
MEMORANDUM

TO: Cornerstone Clients
FROM: Cornerstone Government Affairs
SUBJECT: Status of Business Operations in Mexico
DATE: April 8, 2020

With the announcement of forced business closures in Mexico, this memo is intended to provide clarification on the status of business operations in Mexico and its impacts on industries in the U.S.

Current Shutdown

On March 31, the government of Mexico issued an [official publication](#) of extraordinary measures that included immediate suspension (currently, from March 30 – April 30) of “non-essential” activities to mitigate the spread of COVID-19. Businesses are preparing for a scenario of a three-month shutdown of operations.

Although the Mexican government issued [guidance](#) on “essential activities,” the measures have generated confusion for the business community in Mexico due to vague, ambiguous exceptions for “fundamental sectors of the economy” and “activities that, if suspended, would have irreversible effects on its continuation.” Experts have commented that to the extent there is confusion in the U.S. regarding the interpretation of DHS’s critical infrastructure guidance, the implications for a country like Mexico, which is institutionally very different than the U.S., are exponential.

Complicating matters is the private sector’s hostile relations with the AMLO Administration. Lack of clear guidance on forced business closures is only one of many troubling circumstances for private business in Mexico as the federal government has ruled out an economic stimulus package for business, regardless of size, and failed to offer tax breaks to date. While other countries are injecting cash and liquidity into the economy to prop it up for recovery, AMLO seems to be taking Mexico in another direction.

Impact on American Businesses

Some source products from or produce products directly in Mexico. More broadly, 75% of Mexico’s exports are destined for the U.S. market. Mexico has displaced China as the U.S.’s largest source of imports for the past 6-8 months. This is especially true for footwear, apparel, and TV manufacturers although cars, washing machines, and fresh produce traditionally represent the largest imports from Mexico. In large part, this shift is due to the tariffs on China and the natural shifting many companies have made in recent years to diversify sourcing. To the extent “essential” industries in the U.S. rely on Mexican imports, those industries must also be considered “essential” by the Mexican government to continue receiving imports.

While reports on trade flow between Mexico and the United States have shown steady trends and “business as usual” despite the shutdowns, there is some speculation that the data reflects existing inventories flowing across the border. If Mexican factories remain shuttered for a prolonged period, impacts on trade flow will be sector-specific, but expect to see logistics, warehousing operations and distribution chains, particularly long-haul trucking (how most U.S.-Mexico trade flows), severely impacted in 4-6 weeks.

With regard to USMCA implementation, there's expectation the agreement, which was theoretically scheduled to go into force this summer, will be delayed 2-3 months to allow private industry (particularly autos) time to catch up with new rules of origin. Postponing USMCA implementation simply means NAFTA remains law for a few more months and the advantage is that industry knows how to operate under NAFTA. USMCA is uncharted territory in many respects and saddling companies that are currently closed with the burden of operating under the new labor provisions of USMCA is unfeasible.

Mexican Guidance on Essential Activities

The Mexican government [guidance](#) classifies “essential activities” as follows:

- Activities directly necessary for the public health emergency, such as:
 - Labor activities of the medical, paramedical, administrative and support branches throughout the health sector, public and private.
 - Health sector supply services and supply, which includes:
 - the pharmaceutical sector both in its production and its distribution (pharmacies),
 - the manufacture of supplies, medical equipment and technologies for health care,
 - those involved in the proper disposal of biological-infectious hazardous waste,
 - cleaning and sanitizing of medical units at different levels of care.
- Government operations:
 - public safety and citizen protection,
 - national defense operations,
 - judicial branch activities,
 - legislative activity at the federal and state levels.
- Sectors considered essential for the fundamental functioning of the economy:
 - financial,
 - tax collection,
 - distribution and sale of energy, gas and gas stations,
 - generation and distribution of drinking water,
 - food and non-alcoholic beverages industry,
 - food markets, supermarkets, self-service stores, grocery and prepared food sales;
 - passenger and cargo transportation services;
 - agricultural production,
 - fishery and livestock production,
 - agroindustry,
 - chemical and cleaning product production;
 - hardware stores,
 - Courier services,
 - guards in private security tasks;
 - nurseries and daycares,
 - nursing homes and long-term facilities for the elderly,
 - shelters and care centers for female victims of violence, their daughters and sons;
 - telecommunications and the media,
 - private emergency services,
 - funeral and burial services,
 - storage and cold chain of essential supplies
 - logistics (airports, ports and railways), as well as activities whose suspension may have irreversible effects for its continuation

- The operation of government social programs.
- Critical infrastructure that ensures the production and distribution of essential services, including the following:
 - drinking water,
 - electric power,
 - Petroleum,
 - gas,
 - jet fuel,
 - basic sanitation,
 - public transport,
 - stage one hospital and medical infrastructure,
 - others.

Jobs Impact

At least 10.8 million jobs are impacted by the closures of non-essential businesses in Mexico:

- 530,000 jobs in the automotive sector (Mexico is the 6th largest auto producer in the world, producing 3.9 million cars per year)
- 2 million jobs in tourism, Mexico's 3rd largest source of income (1000 hotels closed; those open are operating at 10% occupancy; cruise industry down considerably)
- 2.14 million jobs in restaurants (restaurant sales have dropped 90%)
- 6 million jobs in construction
- 655,000 jobs in breweries across 17 plants (Grupo Modelo and Heineken have suspended production)

Legislation in Mexico to Address the Crisis

On April 5, President Lopez Obrador announced an "Economic Reactivation Plan" that the business community has generally dismissed as totally inadequate and only addresses the president's pet projects. AMLO's plan includes the following points:

1. Creating 2M new jobs in 9 months.
2. No increases in taxes and no new taxes. VAT to be returned to taxpayers.
3. Pemex will have an additional \$65 billion pesos due to the reduced tax burden.
4. Building thermoelectric plants in Yucatan Peninsula.
5. High-ranking public officials will see a reduction in salaries and elimination of bonuses.
6. Government advertising, travel and operating expenses will be reduced.
7. Construction of the Santa Lucía airport continues, the rehabilitation of the six refineries and the construction of the new Dos Bocas refinery. Production of gasoline in the country will increase; Mexico will allocate an additional 400,000 barrels per day to that purpose so as not to waste export oil.
8. Additional investment of \$25 billion pesos in drinking water, paving and construction in marginalized areas (228K direct jobs).
9. Expansion of Sembrando Vida program for 200K additional jobs in farm country.
10. Direct support for 190K fishermen starting in May.
11. Personal loan fund for public sector workers.
12. Housing loans.
13. April 30 begins construction of first section of the Mayan Train.
14. Personal, housing and small business loans.
15. Announcement TBD on public-private social investment program for energy sector.