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FEDERAL LABOR LAW REFORM BILL: SUBCONTRACTING

As we have previously informed, on November 12, 2020, the president of the United Mexican States ("Mexico") presented before Congress a reform bill to the Federal Labor Law with the intention of prohibiting personnel subcontracting operations and, instead, allow only specialized services or specialized works operations with strict limitations, including the incorporation of additional requirements and obligations.

With regards to the proposal, during the past days the Federal Government of Mexico and the private sector have met in order to reach an agreement regarding the content of the reform, seeking for the prevention and punishment of abusive labor practices to be achieved without ambiguity or overregulation on the matter.

As a result of the recommendations and negotiations driven by the private sector and presented before labor authorities and the Federal Government, this past December 9, 2020 the "Tripartite Agreement between the Business Sector, Working Sector and Government of Mexico regarding Subcontracting" was formalized, manifesting the intention of the parties to:

1. Immediately initiate the process of workforce regularization within the framework of the reform bill;
2. Establish a fair and equitable profit-sharing system avoiding discretionary payments; and
3. Adopt the required measures to reduce bad practices regarding labor subcontracting.

Based on the above, and as consequence of the request made by the private sector to the Government of Mexico, the analysis and parliamentary debate of the reform bill will take place on February 2021, highlighting the referred topic as preferent for it to be discussed and, it its case, approved within a 30-day term.

Therefore, it is important to consider that, even though to this moment the exact content of the reform is unknown, its implementation the next year is expected to have a considerable impact on the corporate and operational structure of companies in Mexico -particularly regarding "insourcing", or personnel subcontracting within the same corporate group- given that, non-officially, the intention to eliminate such scheme was manifested.

We are currently developing several strategies so that, based on their current structures and in the best way possible, our clients may face this reform, which is to be passed into law and published on 2021. We remain at your disposal for any question or clarification regarding this matter.

December 18, 2020