in a crisis situation. This has been the case in such industries as automotive and automotive spares, electronics, electrical appliances and capital goods, where the slow-down in production caused industrial activity in Mexico to drop by -11.6% in May. With a significant loss in sales value, such enterprises need to reduce costs and increase liquidity. In this context, designing policies to preserve jobs and human capital at these enterprises is a priority, designed to avoid loss of workers' income, and also loss of personnel with a high level of knowledge and specific skills that are important to these companies. To this end, the Federal Government designed the Job Preservation Programme, which aims to protect employment by strengthening practices to reduce enterprise costs, including shorter working hours instead of lay-offs and partially compensating losses in worker income by means of a subsidy.

1. Introduction

The Federal Government set up the Job Preservation Programme in January 2008, aiming to reduce enterprise costs including shorter working hours, better known as "Technical Stoppage".[2] The object of the Programme is to support with a transfer the enterprises most affected by the slowing down of world economy, and to agree with workers on temporary modifications of working conditions in lieu of resorting to lay-offs, thereby preserving workers' jobs.

The Job Preservation Programme works under the Operating Rules of the Programme for Development of High-Tech Industries (*PRODIAT – Reglas de Operación del Programa para el Desarrollo de las Industrias de Alta Tecnología*), focusing on enterprises where production has been reduced for temporary reasons putting jobs at risk. It is in the purview of the Department of Economy.

The Programme is addressed to the automotive industry, spares, electronics, electrical appliances, and capital goods, both exporters and non-exporters, and suppliers thereof. The sectors supported[3] are currently undergoing cyclical and temporary slow-down in production. In Mexico industrial activity[4] dropped by -11.6% last May in real terms by comparison with the same month in 2008, as a result of reductions in three of the four sectors it comprises. The manufacturing industry sector contracted by 16.3% in May 2009; as a result, personnel employed

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2 Mexican labour legislation does not define the "Technical Stoppage" concept; however, it is understood as "temporary suspension of labour relations" or "reduction of general working conditions, mainly working day and wages, thereby convening the interests of employers and workers to avoid conflict and preserve jobs".

3 Its production was most dynamic in recent years: in 2003-2007, production increased by 6.9%, in contrast to 3.8% expansion of the manufacturing industry in the same period.

4 Mining; Electricity, Water and Gas supply via piping to final consumers; Construction and Manufacturing Industry.

in the processing industry fell by -8.9% in May 2009 against May 2008 (mainly in manufacture of transport equipment (-22.3%) and equipment and machinery (14.4%)).

For this Programme, the Department of the Economy (SE) allocated 2 billion Pesos (approximately 150 million US dollars at the exchange rate for September) to protect sources of employment for up to 500,000 workers.

2. Programme description

The Programme[5] is addressed to sectors that, by focusing heavily on foreign trade and producing goods whose purchase can be deferred over time are the most vulnerable to adverse economic conditions. Such sectors include the automotive, electric, and electronics industries, among others. The Government will encourage agreement among workers and employers to reduce working hours, and grant compensation to workers for loss of income in proportion to the number of days not worked.

The Programme design contemplates co-responsible involvement of employers, workers, and the Federal Government, so as to maintain the sources of jobs: (a) enterprises reduce costs by temporarily paying a lower wage in exchange for agreeing to restrict lay-offs; (b) workers temporarily receive lower wages in exchange for keeping their job; and (c) the Federal Government provides support to the enterprise depending on number of workers, reduction in sales, and the percentage of retention.

Aim

Support enterprises most seriously affected by the slow-down of world economy, preserving workers' jobs and human capital, strengthening the use of cost-reducing practices through temporary modification of working conditions instead of lay-offs.

Beneficiary population

Enterprises fulfilling the following conditions are eligible to receive support:

- Registered with the Mexican Social Security Institute (*IMSS - Instituto Mexicano del Seguro Social*) under one of the following three branches of economic activity: (a) manufacturing, assembly, and repair of machinery, equipment, and parts, except electrical equipment; (b) manufacturing and assembly of machinery, equipment, electric, and electronic items; construction, reconstruction, and assembly of transport equipment and spares.
- First-level suppliers to the above sectors: (a) Enterprises currently registered with Sectoral Promotion Programme XII (*PROSEC – Programa de Promoción Sectorial*) for the rubber and plastics industry with IMSS employer registration, and with at least 90% of production including input for the electric, electronics, capital goods, automotive and spares industries (PROSEC article 5); b) Companies registered with PROSEC in the electrical industry (I), electronics (II), capital goods (VII), rubber and plastics (XII); automotive and spares (XIX); and with at least 90% of their production including goods added to vehicles and listed among the tariff fractions set forth in Annex 403.1 of the Free Trade Area of the Americas (FTAA): includes tyres, seats, and safety glass, among others.

Eligibility criteria

To apply for enrolment in the Programme, concerned enterprises shall

- be legally organized and have met all federal tax payments
- have employer and employee registration with the Mexican Social Security Institute (*IMSS - Instituto Mexicano del Seguro Social*), and have no firm credit agreement in effect therewith
- have reached agreement with workers on temporary modification of working conditions, under applicable law

5 The Programme introduced a number of amendments to the rules of operation. To date they have changed on three occasions, the latest being the amendment dated May 28th 2009.

- have been in production for at least 12 months prior to the date of submission of the application, and not be receiving support from other federal programmes for the same reason.

Selection criteria

To receive support, the enterprise shall meet the above eligibility requirements and the following conditions for job preservation: (a) engage to restrict lay-offs until September in proportion to one-third of the drop in sales (e.g. 30% drop in sales means up to 10% lay-off; b) have no firm fiscal credits in effect with the Tax Administration Service (*SAT – Servicio de Administración Tributaria)* and the IMSS.

Support features

Through the Programme, in effect from February to September, the Government allocated two thousand million Pesos to support enterprises whose production is reduced under contingency circumstances, thus making it possible to protect nearly half a million jobs.

The amount of support provided per application and per audited two-month period, is $ 110 Pesos a day per worker (approximately US$ 8.23 at the rate of exchange in effect in early September) and is determined considering the following factors:

- Number of permanent workers registered by the enterprise with the IMSS, multiplied by a factor of 0.75, and the number of workers registered by the enterprise with the IMSS and paying-in from 1 to 10 minimum wages in the geographical area concerned

- Months affected when temporary modifications were made to working conditions

- Variations in enterprise employment and sales.

The support ceiling per enterprise is equal to $ 5,100 per worker (approximately US$ 382 at the rate of exchange in effect in early September). An enterprise may receive support more than once, provided such ceiling is not exceeded.

3. Institutional framework

PRODIAT will be in the purview of the Department of Economy, through the Office of the Under Secretary for Industry and Trade or the Department of High-Tech and Heavy Industries (*Dirección General de Industrias Pesadas y de Alta Tecnología – DGIPAT*), which provides support to beneficiaries, per project, to face temporary contingencies affecting the preservation of human capital formed by enterprises working with the target population.

Local Offices and Local Field Offices of the Department are responsible for receiving, processing, and following-up on applications for support involving “Projects for the preservation of employment, namely B-Level Projects, and other documents required under the Rules for Programme Operation”.

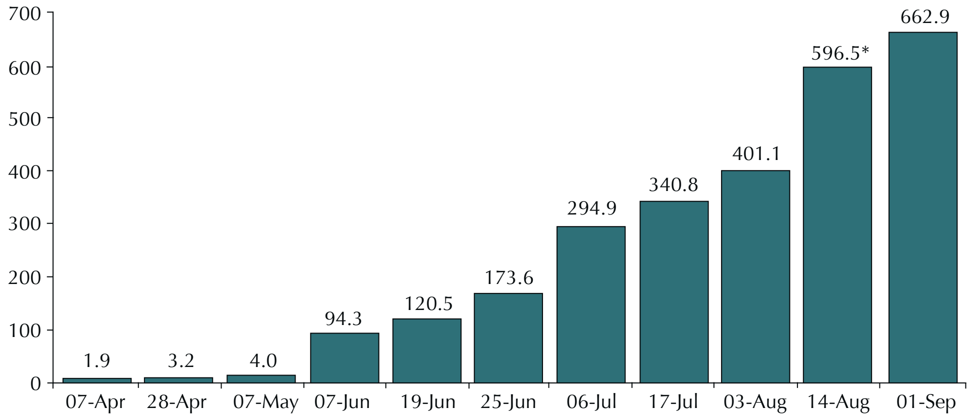
There is, in addition, a Steering Council responsible for the administration of federal resources allocated to PRODIAT Projects under applicable regulations. The Steering Council assesses and decides on the applications for support received, in accordance with eligibility requirements and selection criteria, and advises Local Offices and Local Field Offices of the Department, through DGIPAT, of the amounts of subsidy granted per application for support under the Rules for Operation.

4. Outcomes

The Job Preservation Programme (Technical Stoppages) was amended three times on account of excessive requirements, red tape, and slow delivery of support to enterprises. The latest amendment, dated May 28th, did away with payroll reductions as a factor for subsidy calculation, replacing it by reduction in sales. Requirements and information to be supplied by the enterprise in applying for Programme support were also discontinued, and additional support was included for health care among the target population.

As of September 1, 2009 the PRODIAT Steering Council, through B-Level Projects (Technical Stoppages) had allocated 662.9 million Pesos and approved support for 224 enterprises, thus contributing to preserve 196,008 direct jobs (see Graph 1).

Graph 1
Amounts approved by the PRODIAT Steering Council
(in millions of Pesos)



Source: Department of Economy: http://www.economia.gob.mx/pics/p/p2/preservaciondelempleo0209.pdf
Note: */ Not including amounts waived by a beneficiary and approved prior to the meeting held on June 19, 2009. Waivers were approved by the Steering Council during the meeting on August 14, 2009

Among the enterprises supported by the Programme, those in the automotive and spares industry were granted. Of these, six automotive enterprises with local production and having declared Technical Stoppages owing to current economic conditions, have received close to 33% of the resources approved by the Programme; that is, 217 million Pesos.[6]

5. Conclusions

The Federal Government set up the Job Preservation Programme aiming to protect jobs by strengthening practices to reduce the costs faced by enterprises through reductions in working hours instead of lay-offs.

In view of budget limitations to guarantee jobs at enterprises reducing full utilization of installed capacity, the funds were allocated to strengthen the liquidity of export and non-export enterprises operating in automotive and spares, electric, electronic, machinery and non-electrical equipment sectors. Benefits did not extend to sectors operating in parallel to such industries.

Since its creation, the Programme underwent a number of amendments because of complaints by workers and employers about the number of requirements, paperwork, and the lengthy procedure for registration and approval involved in becoming Programme beneficiaries. Changes introduced into the Technical Stoppage Programme expedited procedures, reduced requirements, and promoted speedy delivery of funds to enterprises. Increased flexibility failed to allow full utilization of the amount allocated to the Programme during the period in effect. However, although the application window closes on the last business day in September, the funds may be utilized until December.

References

Diario Oficial de la Federación; Secretaría de Economía, Reglas de Operación del Programa para el Desarrollo de las Industrias de Alta Tecnología (PRODIAT), 28 July 2009.

Instituto Nacional de Estadística y Geografía (INEGI), *Comunicado*s N°s 193/09 and 202/09, 28 July 2009.

6 General Motors received 61 million Pesos; Nissan Mexicana received 55.6 million Pesos; Volkswagen de México received 50 million Pesos; Chrysler de México received 39.5 million Pesos; Ford de México have been approved in the amount of 7.7 million Pesos. Honda de México received about 4 million Pesos.