

SECTORAL ACTIVITIES PROGRAMME

Working Paper

Industrial relations in the oil industry in Mexico

Carlos Reynoso Castillo

Working papers are preliminary documents circulated
to stimulate discussion and obtain comments

International Labour Office
Geneva
2005

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ISBN: 92-2-118853-1 & 978-92-2-118853-7 (print)

ISBN: 92-2-118854-X & 978-92-2-118854-4 (web pdf)

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Printed by the International Labour Office, Geneva, Switzerland

Preface

Oil and gas are essential components of modern, industrialized civilization, and as societies and economies grow, so does their oil and gas industry. The oil and gas industry has revolutionized human lives, improving our standard of living. Its products constitute building blocks at every level of production and consumption in key sectors of economic life. A stable supply of oil and gas is therefore needed to sustain continued development of our economies. The oil and gas industry is a highly capitalized industry. Much of the manual work has been replaced by automation, but significant parts of the operation still rely on human input. Sound employer-employee relations are therefore crucial to the stable production and supply of oil and gas.

In 2005, the Sectoral Activities Programme of the ILO commissioned four national studies on the subject of industrial relations in the oil industry. The aim of this paper, the fourth in the series, is to explore some practices in industrial relations and social dialogue in the oil sector in Mexico. The paper was prepared by Prof. Carlos Reynoso Castillo, jurist and professor of law in Mexico. He has made an important contribution to the improvement of industrial relations in the oil and gas industry in Mexico. The ILO hopes that this study will provide an opportunity to consider how industrial relations can be improved in the interests of both decent work and greater prosperity of the industry.

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List of abbreviations and acronyms

b/d	barrels per day
cf/d	cubic feet per day
CONASAMI	Comisión Nacional de Salarios Mínimos (National Minimum Wage Commission)
CPI	Consumer Price Index
CTM	Confederación de Trabajadores de México (Confederation of Mexican Workers)
FAT	Frente Auténtico de Trabajadores (Authentic Workers' Front)
FESEBS	Federación de Sindicatos de Bienes y Servicios (Federation of Unions of Goods and Services)
ILO	International Labour Office / Organization
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas
MSC	Multiple Service Contract
PAN	Partido Acción Nacional (National Action Party)
PEMEX	Petróleos Mexicanos
PEP	PEMEX Exploración y Producción
PGPB	PEMEX Gas y Petroquímica Básica
PPQ	PEMEX Petroquímica
PR	PEMEX Refinación
ROTW	Rest of the world
STPRM	Sindicato de Trabajadores Petroleros de la República Mexicana (Union of Oil Workers of the Mexican Republic)

1. Overview of the oil industry in Mexico

This paper gives an overview of industrial relations in the oil sector in Mexico. After examining the industry's present situation, the paper discusses numerous issues concerning recent energy policy reform, labour conditions, occupational safety and health, employer-employee relations, freedom of association, and the right to strike.

1.1. Overview of Petróleos Mexicanos (PEMEX)

Following the 1929 Great Depression in the United States and the subsequent worldwide financial crisis, the Government of Mexico decided to take direct responsibility for the provision of many basic services, including the energy sector. In 1934, the Government began with the implementation of a six-year plan that emphasized the role of agricultural development and the provision of basic services. A number of state-owned enterprises were set up, Petróleos Mexicanos (PEMEX) among them. Created on 6 June 1938, PEMEX remains in state hands to this day. Under the Mexican Constitution, it enjoys a monopoly on the exploration, production and distribution of hydrocarbons, oil refining and petrochemical products.

The functions of PEMEX's subsidiaries are as follows:

- PEMEX Exploración y Producción (PEP) – Exploitation and utilization of crude oil and natural gas reserves located mainly in the north-east and south-east of the country as well as offshore, in the Gulf of Mexico.
- PEMEX Refinación (PR) – Transforming crude oil into common use fuels, such as gasoline, jet oil, diesel, and fuel oil, thus making up the energetic basis of the country.
- PEMEX Gas y Petroquímica Básica (PGPB) – Processing, producing, transporting and marketing natural gas, basic petrochemicals and liquid gas throughout the national territory.
- PEMEX Petroquímica (PPQ) – Producing and marketing raw materials from methane and ethane derivatives, for the purpose of supplying Mexico's chemical and petrochemical industries.

The Board of Directors of PEMEX consists of 11 directors, including the Chairman of the Board, who has the casting vote. The post has traditionally been occupied by the Energy Minister. In the past, six of the 11 directors used to be top government officials, while the remaining five come from the oil workers' union, Sindicato de Trabajadores Petroleros de la República Mexicana (STPRM). However, the Government of President Vicente Fox adopted a new strategy in a bid to make the Board more competitive and efficient: in February 2001, breaking with the tradition of union participation on the Board, it announced that the Finance Minister would sit on the Board and that the other four seats previously occupied by union representatives would go to top business figures.

Each PEMEX subsidiary has an eight-member Board of Directors, chaired by the Director General of PEMEX, and one commissioner appointed by the Government.

1.2. Economic and social contribution of the oil industry in Mexico

PEMEX is a world-scale oil company. In 2005 it ranked fifty-first on the Fortune Global 500 list, six places higher than the previous year. In the crude oil production and mining industry, in 2004 it had the highest revenue, US\$64,000 million, or nearly twice the revenue volume of second-ranked Anglo American.

According to the BP *Statistical Review of World Energy 2005*, at the end of 2004 Mexico had 14,800 million barrels of proved oil reserves (or 1.2 per cent of global proved oil reserves), placing it fifteenth in the world. Its 2004 oil production of 3.8 million barrels a day accounted for 4.9 per cent of world production. At the end of 2004, Mexico had 0.42 trillion cubic metres of proved reserves of natural gas, or only 0.2 per cent of total proved reserves of natural gas worldwide. The country has drastically reduced its proved reserves of natural gas from the 1984 peak of 2.17 trillion cubic metres down to 0.42 trillion cubic metres in 2004. In 2004, Mexico produced 37.1 billion cubic metres of natural gas (1.4 per cent of world production), an increase of only 1.2 billion cubic metres in a decade. Similarly, oil refining throughputs have fallen from 1.490 million b/d in 1990 to 1.438 million b/d in 2004 (see table 1 for more details).

Table 1. Reserves and production of crude oil/natural gas and oil refining in Mexico, 1990-2004

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Crude oil proved reserves (thousand million barrels)	51.3	50.9	51.2	50.8	49.8	48.8	48.5	47.8	28.4	28.3	26.9	25.4	17.2	16.0	14.8
Crude oil production (thousand barrels/day)	2,977	3,126	3,120	3,132	3,142	3,065	3,277	3,410	3,499	3,343	3,450	3,560	3,585	3,789	3,824
Oil refining capacity (thousand barrels/day)	1,595	1,448	1,448	1,444	1,444	1,444	1,444	1,449	1,449	1,449	1,481	1,481	1,463	1,463	1,463
Oil refining throughputs (thousand barrels/day)	1,490	1,511	1,497	1,540	1,459	1,488	1,491	1,438	1,451	1,389	1,364	1,398	1,387	1,436	1,438
Natural gas proved reserves (trillion cubic metres)	2.03	2.01	1.98	1.97	1.94	1.92	1.81	1.80	0.85	0.86	0.84	0.80	0.42	0.42	0.42
Natural gas production (billion cubic metres)	26.7	26.5	26.2	25.4	25.9	26.6	28.0	31.7	34.3	37.2	35.8	35.3	35.3	36.4	37.1

Source: BP *Statistical Review of World Energy*, June 2005.

Mexico's industry relies on the United States economy since the United States is the main export destination of Mexican crude oil. This state of affairs has remained unchanged although the volume of crude oil exports to Europe has been constantly increasing in recent years (see tables 2 and 3).

Table 2. Volume of crude oil exports, Mexico, 2000-05 (in thousands b/d)

	Total	Istmo	Maya	Olmeca	Region		
					United States	Europe	Far East and ROTW
2000	1,604	110	1,096	398	1,379	185	40
2001	1,756	87	1,351	317	1,528	184	44
2002	1,705	46	1,414	245	1,478	181	47
2003	1,844	25	1,603	216	1,604	176	64
2004	1,870	27	1,622	221	1,656	178	36
2005	1,817	81	1,520	216	1,589	194	34

Note: Excludes the temporal export of crude oil under processing agreements by 103.3, 62.1, 130.0, 112.1, 97.1 and 80.4 Mbd.

Source: PEMEX.

Table 3. Value of crude oil exports, Mexico, 2000-05 (in million US\$)

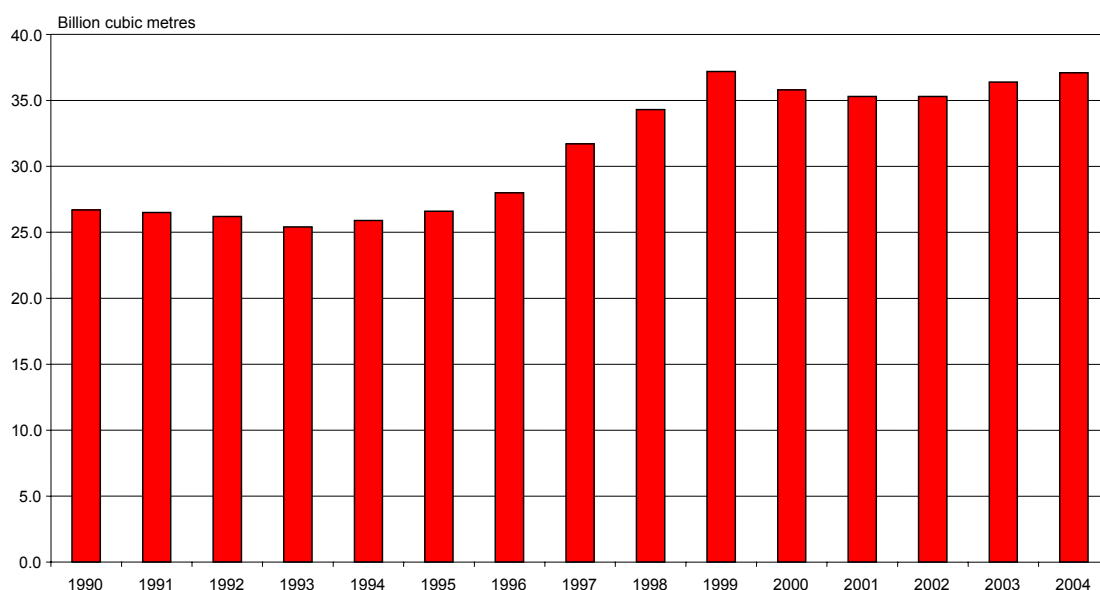
	Total	Istmo	Maya	Olmeca	Region		
					United States	Europe	Far East and ROTW
2000	14,553	1,120	9,213	4,220	12,657	1,537	359
2001	11,928	706	8,446	2,776	10,384	1,235	309
2002	13,392	392	10,777	2,223	11,626	1,400	365
2003	16,676	255	14,113	2,308	14,622	1,495	560
2004	21,233	381	17,665	3,188	19,003	1,862	369
2005	28,286	1,570	22,470	4,246	24,856	2,945	485

Source: PEMEX.

1.3. Natural gas

In 1999, which was the peak production year of the past 20 years, Mexico produced 37.2 billion cubic metres of natural gas. Despite growing domestic consumption, the production has not increased significantly since then (see figure 1). As a result, Mexico is becoming increasingly dependent on imports. In 2001, PEMEX imported on average 292.2 million cf/d of gas, and over the first five months of 2002 the figure rose to 450.4 million cf/d.

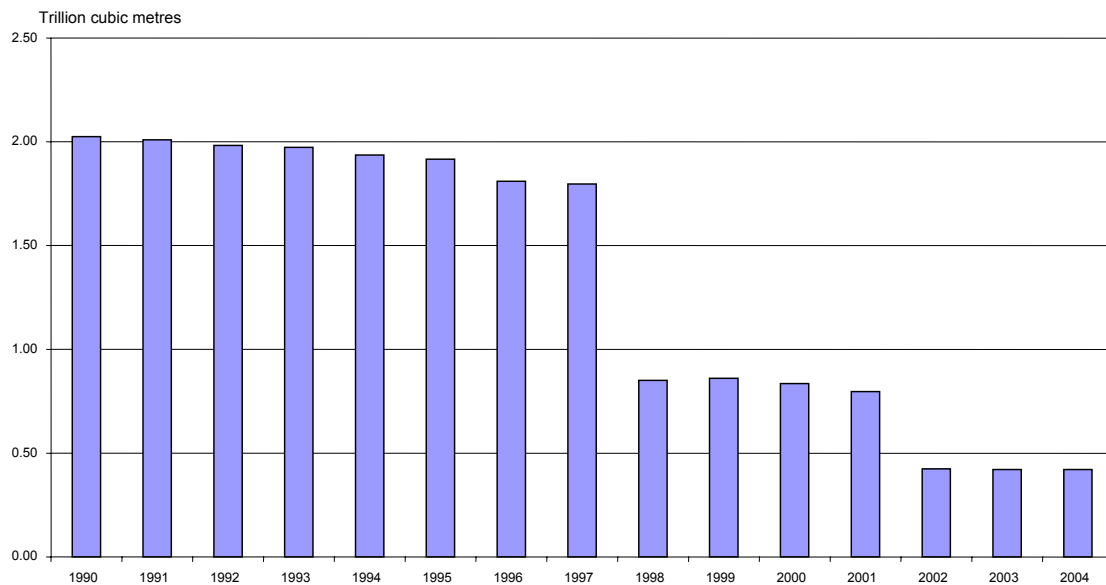
Figure 1. Evolution of natural gas production in Mexico, 1990-2004 (billion cubic metres)



Source: BP Statistical Review of World Energy, June 2005.

To make up for the deficit in domestic production, PEMEX currently imports from the United States about 30 per cent of natural gas consumed domestically. The deficit is the result of rising local demand and falling output, as the company has not made sufficient investments to develop natural gas. As shown in figure 2, proved reserves of natural gas have drastically declined in recent years, in particular because the company's endeavours to find new wells have been hampered by the lack of financial resources.

Figure 2. Evolution of natural gas proved reserves in Mexico, 1990-2004 (trillion cubic metres)



Source: BP *Statistical Review of World Energy*, June 2005.

However, PEMEX affirms that investment totalling some US\$38 billion since 2001 has boosted the company's exploration and production capacities and that it should allow it to cover both domestic and export needs. In January 2006, PEMEX announced that by the first quarter of 2007 it would be able to export natural gas for the first time since 2002.

Private ownership of natural gas transport and distribution, which has been possible since 1995, has attracted some private sector interest. However, Mexican Constitution prevents PEMEX from working with private energy companies to engage in the exploration and production of crude oil in the country. PEMEX's inability to forge alliances with private oil companies makes it difficult to tap deep-water oil reserves in the Gulf of Mexico which the company believes could account for more than three-quarters of production.

The abovementioned constitutional prohibition prompted PEMEX to present in 20 June 2002 a Multiple Service Contracts (MSCs) programme for the exploitation of natural gas. Under the scheme, private companies could tender the right to exercise a bundle of gas-related activities including exploration, production, construction of necessary infrastructure and final distribution of gas to PEMEX.

PEMEX has earmarked about US\$1.8 billion for the development in 2007 of gas fields in the northern states of Tamaulipas, Coahuila and Nuevo Leon. In 2003, the company contracted some private firms under MSCs to exploit non-associated natural gas. Politicians opposed to such private sector openings argued that MSCs were unconstitutional, but the country's Supreme Court lifted the ban on private companies interested in helping PEMEX develop the northern field. It is anticipated that once MSCs are accepted more foreign private firms will participate in the exploration and development of natural gas in Mexico.

1.4. Structural problems at PEMEX

PEMEX's undercapitalization is due to complex legal and political reasons. Some of these causes are discussed in the following sections.

1.4.1. Punitive tax structure

Oil is an important item in the government budget. In 2004, budgetary revenues totalled 1,774,200 million Mexican pesos (hereinafter: pesos), or 23.24 per cent of Mexico's GDP. The amount was 166,200 million pesos more than the federal budget: this is because of higher oil revenues, which equalled 1.79 per cent of GDP and 82.2 per cent of excess revenues, an increase in non-oil taxes, and higher revenue from public enterprises and institutions other than PEMEX. An increase in revenues from PEMEX reflects the price of Mexican crude oil export mix, which was US\$6.1 per barrel higher than in 2003. Government tax revenues from PEMEX are on the increase since the price of crude oil has been going up (see table 4). Furthermore, the share of the oil component in budgetary revenue was 36.1 per cent during 2004, its highest level since 1987.

Table 4. Average realized price of crude oil exports, 2000-05 (US\$/barrel)

	Total	Istmo	Maya	Olmeca	Region		
					United States	Europe	Far East and ROTW
2000	24.79	27.87	22.99	29.00	25.08	22.65	24.78
2001	18.61	22.27	17.19	23.96	18.62	18.40	19.30
2002	21.52	23.48	20.89	24.87	21.56	21.20	21.46
2003	24.78	28.08	24.13	29.32	24.98	23.30	23.81
2004	31.02	38.04	29.78	39.34	31.36	28.51	27.76
2005	42.65	53.11	40.53	53.91	42.85	41.61	38.89

Source: PEMEX.

Higher government revenue means less profit for PEMEX. This is because the company faces a punitive tax structure. First, PEMEX is liable for a hydrocarbon duty equivalent to 60.8 per cent of total sales. Second, it must pay a duty for exploration, gas, refining and petrochemicals infrastructure. Until 2003 this tax was known as "excess gains duty". It corresponds to 39.2 per cent of revenue from crude oil export sales in excess of a threshold crude oil price set by Congress in the annual budget. This is added to the hydrocarbon duty, and means that any positive difference between the budgeted and export price goes directly to the Government. The 2004 Income Law states that revenue obtained from this second duty will be allocated to PEMEX for investment in infrastructure for exploration and refining. However, the mechanics of reimbursement are still being defined and PEMEX does not include these revenues in its accounts.

1.4.2. External debt

PEMEX is one of the most indebted oil companies in the world. At the end of 2005, its external debt stood at US\$35.2 billion, compared with US\$29.5 billion in 2004. It is assumed that PEMEX would enjoy government support should it face debt-serving problems. The company's foreign debt ratings are high because debt is thought to have an implicit guarantee from the Government.

1.4.3. Technology gap

Lack of resources for investment in research and development has led to technological backwardness at PEMEX. One of the most serious problems is that the company lacks technology for deep-water drilling, especially since the country's largest oil deposits lie under the Gulf of Mexico. In 2004, PEMEX stated that there could be up to

54 billion barrels of deep-water reserves there. As mentioned above, one solution would be to form partnerships with other oil companies, but Mexico's legislation prohibits companies – whether domestic or foreign – from investing in the oil industry. In early 2006, PEMEX announced that it was drilling a deep-water exploratory well in the Gulf of Mexico. The company aims to use these reserves to make up for declining reserves in its largest field, Cantarell. However, it was unable to secure the investment and technological expertise necessary to exploit deep-water reserves without entering into partnerships with foreign oil companies.

1.5. Energy policy

As many changes have taken place in world economy, the Government of Mexico has become convinced of the need to change PEMEX's business model in order to make the company more competitive in the globalized economy. In the past two decades there have been several failed attempts to privatize some PEMEX operations. There were also some congressional proposals to modify the company's legal framework, but these attempts were rejected by the legislature.

The New Organic Law of *Petróleos Mexicanos* was published in 1992.¹ The law contains the plans for restructuring PEMEX so as to allow it to better meet the growing demand for oil. The plans aimed to introduce commercialization systems, bring in state-of-the-art technology to improve the productivity of existing facilities, increase investment and the number of oil rigs, develop new products to meet international ecological quality standards, improve petrochemical production, and promote cooperation with workers and trade unions.

In the 1995-2000 Development Plan, the Government did not envisage making any significant changes in the oil sector. However, the Ministerial Agreement of 7 April 1995 created a "Rationalization Inter-Secretarial Commission" to coordinate and supervise the activities of the Federal Public Administration in alienating public enterprises. The 1995 order was meant to integrate different public corporations into one consolidated entity. Although not specifically created with PEMEX in mind, it did affect the company.

The 2001-06 National Energy Plan calls for US\$120 billion in energy sector investment. It recognized the need for, inter alia:

- investment of US\$48 billion in oil and gas upstream activities;
- US\$20 billion for natural gas; and
- US\$18 billion for refineries.

The key points of Mexico's energy policy lie in expanding the natural gas market and reducing the country's reliance on fuel oil in order to address legal uncertainties and facilitate private investment. The primary objectives of the reform plan are:

- a clear demarcation of state and private participation in the energy sector;
- measures to boost efficiency and competitiveness; and
- greater private sector participation in hydrocarbons.

¹ *Official Gazette* of the Federation, 16 July 1992.

Therefore, President Fox has introduced legislation intended to:

- extend the use of multiple service contracts (MSCs), which allow non-Mexican companies to bid on projects to develop gas fields;
- open PEMEX petrol stations to other brands;
- invite non-Mexican companies to invest in retail distribution of liquefied petroleum gas (LPG); and
- improve the transparency of regulations for investing in LPG projects.

Expanded electricity generation put more pressure on PEMEX to increase the production of natural gas. The Government threw its weight behind MSCs, 20-year contracts designed to bundle together 30-40 services that used to be contracted separately in the past. The first proposed location for an MSC was the Burgos Basin. The structure, which stretches across the states of Tamaulipas, Nuevo León and Coahuila, south of Texas, produced around a fifth of PEMEX's gas output in 2001.

In December 2005, Mexico invited Central American leaders to discuss an energy project as part of a broader scheme aimed at boosting regional cooperation in areas such as transport, energy and telecommunications. This regional energy plan is part of an initiative known as Plan Puebla-Panama, signed in 2001 by Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama. The project envisages the realization of four main projects: an oil refinery, a liquefied natural gas (LNG) terminal, a gas pipeline and an electricity grid. According to the *Petroleum Economist*, the rationale behind Mexico's regional energy scheme is to help its poorer neighbours cope with high oil prices. The 250,000-b/d oil refinery is to be built in a country other than Mexico. The LNG project involves building a pipeline from new LNG import terminals on the Pacific coast down through Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama, over a distance of some 2,700 km. The pipeline would cost around US\$2 billion and take 12 years to build. These regional projects, in particular building the oil refinery outside Mexico would allow PEMEX to form commercial partnerships with foreign investors, because the prohibition on its work with foreign energy companies does not apply outside Mexico. Once the regional energy plan is completed, the company would be able to export some of the refined crude back home and process its crude oil more efficiently, and might eventually build a network of PEMEX fuel stations outside Mexico.

1.6. Privatization of PEMEX petrochemicals

As discussed above, the Government attempted to privatize PEMEX on various occasions, but none of the plans has materialized. The privatization of PEMEX's petrochemical industry has been one of the central matters in the modernization of the company. The first decision to privatize it was taken by President Carlos Salinas, but the move encountered strong political opposition. In October 1995, during the President Ernesto Zedillo, PEMEX's administrative council allowed preparations to proceed to divest PEMEX Petroquímica (PPQ) assets in the secondary and tertiary petrochemicals sectors. In November 1995, a call for tenders was published in the *Official Gazette* for the sale of the Consolidaque complex in Veracruz. A wave of criticism ensued, particularly regarding the juridical aspects of the sale. This led to a review of the legal framework, and subsequently the initial bids were cancelled.

Another attempt to privatize the Petroquímica Morelos complex, in 1998, was also not materialized because of political opposition. Petroquímica Morelos is in the state of Veracruz and produces mainly for the plastics and synthetic fibre industries. The complex

was established in 1997. It had over 3,000 employees, 2,700 of whom were unionized. In 1997, Morelos had an operating profit of about 132 million pesos on revenues of 670 million pesos. While private investment is allowed without any restrictions in new petrochemical plants, the Constitution restricts it to 49 per cent in publicly owned companies. Despite repeated attempts, the Government was unable to devise a scheme attractive to private investors.

Instead of privatizing PEMEX's petrochemical activities, the Government took an alternative approach to expand petrochemical production capacity. In 2005, it announced a project called "Fenix" which comprised a new complex that would produce 1 million metric tonnes per year of ethylene, and envisaged building additional polyethylene plants to absorb excess ethylene. In all, PEMEX estimated that Fenix would require US\$2 billion in investment. In September 2005, the Government announced that the project would be scaled back and that only US\$850 million would be required as investment. The revised project is expected to include several elements. First, it will enlarge existing plants: two complexes in the state of Veracruz will be expanded to increase the ethylene production of each from 600,000 to 875,000 metric tonnes per year. Second, the project envisages building a new small plant in Tamaulipas state for the production of aromatics. Production is to begin in mid-2006.

1.7. Towards building the new business model

In its "2001-06 Sectoral Programme", the Mexican Government has outlined the strategies that PEMEX should take. In 2001 the Energy Minister, Ernesto Martens Rebolledo, stated that the Programme would pose enormous challenges for the oil industry but also present considerable opportunities, and that it required immediate action on the part of all stakeholders in the energy industry. He pointed out that Mexico's energy industry is confronting two major challenges: fulfilling the obligation to provide a steady supply of energy to the country, as well as contributing to Mexico's national economic development.

To meet these goals, the Government has instrumented a policy that will enable the state-owned oil and electric companies to operate more efficiently, by changing financial and legal frameworks currently in force. Likewise, the Government wishes to invite private capital into sectoral development projects. The energy sector must take the lead in technological development. Companies in the sector should therefore devote more resources to research and development.²

In line with the 2001-06 Sectoral Programme, in 2001 PEMEX initiated reform plans. The company would structure its activities in line with six primary business objectives, namely: strategic financial management; coordination and optimization of businesses throughout PEMEX; better leadership; improving performance; increasing efficiency of administration and service throughout PEMEX and its subsidiaries; and decentralization of day-to-day business decision-making.³

Improving PEMEX's efficiency and optimizing corporate management necessitates a three-pronged approach. The first step is to create corporate management departments and redesign all business processes to fit the new business framework. The second step consists in enhancing the quality and efficiency of corporate services and reducing the cost of

² 2001-06 Sectoral Energy Programme, www.energia.gob.mx/work/appssite/publicaciones.

³ *ibid.*

administration. The third step is to spread the benefits of restructuring throughout PEMEX subsidiaries.⁴

The restructuring accompanied the streamlining of numerous departments into four major departments: Department of Operation Management, Department of Engineering and Project Development, Department of Competitiveness and Innovation, and the Executive Coordination Department. In addition, the Office of the General Attorney was centralized. Procurement procedures were unified and the role of procurement was standardized.

In 2002, the Programme was reprinted in the form of an explanatory document entitled “The strategic future of PEMEX”, and disseminated to more than 11,000 employees.

To move the restructuring forward, many workshops were organized, covering topics such as human resources development policies and appraisal process under the new personnel management systems, changes in the legal framework, as well as improvement of occupational safety and health and protection of the environment.

In 2002, “PEMEX job description workshop” was organized to standardize job grades within the company in order to increase the transparency of human resources management, design training programmes for all employees, and develop career plans for confidential employees (the term “confidential employees” covers some managers and workers such as inspectors). As a result, 342 job descriptions were standardized. An assessment panel was set up in order to ensure that PEMEX managers were hired in an open and transparent fashion. In 2002, the panel assessed 99 out of the 342 job descriptions and 846 new employees were hired under the new recruitment process.

In 2003, a competence model was implemented throughout PEMEX to develop unified human resources policies. The model comprises fair recruitment, lifetime learning, performance assessment, career development and retirement plans.⁵ PEMEX has also developed a code of practice whereby the company and its employees are required to do business openly and in line with internationally recognized ethical standards.

1.8. Fair social governance

President Fox has increased the transparency in the public sector. The Mexican Congress has also passed legislation to tackle corruption, namely:

- *Federal Law of Administrative Responsibilities of Public Servants.* This law, which came into force in March 2002, sets out clearly the duties of federal public employees, the penalties for any failings, and outlines the responsibilities of the different authorities in dealing with illegal acts. It also establishes a “wealth registry” of federal employees, with all officials being obliged to file every year a detailed declaration of their income, whereas previously only medium- and high-ranked officials were bound to do so. Moreover, the new legislation allows that such declarations be made available to the public.
- *Federal Law of Transparency and Access to Public Government Information.* This is the country’s first freedom of information law. It requires all branches of government

⁴ Labour memoir (2001).

⁵ Labour memoir (2003), p. 55.

to provide copies of public documents within 20 days to any citizen that requests them. All federal agencies, including the courts, Congress and the central bank, will have one year to post their public information on the Internet. Any information deemed classified or confidential will also have to be made public after a period of up to 12 years. Officials who refuse to provide information that is deemed public, or destroy or conceal documents could face penalties including, in most serious cases, criminal charges.

Fair social governance issues are also applicable to PEMEX's trade union and to industrial relations in the oil industry generally (see Chapter 3).

1.9. Workforce

PEMEX is one of the largest employers in Mexico and may even be the world's largest oil company in terms of employment. There is some criticism to the effect that there seems to be no correlation between the company's large number of employees and its productivity. Some studies point out that productivity at PEMEX is less than a quarter of that recorded in dominant multinational oil companies.⁶

Table 5 shows the evolution of workforce at PEMEX between 1996 and 2004. The company's overall workforce currently stands at almost 140,000 employees.

Table 5. Evolution of employment at PEMEX, 1996-2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004
PEMEX Exploración y Producción	38,786	40,613	40,233	40,367	42,642	43,208	44,658	46,322	47,975
PEMEX Refinación	43,904	47,608	47,319	45,396	46,151	47,710	47,341	46,692	44,899
PEMEX Gas y Petroquímica Básica	11,239	11,256	11,121	11,220	11,579		11,977	12,104	11,923
PEMEX Petroquímica	16,997	14,311	15,007	14,747	14,837	14,578	14,360	14,203	13,895
PEMEX Corporative	5,001	5,216	5,139	4,941	5,043	5,121	6,207	6,272	6,441
Medical Services	10,721	10,674	10,706	10,710	10,712	10,745	10,863	10,870	10,855
Telecommunications	1,943	1,941	1,908	1,778	1,764	1,774	1,728	1,752	1,734
Total	128,591	131,619	131,433	129,159	132,728	134,852	137,134	138,215	137,722

Source: PEMEX *Statistical Yearbook* 2005, p. 10.

However, some evidence suggests that PEMEX's actual workforce may be even larger. The actual number of its employees or, more accurately, of people on its payroll exceeds 200,000. This is because of the company's unique and one of the most advanced workers' protection schemes in the world, developed over nearly a century.

To PEMEX's published employment figures one needs to add its former employees who, although retired, are still on the company's payroll. A study estimates their number at around 55,000.⁷ They continue to receive benefits from the company during their lifetime as if they were active employees. Furthermore, PEMEX sometimes re-employs its retired employees as "active workers"; these are defined as re-employed workers who were laid off or retired but have been subsequently re-employed by PEMEX for a fixed term.

Except for telecommunications, where the number of workers fell from 1,943 in 1996 to 1,734 in 2004, during the period in question employment rose in all PEMEX subsidiaries. Recently filled positions concern in particular administrative employees and confidential employees. As already mentioned, the term "confidential employees" covers

⁶ Shields (2003), p. 40.

⁷ *ibid.*, p. 70.

some managers and workers such as inspectors. One of the reasons for higher employment is the hiring of more middle-class management in recent years. The number of senior management has tripled over the past 35 years and is still rising. In 1991 PEMEX had 110 first-level officials, and in 2001 there were 332. The term “first-level officials” includes directors, administrators, managers and any other officials occupying similar managerial positions. In early 2004, as part of the rationalization plan, the company announced that about 5,000 posts of confidential employees would be eliminated, which accounted for about 10 per cent of this category of workers.

1.10. Female workforce at PEMEX

It is estimated that women account for some 30 per cent of PEMEX’s total workforce. Female workers are mainly found in administrative work at headquarters. For example, the central office has 21,483 workers and 10,551 of them are women, who thus make up almost 50 per cent of the overall workforce at that work site.

2. Conditions of work

This chapter discusses the characteristics of wages, conditions of work and collective agreements at PEMEX, as well as accidents at work and training issues concerning oil workers in Mexico. The Mexican Constitution is a systematic compilation of dispersed legislation regulating labour relations in advanced countries. Constitutionalized protection of workers comprises, inter alia, formal standards for collective bargaining, including interest representation and conflict mediation, in addition to substantive issues regarding working conditions, health standards, wages and many other related matters.

2.1. Wages and fringe benefits

PEMEX's general policy is that the company respects fairness in the payment of workers' wages. It pays their wages in a timely fashion and offers the best possible conditions of work to every worker in the company. For example, the collective agreement has established the rules of open and punctual payment of workers' wages. Wages for regular employees are clearly set in the collective agreement. The payment of wages is made every two weeks at the workplace at which the employees normally provide their services and during their regular working hours. When employees are unable to collect their salaries, PEMEX is bound to provide them with transportation to enable them to go to the place where they can collect them. Where this is not possible, the wages can be remitted to the workers' bank accounts. However, direct cash payment is preferable. Likewise, the collective agreement stipulates that PEMEX should present workers every two months with a list of wages and benefits due.

Table 6 gives an example of wage levels at PEMEX. In 2003, day shift workers belonging to level 8, which is the lowest grade in the company (PEMEX minimum wage), received 144.34 pesos per day, compared to 105.82 pesos in 1999. This job category includes domestic workers, messengers and general workers, for example. Workers at level 32, e.g. assistant accountants, managers of electric power plants, computer technicians, received 339.50 pesos per day in 2003 as against 251.47 pesos per day in 1999.

Table 6. Daily wage of unionized workers at PEMEX (in pesos)

Grade	Typical job title	1999	2003
Level 8 (lowest level)	Domestic worker; messenger; general worker	105.82	144.34
Level 32	Assistant accountant; plant supervisor; computer technician	251.47	339.50

Note: Amount includes presumed overtime pay.

Source: PEMEX.

The National Minimum Wage Commission (Comisión Nacional de Salarios Mínimos, CONASAMI) is a tripartite national organ for determining the minimum wage nationwide on a regular basis. It conducts annual wage surveys in order to decide the minimum wage. For the purpose of setting region-based minimum wages, CONASAMI divides the country into three regions. Table 7 shows the evolution of nominal minimum wages in Mexico over time. It evidences that the lowest wage (level 8) at PEMEX is nearly four times higher than the nominal national minimum wage. When the Commission decides to raise the

minimum wage, these increases – expressed as a percentage and not as an amount – reflect increases in PEMEX workers’ wages.

Table 7. Evolution of the minimum wage in Mexico, 1987-2006 (pesos per day)

Period	National average ¹	Geographical region ²		
		A	B	C
1 January 1987	2.76	3.05	2.82	2.54
1 April 1987	3.31	3.66	3.39	3.05
1 July 1987	4.08	4.50	4.17	3.75
1 October 1987	5.10	5.63	5.21	4.69
16 December 1987	5.87	6.47	5.99	5.40
1 January 1988	7.04	7.77	7.19	6.48
1 March 1988	7.25	8.00	7.41	6.67
1 January 1989	7.83	8.64	8.00	7.21
1 July 1989	8.31	9.16	8.48	7.64
4 December 1989	9.14	10.08	9.33	8.41
16 December 1990	10.79	11.90	11.00	9.92
11 November 1991	12.08	13.33	12.32	11.12
1 January 1993	13.06	14.27	13.26	12.05
1 January 1994	13.97	15.27	14.19	12.89
1 January 1995	14.95	16.34	15.18	13.79
1 April 1995	16.74	18.30	17.00	15.44
4 December 1995	18.43	20.15	18.70	17.00
1 April 1996	20.66	22.60	20.95	19.05
3 December 1996	24.30	26.45	24.50	22.50
1 January 1998	27.99	30.20	28.00	26.05
3 December 1998	31.91	34.45	31.90	29.70
1 January 2000	35.12	37.90	35.10	32.70
1 January 2001	37.57	40.35	37.95	35.85
1 January 2002	39.74	42.15	40.10	38.30
1 January 2003	41.53	43.65	41.85	40.30
1 January 2004	43.30	45.24	43.73	42.11
1 January 2005	45.24	46.80	45.35	44.05
1 January 2006	47.05	48.67	47.16	45.81

¹ Country average weighted by number of wage earners in each region. ² States and municipalities are classified by region to show the country’s differing costs of living. For details on classification mythology see “Minimum Wages”, Minimum Wage Commission (Comisión Nacional de Salarios Mínimos, CONASAMI).

Sources: Banco de Mexico, *Annual Report 2004*, April 2005, p. 141; CONASAMI; Banco de México.

Where other monetary allowances are concerned, PEMEX provides its workers with far more than the legal minimum. As a Christmas bonus the employees receive the equivalent of 57 days’ wages, whereas the law mandates 15 days only. PEMEX provides first-year employees with 21 days of paid holidays, compared with six days under the law. In addition, it offers 20 days’ wages as an annual seniority premium for all workers, while the law provides for 12 days only.

PEMEX workers also receive additional cash allowances in the form of a so-called “saving fund”. Any workers that work more than 60 days per year receive an amount equal to 18 days of their wages per month in addition to regular pay. Workers and PEMEX contribute equal amounts to this fund.

In addition, all workers are entitled to receive every month an additional cash allowance to increase their purchasing power (CPI-increase adjustment allowance). Each worker thus received 1,047 pesos per month in 2003 and 1,277 pesos the following year. In

2004, PEMEX also paid out about 4,200 million pesos to its employees as support for building their houses. Furthermore, PEMEX offers workers the resources for promoting their social activities. In 2004, it gave workers 200 million pesos in total as support for their sports activities.

PEMEX employees and their family members also enjoy good security benefits. For example, employees' widows and their minor children receive medical care throughout their lifetime. In addition, in 2004 PEMEX invested 2,826 million pesos for medical services alone. The company offers a private pension system to its employees, hospital care for employees' family members and siblings, and gives preference to workers' children to find jobs at PEMEX. It also provides benefits to its retired workers such as special care and an annual upward adjustment of their pension.

Under the collective agreement, PEMEX has the obligation to provide its employees with transportation from the designated meeting places to their actual workplaces. The company can take one of three options: provide workers with its own vehicles to transport them, hire third parties as transport providers, or ask the STPRM to arrange for third parties to provide transportation. The third option also enables the trade union to pay a cash allowance to workers wishing to arrange their own transport. This third option was introduced as a result of the latest collective agreement (CMC-CE/070/05).

PEMEX also provides its workers free of charge with uniforms and shoes required for their jobs. The company must give regular workers a full uniform every two months and a pair of shoes every 180 days. Nurses receive uniforms (jacket and white trousers) every two months and a pair of shoes every 180 days. Nurses in preventive medicine receive uniforms (skirt, navy blue blazer and white blouse) every two months and a pair of shoes every 180 days. Hospital assistants receive uniforms (jacket and trousers) every two months and a pair of shoes every 180 days. Social workers receive uniforms every two months. Workers at day care centres receive uniforms every two months and a pair of shoes every 180 days. Temporary workers receive two sets of uniforms when they start work and another set after 60 days of service, as well as a pair of shoes every 180 days. In addition, some workers receive rainwear, trousers, and special jackets for work in cold temperatures. Workers engaged in exploration receive a pair of heavy-duty boots and clothes once a year. From January to September 2005 alone, PEMEX spent almost 150 million pesos on employees' uniforms.

2.2. Wage increases

Many studies analysing the impact of the Mexican economy on workers' wages conclude that wages are not keeping up with the price increases of goods and that inflation is eroding the workers' purchasing power. Nevertheless, this does not apply to state-owned companies such as Comisión Federal de Electricidad, Luz y Fuerza del Centro and PEMEX. These companies show that their workers' purchasing power actually improved. For example, according to information provided by the Secretariat of Labour and Social Welfare, the STPRM gained a nominal increase of 38 per cent in members' wages in the three years after 2001, while inflation during the same period was about 14 per cent. Some economists warn that these wage increases were excessive and posed a risk to the company's future financial situation. In their view, PEMEX's wage increases should not exceed 30 per cent.⁸

⁸ www.ameri.com.mx.

Tables 8 and 9 show the respective evolution of the annual and hourly wages by economic sector in Mexico between 1994 and 2005. Although the “petroleum and coal products manufacturing” category in these tables does not include employees in the sector of oil and gas exploration and production, the tables show that the wages in this category have not increased as much as wages in the manufacturing sector. In terms of annual wage, petroleum workers’ wages have risen at a relatively high rate in the past years compared with other economic sectors: from 27.18 points in 1995 to 101.38 in 2005. The proportion of the increase is greater than in apparel manufacturing (from 34.12 points in 1995 to 107.64 in 2005). In 2004 and 2005, however, petroleum workers’ wages rose at a slower rate.

Table 8. Evolution of annual wage by economic sector in Mexico, 1994-2005

	Maquiladora	Food Manufacturing	Beverage and Tobacco Product Manufacturing	Textile Mills	Textile Product Mills	Apparel Manufacturing	Leather and Allied Product Manufacturing	Wood Product Manufacturing	Paper Manufacturing	Printing and Related Support Activities	Petroleum and Coal Products Manufacturing	Chemical Manufacturing	Plastics and Rubber Products Manufacturing	Non-metallic Mineral Product Manufacturing
1994	26.47	24.56	22.54	29.13	28.29	31.75	32.41	25.71	27.29	27.67	25.38	22.81	26.86	28.86
1995	29.08	28.80	25.37	31.93	30.16	33.37	34.12	28.34	29.99	33.05	27.18	26.24	29.34	30.10
1996	35.20	35.21	30.61	37.71	35.78	36.43	35.56	38.84	39.15	39.00	36.92	34.56	36.46	36.56
1997	42.66	42.13	37.29	43.09	45.70	43.98	41.90	43.96	47.62	45.21	46.66	44.19	43.21	52.93
1998	50.72	51.48	43.54	54.36	52.63	50.84	49.40	46.84	54.96	52.26	55.53	53.29	53.92	48.87
1999	60.13	61.50	53.93	63.37	58.80	59.81	61.21	54.80	66.01	62.47	76.53	61.92	60.84	58.75
2000	69.96	72.17	62.36	71.94	66.18	73.15	70.60	65.97	76.19	70.94	73.03	70.73	69.58	67.04
2001	80.55	83.90	72.76	81.08	77.87	82.49	82.35	74.93	86.13	80.87	77.33	80.16	78.41	79.59
2002	89.33	88.65	85.64	89.17	85.57	89.98	89.41	83.62	91.81	89.38	86.21	90.11	87.88	90.41
2003	95.10	100.52	92.41	92.96	96.60	90.76	92.33	92.30	96.93	102.50	105.47	94.91	95.24	96.67
2004	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2005	103.69	102.14	100.28	105.80	101.76	107.64	104.06	110.96	104.14	105.50	101.38	104.31	101.54	110.05

Notes: As at 1 January of every year.
January 2004 = 100.

Source: Banco de México.

Table 9. Evolution of hourly wage by economic sector in Mexico, 1994-2005

	Maquiladora	Food Manufacturing	Beverage and Tobacco Product Manufacturing	Textile Mills	Textile Product Mills	Apparel Manufacturing	Leather and Allied Product Manufacturing	Wood Product Manufacturing	Paper Manufacturing	Printing and Related Support Activities	Petroleum and Coal Products Manufacturing	Chemical Manufacturing	Plastics and Rubber Products Manufacturing	Non-metallic Mineral Product Manufacturing
1994	26.44	25.39	23.05	29.97	28.09	31.44	34.00	26.02	28.53	26.51	25.76	23.40	27.49	30.24
1995	28.80	29.49	25.43	32.93	28.98	32.60	36.30	31.18	30.63	32.39	26.81	26.19	29.79	30.69
1996	34.74	35.20	30.26	37.13	34.19	35.96	36.99	38.87	38.39	36.13	35.08	34.23	37.58	38.15
1997	42.45	42.69	36.95	43.38	43.78	43.00	40.79	41.94	47.54	43.58	46.26	43.80	43.96	54.01
1998	50.92	52.46	43.79	53.14	50.09	49.58	50.06	50.00	54.80	50.45	53.85	52.80	56.13	49.74
1999	61.10	63.64	55.13	61.49	57.66	60.19	64.38	57.61	67.13	60.67	77.80	63.48	64.69	60.55
2000	70.26	72.95	63.59	69.40	64.62	71.52	71.69	64.23	77.39	68.06	75.27	71.06	71.57	68.11
2001	79.68	82.41	71.87	77.31	74.84	81.41	82.00	73.90	85.90	77.01	77.84	78.73	79.35	80.16
2002	88.90	87.26	85.54	88.61	82.08	90.02	93.76	83.94	91.02	82.20	87.93	87.62	87.01	90.82
2003	94.19	99.44	92.01	93.55	94.60	91.56	96.01	94.19	95.81	95.59	102.75	93.47	97.00	96.90
2004	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2005	103.28	102.26	100.89	104.25	101.68	104.03	104.68	111.38	105.74	106.08	102.07	104.14	102.78	112.18

Notes: As at 1 January of every year.
January 2004 = 100.

Source: Banco de México.

2.3. Working time

Contractual weekly working time at PEMEX is 40 hours. Weekly regular working days are from Monday to Friday, Saturdays and Sundays being rest periods.

PEMEX has numerous regulations concerning working time and vacation granted under the collective agreement. It is the collective agreement that decides the starting and ending hours of work and provides for working time flexibility, thereby allowing PEMEX and the STPRM to arrange working time in accordance with business needs. The collective agreement at PEMEX states that whenever the company wishes to make changes to the working time, it needs to obtain prior consent from the STPRM.

Some of working time matters regulated by the collective agreement include:

-
- Workers are not allowed to leave their workplace unless there is a valid reason for it or unless given permission by their supervisor.
 - The time required to prepare for work, such as setting up equipment and carrying tools (lead-time) is considered as part of working time.
 - When workers are late reporting for work by more than 30 minutes, their wage is deducted in accordance with the time they did not actually work. In case of shift workers, every 15 minutes that are not worked are deducted from their wage. When shift workers work overtime into another shift in a given day, the company must also provide the meals for their second shift.⁹

PEMEX has widely introduced a three-shift work schedule. Some workers on offshore platforms work what is known as a 14/14 shift, which requires them to work for 14 days offshore and rest for 14 days onshore. Under the most common three-shift arrangement, the first shift is from 12 midnight to 8 a.m., the second from 8 a.m. to 4 p.m., and the third from 4 p.m. to 12 midnight. The first and third shifts are regarded as night work; therefore, extra shift work premiums are added to the salary of workers working those shifts.¹⁰

2.4. Overtime premium

PEMEX's collective agreement stipulates overtime premium rates. For example, weekend work premium is 135 per cent of basic pay. However, the collective agreement puts a cap on payable overtime. When overtime work is required outside regular working time, up to three hours of overtime is payable. When overtime work is required immediately before or after regular working time, up to two hours of overtime is paid. If workers perform work on holidays, up to six hours of overtime is paid. The collective agreement states that shift workers must receive two days off after every five consecutive days of work.

Although the law prohibits employers from forcing their employees to work overtime, in practice employers frequently ask employees to work nominal overtime before and after their regular working time; in the collective agreement nominal hours of overtime work are included as the presumed overtime work in shift workers' pay.

2.5. Paid leave

PEMEX recognizes three main types of leave: public holidays, vacation and leave of absence.

According to the collective agreement, paid public holidays not worked at PEMEX are: 1 January; 5 February; 18 and 21 March; 1 and 5 May; 16 September; 12 October; 20 November; 1 December (in a Presidential inauguration year) and 25 December. In addition, the company recognizes the following religious holidays: Maundy Thursday and Good Friday; 1 and 2 November. Although these are all paid holidays, the collective

⁹ Contrato Colectivo de PEMEX, 2003-05.

¹⁰ *ibid.*

agreement allows the company to ask employees to work on those days, provided that it obtains prior consent from the STPRM.¹¹

The collective agreement sets up the rules on the number of days of paid vacation in accordance with the length of employment, as follows:

- regular employees with one to nine years of service are entitled to 21 days of paid vacation;
- regular employees with more than ten years of service are entitled to 30 days of paid vacation;
- temporary employees who work more than 275 days a year are entitled to 21 to 30 days of paid vacation, depending on the number of years of service;
- PEMEX pays a holiday premium of 150 per cent of basic pay to regular workers while on vacation.¹²

Unionized temporary employees can receive the holiday premium (monetary allowance) in accordance with their years of service at PEMEX. However, they are not allowed to accumulate years of service for the purpose of receiving benefits other than the holiday premium.¹³

Paid vacations are granted even if a worker's service to PEMEX is interrupted, as long as the interruption does not exceed 90 days per year.¹⁴

In line with the law, PEMEX allows up to three days' paid leave of absence for unionized regular employees per year. Temporary employees may be entitled to the same amount of leave, providing that they work for the company more than 275 days a year.

The collective agreement recognizes the following types of leave without pay for PEMEX's unionized employees:

- regular employees can take up to 30 days of unpaid leave per year, provided that they successfully finish the required yearly service without any interruption of work;
- newly recruited employees can take up to 30 days of unpaid leave after more than 180 days of uninterrupted service;
- employees are allowed to take a leave of absence without pay for up to six years when they serve in public office. This leave is recognized one time only, and no renewal is possible.¹⁵

¹¹ *ibid.*

¹² *ibid.*

¹³ *ibid.*

¹⁴ *ibid.*

¹⁵ *ibid.*

2.6. Collective bargaining

The Federal Labour Law establishes the workers' right to negotiate collective agreements with their employers only if the trade unions are duly registered with the authorities.

Like other industries in Mexico, the oil industry negotiates wages annually, while the terms and conditions of work are negotiated every other year. PEMEX's collective agreement expires on 31 July.

The main factors considered in forming wage demands are the evolution of economic factors such as the CPI since the previous annual negotiation.

PEMEX's collective agreement defines the term "workers" as unionized individuals who deliver a personal service to the employer in an intellectual, technical and professional manner. This definition excludes confidential workers who are personnel engaged in managerial tasks, supervision of workers, or inspection work.

In Mexico, the law categorically bans confidential workers from becoming trade union members along with ordinary workers. In addition, confidential workers at PEMEX are regulated by Labour Regulation for Confidential Personnel of Petróleos Mexicanos and its Subsidiaries. The law became effective in 2000. This law governs all terms of work for confidential workers, including the rules for recruitment (types of jobs); conditions of work (working time, overtime, vacation, fringe benefits), transfers (definitive, temporary, foreign), occupational safety and health (sickness benefits, medical services, day care), incentives and productivity allowances (scholarships, housing, credit); pension; and death benefits.

In Mexico, trade unions must provide the Conciliation and Arbitration Board with a list of demands at least 30 to 60 days before the collective agreement is set to expire. Separate lists of demands on wage and working conditions must be submitted. Once the Board receives the demands, it forwards them to PEMEX. The company must initiate negotiations immediately after receiving the union's demands from the Board.

Actual negotiations take place at numerous specialized employer-employee committees. Each party can accompany two types of advisors (general advisors and technical advisors) to the negotiating table. Sub-committees by topic are also organized. During the last revision of the collective agreement in 2004, 11 such subcommittees were set up by the company and trade union. Each party sends between six and ten representatives to each committee. Each committee selects one Chairperson and one Secretary. Each committee negotiates specialized topics. Once all the committees finish their negotiations, PEMEX and the trade union consolidate all the clauses in a master collective agreement. The new collective agreement must be filed and validated by the Federal Conciliation and Arbitration Board.

PEMEX covers the union's expenses incurred in the negotiation of the collective agreement. In 2005, it paid 115 million pesos to the trade union for expenses related to the revision of the collective agreement, although the amount also includes the union's activity fees for celebrations in oil facilities and the events of 1 May (Labour Day).

Below is a summary of past accords:

The 1999 collective bargaining at PEMEX resulted in 80 clauses and seven annexes in the collective agreement being modified. The revised agreement increased wages, pensions, housing benefits, as well as scholarships for permanent workers and their children. Health insurance coverage was expanded to include geriatrics, neurological care,

and medical treatment for employees suffering from alcoholism. In addition, special loans for 3,000 victims of natural disasters were agreed.

In the 2001 negotiations, the major topics agreed were terms and conditions of work for confidential workers, promotion guidelines, and dismissals of temporary workers without just cause. Regarding contract work, the parties agreed that contractors would be used only for extraordinary maintenance work, and that contractors lacking adequate training and expertise should not be hired. The parties also agreed on a 29 per cent wage increase; introduction of a profit-sharing bonus; better uniforms; an increase in staff levels at the day-care centre; 100 per cent disability insurance coverage; three-day leave of absence in case of a death in the family; setting the pensionable minimum years of service at 25 years for female workers and at 30 years for male workers; increasing the number of days of paid vacation; a 56-day Christmas bonus; and better scholarship conditions for workers' children.

In the 2003 negotiations, agreement was reached to modify more than 60 clauses. The parties agreed as follows: a 11.5 per cent increase in productivity allowance and a 4.3 per cent increase in lump-sum retirement payout; providing transportation and accommodation for workers' representatives to the Employer-Employee Safety and Hygiene Committee whenever they are required to travel for inspection purposes; providing transportation for workers working on boats; paying an allowance to workers required to work at a workplace which is not at their place of residence; covering the cost of passport renewal and visas for oil tanker crews; and covering travel expenses and moving expenses for workers serving at sea and their family members having to relocate at the company's request. PEMEX also agreed to pay meals for boat crews during their regular working time. The company also committed itself to build child day-care facilities in several workplaces such as Tampico, Veracruz and Monterrey. Rest periods for land personnel working temporarily in marine facilities were improved. PEMEX has also undertaken to make helicopters available for employees in case of emergency. Criteria for granting scholarships to disabled children of workers were also agreed.

2.7. Relocation of workers

PEMEX's collective agreement allows the company to transfer employees throughout the country, provided that they work in the same type of job category and field of expertise. The collective agreement provides for only two circumstances for such relocation of employees:

- the original objective of work has been exhausted and there is no work available for the workers; or
- there is an excess of workers at a particular workplace and no jobs allowing them to work within their profession and level of expertise. In this case, the employees being transferred must be promoted to a higher job category than the one they occupied before the transfer.

The workers being transferred are entitled to receive compensation amounting to five months of their basic pay, and an additional sum corresponding to 20 days' wages is paid in accordance with the years of service. Moreover, PEMEX must pay them benefits such as an 18-month housing allowance at the time of relocation and a 100-day hardship allowance to compensate for the inconvenience of moving to a new place. However, some categories of workers are not entitled to these benefits: they include laboratory assistants, explosives experts, drivers, mechanics, drilling assistants and mechanical maintenance operators.

At PEMEX there are two types of employee transfers: temporary and permanent.

- Temporary transfers are often used in building new facilities or renovating, expanding or dismantling buildings and facilities. PEMEX provides temporarily transferred workers with transportation, travel expenses, living expenses and per diem for the duration of the transfer. Under the collective agreement, the amount of living expenses for temporary transferees was increased from 416.00 pesos per day in 2003 to 457.60 pesos in 2004.
- In case of permanent transfers, PEMEX must consult the STPRM at least 21 days before the planned transfer actually takes place. PEMEX must cover transportation, moving and travel expenses for the workers concerned and their family members.

2.8. Education

PEMEX provides employees with academic grants. For example, it grants up to 1,600 pesos as annual scholarships to unionized workers to pursue academic programmes such as junior and senior high school, professional education and post-graduate studies; the academic institutions concerned need to be approved by the Secretariat of Public Education in Mexico.

The amount of a particular grant depends on the type of education pursued. For example, for junior high school PEMEX provides up to 896 pesos per year; 1,154 pesos for high school; 1,557 pesos for professional education; and 1,602 pesos for post-graduate degrees. During the time when they are in instruction, the workers do not receive a salary. The grants are discontinued when the workers' employment contract ceases or when their average grades go down. PEMEX reserves 40 grants for women training to become nurses.

2.9. Vocational training

PEMEX has a dual structure at the central and local (workplace) levels in order to give all employees access to the training they need. Its Central Training Committee assesses training needs, oversees the application of training rules and procedures, supervises the progress of training programme implementation, and disseminates information on training programmes within PEMEX. There are also small bipartite committees which are part of the Central Training Committee. These consist of three members representing the Government, PEMEX's Department of Human Resources Management and the STPRM, respectively. The duties of the Central Training Committee include analysing training plans, examining the development of training programmes, and dispensing training and subsequent certification to the trainees.

At the workplace or plant level, there are workplace-based bipartite training committees, consisting of representatives from PEMEX, one representative from the human resources department, and one from the trade union. The local training committee coordinates with the Central Training Committee to decide what training programmes should be given at each workplace, examines training needs at the workplace, supervises the development of training programmes and evaluates their quality. The committee meets at least once a month and reports on its activities to the Central Training Committee.

The Central Training Committee ensures that training meets the specific needs of each employee to perform his/her job. At present, training is given in 35 areas, including tool machines, carpentry, plumbing, topography, internal combustion mechanics, management, human relations, etc. The company has committed to provide all materials required for training. Training is important for workers to update the knowledge required

for their work. It is also an important factor in determining promotion. Training can be given during or outside regular working time, according to the needs of the area of work. In the past several years, PEMEX has made efforts to increase the number of trainings courses. In 1999, 10,356 courses consisting of a total of 490,188 hours of training were dispensed to 150,738 participants throughout PEMEX.¹⁶

2.10. Occupational safety and health and environmental protection

2.10.1. Legal framework

The laws concerning occupational safety and health provide that safety and health issues are to be dealt with on a basis of mutual cooperation between the company and the trade union through a bipartite Committee on Safety and Hygiene. The relevant provisions are article 123, paragraph A, sections XV and XXI of the Constitution; article 132, sections XVI, XVII, XVIII, XXVII, XXVIII of the Federal Labour Law; article 134, sections II, VIII, IX of the Federal Labour Law; article 135, section I of the Federal Labour Law, article 153F, sections I, III, article 512 and 512D of the Federal Labour Law; Federal Regulation on Occupational Safety, Hygiene and Environment; and PEMEX Safety and Hygiene Regulation. These laws set forth the duties and rights of companies and employees respectively. Employers must take all necessary measures to prevent accidents and occupational diseases, and employees have the obligation to observe safety measures.

Article 509 of the Federal Labour Law sets out the obligation for companies to establish a bipartite Safety and Hygiene Committee consisting of equal number of representatives from the company and the trade union in order to investigate the causes of accidents at work and occupational illnesses with a view to developing preventive measures. Committee members are unpaid and carry out their Committee duties during their regular working time. The law regulates the activities that the Committee must perform, such as creating an annual inspection programme, prioritizing its activities in order to improve safety and health at work, and environment protection. The Committee must file its report on safety inspection to the authorities.

There are also region-based tripartite National Industrial Safety and Hygiene Committees, consisting of three worker representatives from the oil producing regions, including the North, Central, South, and South-East regions, three worker representatives from the marine section and 18 representatives from PEMEX Branch Management Departments. The primary purpose of these Committees is to supervise the safety of operations at PEMEX.

Chapter XXVII of PEMEX Regulation on Safety and Hygiene refers to bipartite Safety and Hygiene Committees at the workplace level, mandating the creation of such a Committee at any workplace with more than ten employees. The Committee, which consists of an equal number of representatives from the company and the STPRM, meets once a month to assess and decide on the safety inspection plans of specific workplaces. Its most important task is to create an annual activity programme, which should be decided within the first 15 days of the Committee's first meeting at the beginning of each calendar year. The Committee also decides the scope of the annual safety inspection and promotes a safety culture. Committees of this type are also created at tankers, tugboats, platforms, transportation and telecommunications belonging to PEMEX.

¹⁶ Labour memoir (1999).

The power of the Safety and Hygiene Committee within the company is absolute. The collective agreement states that when the Committee identifies a potential hazard and/or danger at work, workers should immediately stop working until the Committee finds that safety is assured. Whenever workers find dangerous working conditions, they have the responsibility to immediately report any such danger to the Committee.

In addition, the Official Mexican Standard (NOM) 019-STPS 1993 supplements the laws that determine how training should be given to the Safety and Hygiene Committee.

2.10.2. Accidents at work and the environment

PEMEX has a poor record in managing hazardous substances. Some of the major incidents involving the company are:

- An incident in November 1984 caused the loss of 511 lives and extensive damage to surrounding neighbourhoods.
- An incident in 1996 started with fire spreading from one fuel tank to two others while workers were repairing a valve in one of the tanks. It took firefighters three days to extinguish the blaze. Four people died, 16 others were injured and a further 1,000 people received medical attention. More than 5,000 people were evacuated, with as many as 300,000 affected in one way or another, as schools and other facilities had to be closed. Material losses were estimated at about US\$5 billion.
- In April 1992, in Guadalajara, more than 200 people died when fuel from a PEMEX depot leaked into the sewer system and exploded, blowing up parts of the city centre.
- In February 1995, two pipelines exploded in the localities of Plátano and Cacao, in the state of Tabasco. The affected communities submitted compensation claims to the National Human Rights Commission, but little action was taken.
- In July 1996, two sections of the largest oil refinery, located in Cactus on the border between Chiapas and Tabasco, were completely destroyed. They accounted for about one-third of the country's natural gas production. The estimated damage amounted to over US\$200 million.

There was criticism of PEMEX's safety culture. A congressional commission on the energy sector highlighted the lack of investment in maintenance. In 1995, PEMEX spent on maintenance only 6.3 per cent of the company's total budget. Congressional representatives from the opposition parties accused the company of having unacceptably low safety standards. The STPRM had warned that inadequate safety levels would lead to further disasters. The trade union blamed budget cuts for a lack of investment as well.¹⁷

Safety and health at work at PEMEX has improved in recent years, however.¹⁸ As seen from the accident severity index (see table 10), the number of lost workdays per million of man-hours worked fell from 170 in 2000 to 143 in 2004.¹⁹ This is the result of the introduction of safety and health integrated management systems SIASPA and

¹⁷ "Mexico: Oil Disaster", 20 November 1996, *Oxford Analytica*.

¹⁸ PEMEX Report 2004, Sustainable Development.

¹⁹ PEMEX Statistical Yearbook 2005.

PROSSA.²⁰ Implementation of these systems started in 2002 with the organization of workshops, training sessions, and other educational activities. These activities were promoted throughout PEMEX and its subsidiaries. For example, a central committee was created at PGPB to promote compliance with PROSSA and a series of training sessions were organized.

Additionally, PEMEX provides safety training at least once a year in the safe operation of tools and machines. It furnishes workers with protective safety equipment and other necessary equipment to prevent accidents.

However, there is some evidence to suggest that there are still areas on which PEMEX needs to concentrate further in improving safety and health at work. The frequency index (i.e. number of disabling accidents per million of man-hours worked) shows an increase from 1.19 in 2000 to 1.50 in 2004.²¹ This is especially because the number of accidents involving contract workers has been rising; indeed, in recent years PEMEX has been increasingly using contract workers, particularly in drilling, maintenance and the construction of facilities. Some critics say that PEMEX is transferring accidents from its employees to outside contract workers.²²

Concerns about poor safety and health conditions have led the company and the trade union to take joint action in order to improve occupational safety and health without delay. Many matters regarding occupational safety and health were negotiated at the last two revisions of collective agreements, in 2003 and 2005. Some of the improvements achieved are as follows:

- the company must supply workers with adequate protective safety equipment;
- when a permit from the authority is required under the law for performing dangerous work at a given workplace, those working there must receive a copy of the permit in advance;
- additional payment must be made for dangerous work that require special skills for working in a harsh work environment;
- employer-Employee Occupational Safety and Hygiene Committees are also set up at every workplace where workers perform dangerous work, including exploration, offshore platforms and boats, in order to monitor the safety and health there; and
- the company now must supply toilet paper, adequate soap and paper towels or electric dryers in bathrooms at the workplace.

The collective agreement states that these benefits apply exclusively to unionized employees. The underlying notion is that since these terms are negotiated between PEMEX and the trade union, the conditions described in collective agreements are applicable only to unionized employees. In reality, however, because of administrative convenience, the conditions apply to all workers, regardless of their status of union affiliation.

Although progress has been made in the area of occupational safety and health, these improvements are concentrated in some specific areas of work that the company considers

²⁰ Labour memoir (1999).

²¹ PEMEX Statistical Yearbook 2005.

²² *Monitor* newspaper, 9 August 2004.

as extremely dangerous and unsafe. Unfortunately, in many cases the working environment has remained poor and unsafe. For example, many of the tankers owned and operated by PEMEX are as much as 25 years old and are far beyond what is considered safe navigable life under international shipping standards.²³ PEMEX's ageing physical infrastructure – particularly pipelines – is another cause for concern. Since 2000, the company has registered almost 50,000 tonnes of oil and gas leaks because of poor infrastructure. A liquefied petroleum gas (LPG) leak in September 2005 forced the evaluation of PEMEX's facility in the Gulf Coast state of Veracruz. Such serious incidents are frequent. In 2005, PEMEX spent about US\$330 million on pipeline improvements, but the amount is insufficient. The company has requested that its budget be increased by US\$12 billion by 2008 in order to upgrade its infrastructure. However, it is said that the resources are not available.

Table 10. Accident frequency index and severity index at PEMEX, 2000-04

Year	2000	2001	2002	2003	2004
Frequency index (number of disabling accidents per million of man-hours worked)					
<i>Petróleos Mexicanos</i>	1.19	1.00	1.17	1.09	1.50
PEMEX Exploración y Producción	1.66	1.26	1.14	1.35	1.67
PEMEX Refinación	0.72	0.69	1.10	0.63	1.23
PEMEX Gas y Petroquímica Básica	0.90	0.50	1.01	0.92	0.38
PEMEX Petroquímica	1.06	0.56	0.88	1.13	2.00
PEMEX Corporative	1.49	1.86	1.79	1.54	1.85
Severity index (number of lost workdays per million of man-hours worked)					
<i>Petróleos Mexicanos</i>	170	124	133	128	143
PEMEX Exploración y Producción	277	191	154	134	161
PEMEX Refinación	126	85	138	121	127
PEMEX Gas y Petroquímica Básica	109	88	114	137	203
PEMEX Petroquímica	170	139	161	52	54
PEMEX Corporative	32	53	40	52	54
Environmental protection					
Sulphur oxide emissions (SO _x) (t/Mt)	2.06	2.15	1.49	1.76	1.49
Carbon dioxide emission (CO ₂) (t/Mt)	133	125	111	115	112
Total discharges to water (Kg/Mt)	17.14	13.19	9.16	7.74	6.39
Disposal of hazardous waste ^a (%)	76.5	77.0	84.8	85.1	87.4
Leakage and spills ^b					
Amount	1,518	1,249	839	265	338
Volume (t)	6,252	8,031	19,995	9,565	5,488

^aIncludes stocks in the hazardous waste generation estimate. ^bAccording to the institutional rules regarding reporting of leakages and spills, 526 events were not included (equivalent to 5 tonnes) in 2003, and 469 (equivalent to 22 tonnes) in 2004.

Source: PEMEX *Statistical Yearbook* 2005, p. 9.

²³ *Monitor*, 9 August 2004, Mexico, p. 13.

3. Employer-employee relations

Mexico has a strong tradition of social dialogue, as attested by its national socio-economic development programmes. Since 1987, a series of social-economic pacts brought together the Government and social partners, first to control inflation and later to regulate growth and related issues, including employment creation, labour relations and working culture. The Economic Social Pact (Pacto de Solidaridad Económica, PSE) was the first attempt, followed by the Stability and Economic Growth Pact (Pacto de Estabilidad y Crecimiento Económico, PECE), which was revised many times until 1994 and then renamed the Pact for Wellbeing, Stability and Growth (Pacto para el Bienestar, la Estabilidad y el Crecimiento, PACBEC). The 1994 crisis led the Government to revise the pact again; since then and until 2000 the pact has had many names. The pacts were effective in controlling inflation in the 1980s, for instance, when inflation rates fell from 13 per cent in December 1987 to 1.2 per cent in the second half of 1988. Inflation fell from its 1987 peak of 160 per cent to 19 per cent a year in 1991, without a major recession.

3.1. Dialogue at PEMEX

Dialogue with employees is the backbone of PEMEX's human resources development policy. The actual work of promoting social dialogue lies with the Department of Labour Relations. The Department, created in 1992, aims to attain good employer-employee relations in the interests of developing the company as well as benefiting employees.

The primary duties of PEMEX's Department of Labour Relations are:

- (a) concluding clauses in the collective agreement with the STPRM;
- (b) fulfilling obligations that PEMEX assumes in collective agreements, such as paying wages, allowances, travel expenses and other benefits to trade union leaders and trade union executives for their activities and for travel on trade union duties;
- (c) arranging transportation for all employees and trade union officials;
- (d) checking the deduction of trade union dues from employees' wages;
- (e) supervising the working conditions of those that are working outside the company premises;
- (f) creating adequate safety standards for operations, tailor-made for each facility and workplace; and
- (g) assessing job grades and determining promotions.

The above points visibly indicate that the collective agreement plays the central role in social dialogue at PEMEX in every area of employer-employee relations. In 2005, PEMEX executed nearly 9,000 clauses of collective agreements, such as the rationalization of workplaces, retirement, housing, relocation of unionized employees and modifications of conditions of work.

In addition, ensuring the application of the collective agreement is another important task for PEMEX. The Federal Labour Law states that collective agreements are mandatory and that parties are obligated to respect them. PEMEX's collective agreement decides

almost all matters in the area of employer-employee relations, such as terms and conditions of work (work schedules, wage levels), employees' rights and obligations, vacations, safety and hygiene, training, scholarships, promotions, retirement, medical services, and allowances for trade union officials. The company and the trade union resolve through discussion any issues arising out of the collective agreement. In fact, the collective agreement states that any problem at the workplace needs to be solved by means of bilateral dialogue between representatives from the company and the trade union.

Within the organizational structure of the Department of Labour Relations there is a specific unit called "Management of Labour Negotiation", which actually negotiates with the STPRM.

3.2. Bipartite decision-making

PEMEX's personnel management policy places great strategic importance on corporate decision-making conducted through negotiations with the STPRM. This is evidenced by the company's bipartite committee mechanism, which includes the following:

- Employer-Employee Recruitment and Wage Committee;
- Employer-Employee Committee Concerning "Clause Three" Categories Workers (determining the terms of conditions and employment concerning confidential employees);
- Employer-Employee Committee on Wage Increase;
- Employer-Employee Committee Concerning "Clause 34" (deciding the terms of contracting and who will be recruited);
- Employer-Employee Committee on Training;
- Employer-Employee Committee on Occupational Safety and Hygiene;
- Employer-Employee on Health and Medical Insurance;
- Employer-Employee Committee on Culture and Sport;
- Employer-Employee Committee on Quality Control and Productivity;
- Employer-Employee Committee on Workers' Relocation; and
- Employer-Employee Committee on Employees' Promotion.

These committees meet on a regular basis and draw up reports on their activities.

The Employer-Employee Committee on Quality Control and Productivity is an example of how bipartite committees can play a positive role in promoting dialogue. The main purpose of this Committee is to increase productivity at PEMEX. At the outset, the Committee was not a regularly established organ, but significant achievements made by it prompted the collective agreement to turn it into a full-time bipartite committee. It consists of eight representatives from the employer and eight from the trade union. The committee holds quarterly meetings, and decision-making within it is based on consensus. The Committee is closely related to local committees, which are established at each PEMEX facility and meet once a month.

The Committee on Quality Control and Productivity conducts studies to assess the efficacy of production at PEMEX. Productivity improvement activities can be seen everywhere in the company, from production workplaces to research and development centres. The Committee formulates the programmes for further improving quality and productivity at PEMEX and its subsidiaries. Recently, it approved the “Quality-Productivity Master Plan”. The aim is for the plan to serve as a guide for fostering employer-employee cooperation in the field of quality improvements.

In line with the Master Plan, a quality control model known as “INTRAGOB” has been implemented. PEMEX and the trade union have agreed to change the wage structure and link a certain amount of wage increases in proportion to an increase in productivity. As a general trend, a productivity allowance is becoming increasingly significant in the workers’ wage structure.

3.3. Tripartism in deciding wage increases

During the 1980s, forming social agreements based on tripartite consensus (the three parties being the Government, the employers and the trade unions) in order to increase Mexico’s economic stability became an integral part of national economic policy. One of the achievements of tripartite social dialogue was deciding wage increases at the central level. Where the oil industry is concerned, however, this mechanism was not very successful in promoting collective bargaining. Since then the Government has not initiated any similar programmes. Instead, it adjusted its policy to rely on the free will of the social partners to promote collective bargaining in resolving problems and facilitating social dialogue.

3.4. Issues concerning industrial relations

Adalberto Cardoso makes the following observation about industrial relations in Mexico in general:

Labour has consolidated itself in Mexico as an integral part of the political regime based on the electoral mobilization of the masses, its leaders [are] incorporated in the very heart of the State’s bureaucracy either as representatives in tripartite bodies designed to formulate public policies of all kinds, or as political representatives via participation in the structure of the PRI [the Partido Revolucionario Institucional]. The whole system [is] based on a clear exchange of labour acquiescence for legal protection and social policies, resulting in the constitutionalization of labour rights. In this setting, employers also had their tripartite mechanisms, the so-called corporatist chambers to which they [have] the obligation to be affiliated (the chamber of commerce, the chamber of industry and the chamber of small and medium enterprises).²⁴

The Federal Labour Law has remained almost unchanged since its enactment in 1931. Modernizing it has been a key aim of Mexico’s administrations past and present. One criticism levelled against existing legislation is that much of it is outdated. For example, the national railways’ collective agreement has almost 4,000 clauses, many of which are repetitive or even contradictory. Employers’ organizations call for a revision of the law to allow greater flexibility over the employment practices, forms of compensation and legally specified minimum contract terms, believing that this is essential to economic

²⁴ Adalberto Cardoso: “Industrial relations, social dialogue and employment in Argentina, Brazil and Mexico,” *Employment Strategy Papers*, Employment Analysis and Research Unit, Employment Strategy Department, 2004/7, ILO.

competitiveness. Administrations of the past two decades have attempted to undertake labour reform, but failed to reach a consensus with the social partners on how the law should be amended. In addition, employers are concerned about trade unions' high wage demands. It is estimated that between 2000 and 2002 unit labour costs rose by 40 per cent. According to employers, the following are among the most problematic areas in present labour practices:

- Labour categories must be defined with greater flexibility to allow adaptations to technical progress. Some collective agreements are so rigid that even if the post the contract relates to is abolished, the person occupying the position continues to be paid.
- Workers need to be given the freedom to form, join or not join a trade union of their own choosing. Democracy must be guaranteed within trade unions through secret and universal balloting of members on issues that include declaring a strike and joining a national trade union centre.
- The so-called Law Contracts need to be abolished. These establish binding agreements for all the firms belonging to a certain economic activity, instead of negotiations taking place between the company and the trade union.
- The reduction and/or elimination of costs such as payroll taxes, social security contributions, housing contributions and several other payments.

3.5. New labour culture

President Ernesto Zedillo attempted to promote collaboration between employers and trade unions in order to raise productivity. In 1996, government-initiated negotiations between leaders of the official trade union movement and business representatives led to the so-called "New Labour Culture" agreement. This included the guideline on productivity-linked wage increases. In 2000, the Government stated its plan to move progressively towards a "new labour culture". This new labour culture aims to promote the evaluation of industrial relations in all workplaces, as a means of meeting social and culture needs of workers and their families and as an essential element in companies to reach high productivity and competitiveness. One specific measure taken is promoting social dialogue and negotiation so that sound employer-employee relations are developed in a harmonized environment. The agreement did not refer to negotiations over changes to the Federal Labour Law. President Fox tried to secure a compromise but the attempt did not bear fruit.

3.6. Unionization

Compared with the overall unionization rate of Mexico's industry, estimated at around 10 per cent, the oil industry is a highly unionized sector. It is estimated that at least 75 per cent of the overall workforce at PEMEX is unionized. In other words, almost 90 per cent of workforce members who are qualified to join the trade union – meaning permanent and temporary employees – are actual trade union members. The proportion of those who are not trade union members, such as confidential employees, is estimated to be around 25 per cent of overall employment. It is important to point out that in the oil industry temporary employees are unionized, whereas in most private sector enterprises they are not part of the unionized force.

3.7. Union of Oil Workers of the Mexican Republic (STPRM)

The Union of Oil Workers of the Mexican Republic (Sindicato de Trabajadores Petroleros de la República Mexicana (STPRM)) is particularly strong and is the most tightly organized company-based trade union in Mexico. The STPRM was set up in 1935. Its membership includes about 125,000 permanent and temporary workers and more than 40,000 retired workers. The STPRM has incalculable industrial muscle. It is the largest trade union in the oil sector.

The STPRM is an affiliate of the Confederation of Mexican Workers (CTM). Oil workers have been members of the CTM since its founding in 1936. The STPRM is a registered trade union, which gives it an absolute privilege in negotiating with PEMEX.

The Union has a Secretary General who runs the General Executive Office. The Office consists of specialized sections such as the Internal Affairs and Agreements, External Affairs and Advertising, Labour, Treasurer-Secretary, Statistics, Education and Grievance. The power of the Secretary General to manage the Office is grounded in the trade union's bylaws. The General Executive Office deals with day-to-day trade union activities, such as concluding collective agreements and resolving grievances on behalf of union members. The term of office of union leaders is six years.

The highest decision-making organ in the STPRM is the General Delegates' Meeting (Convention). It has the power to decide the union's constitution and bylaws. The Meeting elects the Secretary General and members of the union's Executive Committee. It also elects their representatives to PEMEX management, the Federal Conciliation and Arbitration Board and other outside tripartite and bipartite committees.

STPRM's regional structure is made up of so-called "sections". There used to be 52 sections, but today there are only 36. Each regional section has an administrative structure similar to that of the General Executive Office at the central level, namely the Local Executive Committee, the Legal Committee, Delegates' Executive Committee, and Special Committees.

3.8. Contract work

There is evidence that casual work has been increasing in the Mexican economy. For example, the Government announced that 252,000 new jobs were created in the first half of 1997. It appears that many of the new jobs created involved shorter working days, and many of them were also casual jobs, providing little or no job security. While 22 per cent of those in employment worked for 35 hours a week or less in 1994, the corresponding figure at the end of June 1997 was over 25 per cent. Nearly 42 per cent of the unemployed said that they were dismissed from their previous jobs, whereas the corresponding figure for 1994 was just over 28 per cent.

There are no official figures allowing an analysis of statistical trends of contract work in the oil industry. Nevertheless, there is evidence that PEMEX has been contracting out some work to outside companies. For example, some newspapers point out that during 1995 and 1999, several PEMEX engineering jobs were contracted to the Mexican

Materials Research Company (Compañía Mexicana de Investigación en Materiales), which hired a number of engineers who had been laid off from PEMEX.²⁵

Contract work is often encountered in exploration and drilling, general construction work such as dismantling, maintenance of buildings, gardens, streets, roads, highways, infrastructure, employees' social service facilities, transportation, specialized equipment, and distribution.

The trade union participates in the contracting process at PEMEX. The company must inform the STPRM of the type of work being outsourced and to whom it is being outsourced. PEMEX also needs to consult with the STPRM about who will actually make sure that unionized members' interests are not infringed. For example, when construction or maintenance are to be carried out on PEMEX premises, the company must inform the STPRM and the employees at the workplace of contract terms 15 days before the actual work takes place. The company is also required to provide contract workers with the same working conditions as those enjoyed by unionized employees. When the STPRM recommends workers to be hired for contract work, the workers concerned should be given priority in hiring over others.

Every January, PEMEX decides on the annual maintenance programme for its facilities. The STPRM must be consulted about the process and can comment on the execution of the programme. In line with company bylaws, PEMEX and the STPRM have set up a bipartite committee to monitor the progress of implementing the programme. The committee consists of five representatives from PEMEX and an equal number from the STPRM. The committee decides the scope and types of contract work, and who will be recruited for the contract work. The company is obliged to execute the committee's decisions.

In addition, in order for PEMEX to place the procurements, the company must obtain prior consent from the trade union for public bidding, and companies participating in the bid must be unionized. This is because the trade union ensures that the same conditions of work would apply regardless of the type of employment contract.

3.9. Freedom of association and the right to strike

Under article 123-A-XVI of the Mexican Constitution, workers and employers have the right to form their organizations in order to defend their interests by forming trade unions and employers' associations. The Government grants special powers to trade unions in terms of exclusion clauses (only unionized workers can be hired and keep their jobs), rules that make it easy to create trade unions and to bargain collectively, and the right to strike. These various matters are closely connected to strong state control over trade union activities, processes of organization and institutionalization, all of which reduces labour market conflicts.

There have been no stoppages in the oil industry in Mexico since the industry was nationalized in 1938. In 2002, the mere threat of an STPRM strike put added pressure on the peso, increasing the currency's volatility. In mid-September 2002, for example, the Mexican currency closed at 10.32 pesos to the US dollar, its lowest level since January 1999. The right to strike in the oil industry is restricted. Article 123, paragraph A, of the Constitution states that "the laws shall recognize strikes and work stoppages as the right of workers". Section XVIII also states that strikes shall be legitimate when they do

²⁵ *La Jornada*, 2 May 1999.

not affect the production and are called in order to promote workers' rights. In the public utilities sector, workers must file for authorization with the Conciliation and Arbitration Board ten days before the strike takes place. Strikes shall be considered as illegal acts only if the strikers use violence resulting in injury to people and disturbance of the peace. Nonetheless, the Government can still order that the strike be halted. In the utilities sector, the Government has established a legal mechanism called "requisa" which enables the authorities to intervene in industrial action seen as an illegitimate strike in order to make the utility service operate for the public interest.

3.10. Female representation in negotiation

Female participation in collective bargaining is extremely rare in the oil industry. For example, in the revision of the collective agreements in 2003, very few women were involved in negotiation teams for the trade union. At the central level, there were only two women trade union representatives as advisors. At the negotiation level, only three women out of 126 trade union representatives participated in bargaining through 11 subcommittees. This fact does not constitute direct evidence of discrimination against women, but the participation of women as trade union representatives needs to be improved without delay.

3.11. Protecting workers in time of change

Where industrial relations are concerned, there is no change in time of restructuring – the same collective agreement applies before and after the restructuring process. The Federal Labour Law (article 41) guarantees that labour relations, in particular the collective agreement, shall not be affected in the event of one employer being replaced by another.

Article 9 of the Organic Law of Petróleos Mexicanos and its subsidiaries²⁶ states that in the event of any change in PEMEX's work organization and corporate structure, the employment and conditions of workers must be preserved as stipulated in the collective agreement. The law mandates PEMEX to ensure that the trade union participates fully in the restructuring processes. It is understood that the law implies that the existing collective agreement must be retained.

The Decree at the origin of PEMEX's present corporate structure states that one of objectives of restructuring is to "strictly enforce the Federal Labour Law and PEMEX's existing collective agreement to stabilize the labour relations in the oil industry". The Constitution and the Federal Labour Law give PEMEX's Director General exclusive powers to intervene in industrial relations matters to protect public interest and maintain peaceful industrial relations at PEMEX and its subsidiaries.

3.12. Grievance procedure

In order to resolve disputes arising out of alleged faults by the workers, the collective agreement establishes due process in PEMEX's conflict resolution procedure, stipulating that the workers should not be penalized until the said procedure is exhausted. Until such time the procedure has been exhausted PEMEX cannot dismiss the worker, regardless of the cause. A representative from the trade union and the worker concerned must participate

²⁶ *Official Gazette* of the Federation, 16 July 1992, p. 30.

in the hearing and the worker must be given the opportunity to defend his/her position by producing evidence in his/her favour.

Article 179 of STPRM's bylaws states that, regardless of the position of the country's law, the trade union has the right to intervene in all kinds of conflicts among its members in order to obtain justice for its members.

The collective agreement lays out the grievance procedure. PEMEX must give the worker notice of hearing in writing; what is more, the notice must be delivered to the trade union 24 hours before the worker receives it. The notice must clearly specify the matter in dispute. If the worker fails to attend the first hearing, a second hearing must be scheduled. If the worker concerned fails to appear at the first hearing, PEMEX can suspend him/her, but is not allowed to dismiss him/her until the decision becomes final.

When an internal problem-resolving procedure is exhausted, it does not prevent the worker concerned from initiating an external conciliation and arbitration procedure.

The Federal Conciliation and Arbitration Board is a body responsible for hearing cases opposing employers and employees, including those in the oil industry. The Board is a tripartite body and its members are elected every six years at the election held by the Government. In 2004, the Board received around 13,000 claims from oil workers alone; the accumulated sum of all the claims amounted to about 5,000 million pesos, representing some 10 per cent of the total claims filed with the Federal Conciliation and Arbitration Board.

PEMEX has a mechanism for recording all instances of misconduct committed by its workers. The most common forms of such misconduct are negligence, followed by absenteeism, disturbances at work, and non-observance of a work rule.

4. Conclusion

In 1938, Petróleos Mexicanos (PEMEX) was founded as a state-owned oil and gas exploration and production company in Mexico. PEMEX retains a monopoly on the exploration, production and distribution of crude oil and, oil refining and petrochemical production in Mexico. It is a world-scale oil company. In 2005 the company ranked fifty-first on the Fortune Global 500 list. It achieved its highest revenue level, US\$64,000 million, in 2004.

Mexico has about 15,000 million barrels of proved oil reserves, placing it fifteenth in the world. In 2004, PEMEX produced nearly four million barrels a day and accounted for about five per cent of world production. However, oil refining has fallen from 1.490 million barrels a day in 1990 to 1.438 million barrels a day in 2004. Mexico reduced its proved reserves of natural gas from the 1984 peak of 2.17 trillion cubic metres down to 0.42 trillion cubic metres in 2004. In 2004, Mexico produced 37.1 billion cubic metres of natural gas, an increase of only 1.2 billion cubic metres in a decade.

The reduction in exploration and production is partially due to internal structures at PEMEX. PEMEX is considered under-capitalized compared to similar privately-held companies, due to complex legal and political considerations. The first is in its tax structure. The Government charges high tax to PEMEX. The share of the oil component in government budgetary revenue was about 36 per cent during 2004. It has been increasing thanks to high crude oil prices. Under-capitalization has made it difficult for PEMEX to exploit new oil wells. PEMEX also lacks resources for investment in research and development. The company lacks technology for deep-water drilling, especially since the country's largest oil deposits lie under the Gulf of Mexico.

With many challenges confronting PEMEX, the Government has attempted to change PEMEX's business model to make the company more competitive in the globalized economy. In the past two decades, the Government attempted to privatize some PEMEX operations in order to increase the productivity. There were also some attempts to modify the company's legal framework. Under 2001-06 National Energy Plan, the Government called for US\$120 billion in energy sector investment. The key points of the Mexico's energy policy lie in expanding the natural gas market and reducing the country's reliance on fuel oil in order to facilitate private investment. The primary objectives of the plan are to clearly demarcate state and private participation in the energy sector; to introduce measures to boost efficiency and competitiveness; and to increase private sector participation in the production of hydrocarbons. In order to increase the private sector participation, the Government attempted to privatize PEMEX's petrochemical industry, but the efforts were not successful.

PEMEX is one of the largest employers in Mexico. It may be the world's largest oil company in terms of employment. In 2004, the company's overall workforce was nearly 140,000. However, because of the company's unique and advanced workers' protection scheme, developed over almost a century, the actual number of the people on its payroll exceeds 200,000. Male workers are dominant force in the workforce. Women workers account for about 30 per cent of PEMEX's total workforce. They are mainly engaged in administrative work at headquarters.

Oil workers enjoy good conditions of work, compared with other industries. This is based on the company's fairness policy in conditions of work, and is evidenced by wages. In 2003, day shift workers belonging to level 8, which is the lowest grade in the company, received 144.34 pesos per day. This job category includes domestic workers, messengers and general workers. The lowest wage (level 8) at PEMEX is nearly four times higher than the nominal national minimum wage. Where other monetary allowances are concerned,

PEMEX provides its workers with far more than the legal minimum. Workers and their family members also enjoy good protection. In addition, PEMEX provides its workers free of charge with uniforms and shoes required for their jobs.

The Federal Labour Law establishes the workers' right to negotiate collective agreements with their employers only if the trade unions are duly registered with the authorities. Numerous regulations concerning working time and vacation are granted under the collective agreement. Contractual weekly working time at PEMEX is 40 hours. Overtime premium rates are also decided by the collective agreement. Weekend work premium is 135 per cent of basic pay, for example. The oil industry negotiates wages annually, while the terms and conditions of work are negotiated every other year. PEMEX's collective agreement expires on 31 July. Trade unions must provide the Conciliation and Arbitration Board with a list of demands at least 30 to 60 days before the collective agreement is set to expire. Separate lists of demands on wage and working conditions are submitted. Once the Board receives the demands, it forwards them to PEMEX. The company must initiate negotiations immediately after receiving the union's demands from the Board. Negotiations take place within numerous specialized employer-employee bipartite committees.

Mexico has a strong tradition of social dialogue. PEMEX's personnel management policy places great strategic importance on corporate decision-making conducted through negotiations with the trade union. This is evidenced by the company's numerous bipartite committee mechanisms. The Union of Oil Workers of the Mexican Republic (STPRM) is particularly strong and is the most tightly organized company-based trade union in Mexico. The union represents more than 125,000 permanent and temporary workers and retired workers. The oil industry is a highly unionized sector. It is estimated that more than 75 per cent of workforce are trade union members. STPRM also represents temporary workers in the oil industry, whereas in most private sector enterprises in Mexico these workers are not part of the unionized force. This ensures that contract workers enjoy the same working conditions as those for regular workers. At PEMEX, the trade union participates in the contracting process. The company must inform the STPRM of the type of work being outsourced and to whom it is being outsource. The company needs to consult the trade union about who will actually make sure that unionized members interests are not infringed. In addition, the company must obtain prior consent from the trade union for public bidding, and companies participating in the bid must be unionized. This is because the trade union ensures that the same conditions of work would apply regardless of the type of employment contract.

Under the Mexican Constitution, workers and employers have the right to form their organizations in order to defend their interests, including trade unions and employers' associations, respectively. However, the right to strike in the oil industry is restricted. In the public utilities sector, workers must file for authorization with the Conciliation and Arbitration Board ten days before the strike takes place. Under the laws, the strike shall be considered an illegal act only if the strikes use violence resulting in injury to people and disturbance of the peace. Nonetheless, the Government can order that the strike be halted.

In conclusion, Mexico needs to modernize the oil industry more competitive in a keen global market. To meet this goal, social dialogue can play numerous significant roles. Social dialogue includes all types of negotiation, consultation or exchange of information between representatives of governments, employers and workers, on issues of common interest relating to economic and social policy. It is an instrument of fostering mutual understanding that might result in better industrial relations. It is a very effective means to ease the adversarial relationships through collaboration in the course of introducing the new technologies. New technologies demand high skills. The Government of Mexico,

PEMEX and trade union have a common interest in training and retraining for increasing the productivity in the oil industry.²⁷ The study also found that the oil workers in Mexico enjoy the high wages and good working conditions compared with their counterparts in the country. This is because in 1950 Mexico has ratified ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and implemented the Convention into national labour laws and labour practices. Well-advanced social dialogue between trade union and PEMEX evidences the good collective bargaining in the oil industry. However, the study found that right to strike in the oil industry is restricted. Upon the request of the Government of Mexico, the ILO may be able to provide the country with technical assistance of promoting social dialogue, workers' skills and capacity-building and awareness programmes towards the full implementation of this core Convention in the oil industry in the country.

²⁷ *Promoting National Social Dialogue – An ILO training manual*, ILO, 2004.

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