

Summary

Akzo Nobel  
Mexico



**Summary based on research by:**

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**(CILAS)**

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# 1. Introduction

This report summarises the main findings of a research conducted in 2005 on Akzo Nobel's operations and subsidiaries in Mexico. The research focused on labour conditions, including the free exercise of the rights to join a trade union and conduct trade union activities, and issues related to Corporate Social Responsibilities (CSR).

## **Laboratorios Organon S.A.**

The research on Laboratorios Organon (hereafter also referred to as "Organon") was based on documents and information provided by representatives of the company, workers and the unions. The documentation provided by the management was extensive. The research included interviews with company management at a national level, including the Director of Human Resources, and trade union leaders. Company representatives facilitated three interview sessions with groups of six workers (three men and three women). In addition, opinion polls were conducted among workers with the lowest pay to detect possible financial concerns, and a production plant was visited to get an impression of working conditions.

## **Intervet de México S. A. de C. V.**

At Intervet de México S. A. de C. V. (hereafter also referred to as Intervet) the research was based on company documents, interviews with the management and union representatives including one secretary, surveys on the purchasing power of low-wage workers and plant visitations. Additionally the research was completed with observations from the union representatives, workers, and the company.

# 2. General characteristics of Akzo Nobel in Mexico

## **Business description**

### **Laboratorios Organon S.A.**

Organon produces and markets contraceptives, hormonal substitutes, antidepressants and muscular relaxants. The pharmaceutical company is the market leader for various products. Its major clients are mostly large pharmaceutical distributors such as Autrey, Saba, and Marsan. The company also performs assembling work for multinational and domestic companies.

In 2004, sales and earnings amounted to 789 and 98 million pesos (€56m and €7m) respectively.<sup>1</sup>, following a steady growth illustrated in the table below. The company's exports to a range of Latin American countries also grew from 8.73% in 2001 to 27.47% in 2005. 95% of Organon's imports are mostly from the Netherlands and other EU countries.

*Sales and earnings of Laboratorios Organon, 2001-2005*

	2001	2002	2003	2004	2005*
Sales (US\$ mln)	527.9	546.7	677.6	788.6	816.3
Earnings (US\$ mln)	64.2	73.2	74.2	97.7	70.7

Source: Department of Human Resources. \*Partial figures

Organon recently underwent two major structural changes. Firstly, towards the end of 2004, the company was merged with *Química Esteroidal S.A.*, a sister company in the Akzo group. Química produced steroids and basic organic chemicals and also supplied to Organon. Química Esteroidal's operations were shut down in 2003, so the merger was actually an administrative exercise. The union and Organon confirmed that the 150 workers of Química Esteroidal were dismissed and received compensation in accordance with the Federal Labour Law. Organon's own employees were not affected by the merger.

Secondly, in January 2005, Organon was split up in two different companies: Laboratorios Organon, an assembly plant of pharmaceutical products, and Organón de México, the owner of the facilities and machinery. Laboratorios Organon thus transformed itself from a production company into a services company, thereby profiting from an odd feature in Mexican fiscal policy that allows the company to pay approximately 30 percent less taxes. Another reason for the metamorphosis was the increasing cost of raw production materials. Later in this report we will address the impact of this change on workers, in terms of profits and remuneration.

**Intervet de México S. A. de C. V.**

Intervet is a veterinary pharmaceutical company. Their products include antibiotics, vaccinations and growth enhancers. Close to 80% of the activities of Intervet Mexico are geared towards the poultry sector. The company mostly produces for the local market; only about 20% of the production is exported to other Latin-American countries, Europe and the United States. In 2004 sales and profits amounted to 684 and 10 million pesos respectively. As shown in the table below, on average, sales have grown from 2000 to 2004 but in 2005 this trend is expected to stop. Profits increased from 2000 to 2002 to sharply decrease over the following three years.

*Sales and Earnings, Interveterinaria, 2000-2005 (mln pesos)*

	2000	2001	2002	2003	2004	2005 (Sep)*
<b>Sales</b>	<b>523.4</b>	<b>625.0</b>	<b>620.4</b>	<b>671.0</b>	<b>683.8</b>	<b>521.4</b>
<b>Earnings</b>	<b>21.5</b>	<b>49.4</b>	<b>60.3</b>	<b>6.7</b>	<b>10.1</b>	<b>4.3</b>

Source: Human Resources Management. \* Forecasted annual figures for 2005.

<sup>1</sup> All currency conversions are calculated at a rate of 14 pesos = €1.

Although Intervet operates as one company, in legal terms it is formed by two companies: Intervet and Interveterinaria. The first is the owner of the brand names, controls the commercialisation and company sales, has no personnel, and is administrated by the personnel of Interveterinaria, S.A. de C.V. Intervet itself does not produce but has an exclusive service provision contract with the production company Interveterinaria which has two plants in Mexico, one in Santiago Tianguistengo and one in Santa Clara.

As opposed to the Santiago plant, which has its own production, warehouse and specialised facilities, the Santa Clara plant is a guest company within the installations of Clariant, a Swiss company that produces specialised chemical products. The Santa Clara plant actually is a small production zone within Clariant, which is paid by the company for the use of the facilities, services and inputs. In total Intervet has 392 employees most of whom are stationed at the Santiago plant. The Santiago plant provided 88% of sales volume and the Santa Clara the remaining 12%. The company’s administration stresses that Interveterinaria is not an assembly company (*maquiladora*).

There have been no important structural changes in the company since 1999 when Interveterinaria acquired the Santiago and Santa Clara facilities from Hoechst Roussel Vet. The acquisition and restructuring process was completed in 2000. There were no acquisitions of other plants or installations in the study period.

**Employment and employment trends**

**Laboratorios Organon S.A.**

The following table shows that Organon’s workforce has been relatively stable from 2000 to 2005. In this period, the number of registered union members ranged from 58 to 71.

*Total employment at Organon*

	2000	2001	2002	2003	2004	2005*
<b>Men</b>	171	170	174	168	177	176
<b>Women</b>	132	121	129	116	115	136
<b>Total</b>	303	291	303	284	292	312

Source: Department of Human Resource. \*Figures as of August 2005.

In 2000, the company employed 22 temporary workers. This number fluctuated between 2 and 8 from 2002 to 2005. Temporary workers stated they were repeatedly engaged in contracts for 3 to 6 months. The total count of employees also includes sales representatives. These employees are not represented by the trade union and rarely work at the company’s premises.

The management stressed that it does not differentiate between and equally values production workers (*trabajadores de base*) and staff in higher positions (*trabajadores de confianza*).<sup>2</sup>

#### **Intervet de México S. A. de C. V.**

As shown in the table below, the number of employees at Intervet has somewhat decreased. The 18 workers that were laid off from 2002 to 2005 were compensated in accordance with the law. About one third of all employees are female and one third of all employees have a temporary contract.

#### *Total Employment at Intervet Mexico*

	2002	2003	2004	2005*
<b>Men</b>	160	157	154	152
<b>Women</b>	87	86	78	77
<b>Total</b>	<b>247</b>	<b>243</b>	<b>232</b>	<b>229</b>

Source: Human Resources Management. \*Figures as of September 2005.

### **Company management and relations with the corporation**

#### **Laboratorios Organon S.A.**

Decisions concerning Akzo Nobel's corporate strategy and structure, such as the closing down or opening of plants, take-overs, etc. are taken at a corporate level. Organon's decision making mandate relates to matters that concern the company's operations at a national or local level, such as its human resources, organisation of work and selection of suppliers.

#### **Intervet de México S. A. de C. V.**

While the administration affirmed a high degree of autonomy of the national administration, the two unions expressed the opinion that there is a low level of autonomy at national level. In any case, it is clear that the Akzo group is responsible for decisions concerning corporate strategy and structure, while the local management is responsible for decisions concerning technological adjustments, establishment of work methods, wage bargaining policy, administrative style changes and human resources training. The national administration claimed being responsible for outsourcing agreements, environmental impact control actions, selection of suppliers and the use of subcontractors as well, but the unions disagreed.

According to Intervet's management, the company's strategy is to "increase the use of animal growth enhancers in the Mexican livestock sector and continue to be the leading company in the national veterinary market." The unions have no precise information on this topic.

<sup>2</sup> The Mexican Federal Labour Law states that *trabajadores de confianza* are those who have either a managerial position or a supervisory role or are related to the departments of security and/or finance, and also include those who perform office work.

## **Corporate Social Responsibility**

### **Laboratorios Organon S.A.**

Organon's management understands CSR as "the moral obligation of the company to support activities that would promote the growth of a better society as well as the betterment of the members that constitute the community". Among the (many) documents, such as statements on its mission, vision and values, that the company provided to the researchers, the Akzo Nobel "Code of Conduct" was missing. The company referred to the website instead. The management claims that the employees are familiar with this code. While workers did not possess copies of the COC, they were aware of its contents. In general, information on the company's CSR policies and activities are disseminated internally and additional request for such information by employees are honoured.

The company reports carrying out specific social responsibility activities in which employees actively participate and which sometimes deal with working conditions. However, workers were of the opinion that labour issues are not approached and dealt with as CSR issues by the management. The activities described include: discussion sessions to promote business ethics within and beyond the firm, informative talks for employees to avoid labour-related accidents and activities to promote a cleaner work environment.

The management claims that there have not been any reported violations of the COC. The employees that were interviewed affirmed this to be the case over the past five years. It is not known how the company itself monitors compliance. Compliance is, however, not verified independently.

### **Intervet de México S. A. de C. V.**

Interviews with the company's management revealed that the company sees CSR as "having a secure source of employment, free of occupational risks, without affecting the community or the environment." Philanthropy and labour issues are considered to be in the domain of corporate social responsibility. With respect to the latter, the company aims "to provide safe working conditions, preventing occupational illness risks, maintaining a Joint Health and Safety Committee, and participate locally in the Industry Association in actions to preserve the environment."

However, union delegates did not consider labour issues to be approachable from the CSR angle but, in general, they seemed ill informed about CSR at their company. The latter applied to the workers as well. Accordingly, local management admitted that their Principles of Conduct so far had been distributed among higher ranking employees only but that a follow-up and evaluation programme of CSR policies is in the process of implementation. The national management is unfamiliar with international (labour) standards such as the ILO labour conventions and the OECD guidelines.

According to workers and unions, the following CSR activities take place at the company: implementation of community support activities, talks on health and safety, labour development, work attitudes, and adequate work practices. The directors of the two plants are responsible for monitoring compliance with CSR norms.

## **Supply chain policy**

### **Laboratorios Organon S.A.**

The administration states that the 'Code of Conduct' has not been provided to supplier firms or subcontracting companies outside the Akzo Nobel Group, and specific labour conditions are not required of them.

### **Intervet de México S. A. de C. V.**

Suppliers need not comply with Intervet's CSR policy nor are its policies communicated to them. However, workers at supplier companies need to be registered. According to the union at the Santa Clara site this applies mainly to suppliers of raw materials.

## **3. Labour relations**

### **Active unions within the company**

#### **Laboratorios Organon**

Since January 2005, Organon's workers are represented by the National Syndicate of Workers and Employees in Trade, Food, General Services and Private Schools, a union that is affiliated with the Revolutionary Confederation of Mexican Labourers (CROM). Its predecessor was the National Union for Workers and Employees of Chemical and Pharmaceutical Plants and Laboratories and Similar and Related Industries (SNTEFLQFISC), which is affiliated with the Confederación de Trabajadores de México (CTM). The management has supported the change of unions during the restructuring process without engaging the workers. However, the workers did not object to this procedure.

According to the company's management, administrative and office employees do not belong to the trade union, because they are considered *trabajadores de confianza*. Both the management and the workers reported that the union is not really active in the company, and referred to it as a *sindicato blanco* ("white union"), a name given to "token" unions. White unions are only established to fulfil the company's legal obligations under the labour regulations and undertake little action to address labour concerns. Workers are not acquainted with their union representatives, which are designated by the Company and, only after, elected by the workers through a process of consultation.

## **Intervet de México S. A. de C. V.**

### Santiago Tianguistengo Plant

The principal union at Interveterinaria Santiago Tianguistengo is the National Union Association of Laboratory, Chemical Product, Pharmaceutical, and Allied Workers in the Mexican Republic. This union is, in turn, a member of CTM (“Confederation of Workers of Mexico”), which is the country’s largest union organisation, and which practices a type of unionism that is known as “corporativism.” As mentioned in the last report on Akzo Mexico, the union’s general secretary intervenes more as legal consultant than as daily organiser and representative of the workers, despite holding a union license. Therefore the researchers also contacted union delegates in the company for this research.

Internal union work rests on two delegates. Elections for union delegate posts are held every three years. Delegates can carry out union work mostly during working hours. The position of general secretary is distinct; it is not decided at company level, but rather within the union structures.

### Santa Clara Plant

A very different situation exists at the Santa Clara plant, where union representation resides in the *Sindicato de Trabajadores de Farmoquímicos y Similares* (“Union of Pharmo-chemical and Allied Workers”), which is an independent union unaffiliated to any national or international federation. The Collective Agreement (CA) with Interveterinaria comes through the larger and older chemical plant, Clariant, at which Interveterinaria is a “guest company”, as mentioned above. In this case, it may be said that there is greater institutionalisation of union activity in this industrial unit, considering that this union has a long history dating back through the ownership changes suffered by the company. This union’s general secretary holds permanent union license. He has held the post since 1997 and will complete his term in July 2009. The Santa Clara plant also has an exclusive union delegate.

Both unions, the one at the Santiago plant and the one at the Santa Clara plant, are classified as industrial and local unions, and their disputes are therefore addressed at the Conciliation and Arbitration Board of Toluca, the capital of the State of Mexico. In both cases workers’ contributions to the unions are paid directly by the company, which to this end deducts 1% to 2% of each workers’ salary.

### **Freedom of Association**

- ILO convention 87 (protection of unions)                      ratified 01-04-1950
- ILO convention 135 (employee representatives)                ratified 02-05-1974

*Mexican laws provide the basis for the formation of independent unions, but political and legal practices like contractual clauses that annihilate the liberties of unions, bureaucracy and patronage (political machine) practices, do not contribute to it. For instance foundation of new unions and the affiliation of employees to other unions can be prevented with the so called "exclusion clause": employers, in agreement with trade unions, may dismiss employees that leave a trade union.*

#### **Laboratorios Organon S.A.**

The Collective Agreement (CA) includes a provision that candidates for a job in production must be affiliated to a trade union in order to join a company. In practice, however, not much heed is given to this provision, and the union does not supervise the process either. This norm is restricted to permanent workers and not applicable to administrative and sales personnel for which the company deems it unnecessary to join a trade union. With respect to the "exclusion clause", the company claims it has never dismissed a worker who was not a union member or who left the union. Currently only 62 of the 312 employees are affiliated to the trade union. The union, which signs the CA pro forma, is financially supported by the company. However, employees do not pay for the unions via a premium deducted from their salaries as is noted in the CA.

The company keeps unions at a certain distance. This is evident from the fact that the company's labour policies have remained free from their intervention. Moreover, the former company director stated that confrontational union practices and intervention strategies would be detrimental to the company's performance. For this reason, the company prefers to deal with unions that do not interfere with the company's affairs. During the last years there have been no attempts by workers to form a (new) trade union.

#### **Intervet de México S. A. de C. V.**

Union affiliation is mandatory for the job posts specified in the collective bargaining agreements: this concerns about one-third of all employees. This obligation is specified in the collective workers bargaining agreement and in union statutes. As part of the contracting process, the candidate reports to the union to affiliate him or herself as a member. However, this has barely occurred in the past five years, nor has the company fired a worker who, for some reason, was disaffiliated or expelled from the union. Administrative employees, laboratory workers and specialised technicians cannot belong to or form a union. The company administration and union delegates affirm that there has been no form of discrimination against workers for union motives, or application of any type of sanction or reprimand for the implementation of union activities.

As noted in the previous report, union delegates have access to the workplaces and it is assumed that workers can hold meetings with union members within plant facilities, with the only prerequisite that prior notice be submitted to a chain of upper-management, and the company usually grants permission. On the other hand, at the Santiago plant, the delegates lack license to facilitate greater dedication, and there are therefore specific times to address union issues. All the

interviews confirmed that there is freedom to distribute union information. While no union office was reported to exist at the ample Santiago plant facilities, suitable offices are established within the Santa Clara industrial plant.

Sanctions have not been applied to workers for union activism. The company has bilateral agreements signed with the Santiago union on internal work regulations, training and skills development, and health and safety. An additional agreement exists at the Santa Clara plant on the productivity bonus.

### **Collective bargaining**

- ILO convention 98 (collective bargaining) not ratified

*Mexico has not ratified ILO convention 98 with the argument that the national law already complies with its contents. However, while the Mexican law may go beyond international norms for some aspects, the implementation of free and voluntary negotiations is problematic (for example the aforementioned exclusion clause). Labour institutions press unions to limit negotiations according to the borders of economic policies, which is below fair remuneration levels.*

*Articles 357 and further oblige an employer to negotiate a collective contract when unionised workers request to do so. Individual interests should not prevail over general interests dealt within the collective agreement (CA). The modification of contracts is also a collective undertaking regulated by the law.*

### **Laboratorios Organon S.A.**

There is a collective bargaining agreement in place, and effectively there is collective bargaining for specific issues such as profit sharing schemes and the savings fund. However, on other labour related issues, employees negotiate directly with the management. Workers are not informed of the collective bargaining agreement, which is signed by representatives of the working committees (see “workers committees” section below) and the union. From this, and the fact that some of the norms laid down in the agreement are not followed within the company (see for instance “union freedom” section below), it seems that the agreement is mostly a matter of formality. Isolated conflicts at an individual level concerning remuneration, promotion and annual performance evaluations have been reported.

### **Intervet de México S. A. de C. V.**

A union committee exists at the Santiago plant for contract or wage negotiations; it is composed of four workers and their lawyers but does not include the union’s general secretary. At the Santa Clara plant, union delegates, including the general secretary, and workers are involved in collective bargaining. Unions at both plants affirm that the contract and wage reviews have been conducted without significant problems; indeed both unions express the opinion that there is a positive perception of the relationship with the company.

## **Workers Committees**

### **Laboratorios Organon S.A.**

Despite the limited role given to trade unions, the Company does have workers' representatives for matters related to legal issues and other day-to-day issues which are dealt with by the Bilateral Labour Commissions (joint committees) and the Comité de Enlace (Link Committee). For instance, the Link Committee's tasks include strengthening the communication between the workers and company's management. It promotes and presents workers' suggestions and complaints on issues other than labour matters. The representatives can enter working areas, but only as observers. The company has also indicated that they are not authorised to distribute information to workers while on plant premises. Nevertheless, there have not been any cases of sanctions applied to workers for carrying out such activities within the company. From these findings it is clear that the activities of these committees cannot be considered as a substitute to genuine collective bargaining by free unions.

### **Intervet de México S. A. de C. V.**

Joint committees exist and work at the Santiago plant, including committees on employee profit sharing, training and skills development, first aid, and safety and health. At Santa Clara, in addition to the above, there are also committees on productivity, sports and festivities, and the chemical emergencies brigade. Other committees also present at both plants are those for cultural activities and education and training. In both cases, reports were not obtained from these committees on their activities, apparently because they are not elaborated in a systematic manner.

## **Access to information**

### **Laboratorios Organon S.A.**

Workers confirmed that the company regularly shares information, in particular during department meetings. Other means of communication include the bulletin board, circulars and e-mail. The shared information mostly pertains to internal production and local activities, and withholds "classified" financial and commercial information.<sup>3</sup> General meetings are held once or twice a year.

### **Intervet de México S. A. de C. V.**

According to the Santiago union, the company provides relevant information to the union on internal production issues and the company's global and local development. However, it does not

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<sup>3</sup> Interview conducted by Luis Antonio Bonifaz, dated July 27 2005 with the Department of Human Resources, Company questionnaire, *CILAS A. C.*, electronic file.

do so in a periodic and timely manner. The Santa Clara union reports receiving the same information timely. The two unions are not familiar with each other nor do they carry out joint activities. Neither of the two unions has relations with the unions at the supplier or subcontractor companies, nor do they co-operate between themselves on union topics.

## 4. Labour conditions

### Child labour

- ILO convention 138 (minimum age) not ratified
- ILO convention 182 (worst forms of child labour) ratified 30-06-2000
- ILO convention 90 (night work of children) ratified 20-06-1956

*Articles 173 to 180 of the LFT prohibit the employment of children under 14 years of age. Within restrictions children older than 15 are allowed to work. Restrictions include parental permission, prohibition of work at night and dangerous work, no more than 6 working hours a day, no overtime nor work on Sundays. Additionally at least 18 days paid vacation a year, special protection and regular medical check-ups are mandatory.*

#### Laboratorios Organon S.A.

The *Reglamento Interno de Trabajo* (Internal Labour Rules) states that the company's minimum age of employment is 18. The workers confirmed that this provision is upheld.

#### Intervet de México S. A. de C. V.

The company regulations specify that hiring people under 18 years of age is not allowed. The researchers found no evidence that this norm is not upheld. Company regulations extend to subcontracting companies operating within the company, and suppliers, but compliance is not supervised at suppliers.

### Forced labour

- ILO convention 29 (forced labour) ratified 12-05-1934
- ILO convention 105 (forced labour) ratified 01-06-1959

*Article 5 of the constitution of the United States of Mexico prohibits forced labour, except for penalties imposed by the authorities. Incidences of forced labour have been noted in sectors other than the chemical and pharmaceutical sector.*

#### Laboratorios Organon S.A.

The company and workers confirmed that there are no known cases of forced labour.

## **Intervet de México S. A. de C. V.**

From the interviews, there was no evidence of forced labour in either of the plants.

## **Discrimination**

*Mexican legislation regarding discrimination is in accordance with all conventions, but in practice cultural and social practices limit the access of women to jobs that are better paid.*

## **Laboratorios Organon S.A.**

There are 136 women and 176 men working in Laboratorios Organon. Both men and women are rather equally distributed throughout the entire hierarchy. The company does make a distinction between male and female employees when it comes to workers rights. No cases of women fired due to pregnancy were reported by the company or the unions. The company does not have an affirmative action policy for women.

## **Intervet de México S. A. de C. V.**

On the basis of the interviews conducted, no form discrimination was detected among workers. In the area of equal opportunities between men and women, no cases of evident gender discrimination attributable to the organisation were mentioned. Although under-represented among the total workforce, women are working on all levels of the company hierarchy. No cases of women fired due to pregnancy were reported by the company or the unions, nor were cases of sexual harassment by superiors toward subordinates or among work companions identified at either plant. The company has no affirmative action policy for women.

## **Wages and bonuses**

- Ratified ILO conventions: 26, 95, 99, 131

*Wage in Mexico may not be less than the fixed minimum and the notion of a living wage is recognised in accordance with the ILO convention. However, in reality, purchasing power has declined by about 70 percent since 1980. Hence the current minimum wage for workers, 46.80 pesos a day (approximately €3.30) is not sufficient to maintain a family.*

*Federal law of labour (LFT) also contains provisions on profit sharing. The National Commission sets a percentage for profit sharing of taxed enterprise profits. One part of this sum must be divided equally among all employees, taking into account the number of days worked, and the remainder is divided in proportion to wages. Additionally, a Christmas bonus of 15 days' wage paid for a complete working year is mandatory. These bonuses can be an important complement to regular wages in Mexico.*

## **Laboratorios Organon S.A.**

At Organon, salaries for higher administrative personnel are comparable, middle-level salaries tend to be lower and low-level salaries are notably higher than average in the sector. The interviewed workers also believe that their salaries are higher than those in other companies. The lowest wages paid at Organon are almost three times as high as the legal minimum wage. However, it still does not constitute a living wage. For this it should be at least four times higher than the minimum wage. The researchers could not access company documents on the salaries of workers who receive the lowest pay. However, this information could be narrowed down from interviews. Information on the salaries of other factory personnel was provided. The company is fulfilling its obligations in terms of paying wages, paying profit sharing, savings fund, *aguinaldo* (end-of-year bonus), etc., in accordance with the Federal Labour Law.

The Company awards bonuses of 280.80 pesos (€10) for punctuality: if a worker reports to duty without fail and without being late more than twice a month. The amount is equivalent to six times the minimum daily wages. There are also other performance based annual bonuses. According to the company, the bonus depends on, among other things, company sales and the performance of the employees and is relative to the employee's position in the hierarchy: the lower the position the higher the bonus are as a percentage of the workers salary. The maximum bonus is 38% of the annual salary, the minimum is 8%.

The productivity bonuses are awarded by the immediate head of a section and other managers. At the end of the year, each worker is directly and individually informed of the evaluation and consequently, of the bonus as well as salary increments. The weakness of this system is that, although the worker can express his opinions on the evaluation, he has no power to alter the results. Therefore, workers feel defencelessness in the event of a disagreement. However, the bonuses granted are on national sectorial level and there has been no disagreement about the hike in relative bonuses that was implemented to compensate for the expected decrease in profit sharing. In the first evaluation in 2005, 15% of employees surpassed the objectives, 74% met the objectives, 10% were assessed as needing improvement, and 1% as insufficient.

## **Intervet de México S. A. de C. V.**

Progressive loss of purchasing power (see Mexico context above) most definitely affects Interveterinaria's employees. The lowest daily wage at Interveterinaria Santiago of 70.17 pesos (€5) is 1.5 times above the minimum wage, but, as already mentioned, a worker must earn four times the minimum wage (187.20 pesos or €13.40) in order to cover the basic necessities for himself and his family. With respect to wages, the most striking finding was the considerable difference between the wages paid at the Santiago Tianguistengo and Santa Clara plants, with workers far better off at the latter plant. For the same type of function scale employees at the Santa Clara plant earn considerably more, often double and sometimes more than double.

This is a very peculiar situation because both plants are located in the same state under the same administration. The company puts forward two explanation for this difference: the higher standard of skills of workers at the Santa Clara plant, where different chemical and biological processes are involved and work related risks are higher, and secondly, that labour relations at the Santa Clara plant reflect a much longer (30-year) history of negotiations, dating to when the plant still belonged to Hoechst, while negotiations at the Santiago plant have only a six-year history.

In order to obtain additional information on the situation of the subsistence of Interveterinaria Santiago workers receiving the lowest wages, a survey was carried out among the 14 labourers in this category. Some of the most revealing results are summarised as follows:

- None of the workers in this wage category considers the wage sufficient in order for his family to live comfortably.
- Two-thirds of the interviewed workers are the primary providers for their families.
- The vast majority has more than three —and they may have up to six— economic dependants.
- Only two have an additional economic activity.
- Half of those interviewed must have another person contributing to cover family expenses, and, of these, only one contributes more than the Interveterinaria worker.

The Santiago union has presented a proposal to reduce the number of wage-scale levels to five and raise the salaries of the bottom three. The same union points out that there is little opportunity for promotion. In fact, there were only three promotions in all of 2005. Moreover, there is a perception among workers that “some in middle management do not give the workers the credit they deserve and tend to evaluate the quality of their work as bad.”

Interveterinaria offers monthly attendance and punctuality bonuses and an annual productivity bonus at the Santiago plant. The same bonuses are offered at the Santa Clara plant, with the difference that the punctuality bonus is bimonthly, with a maximum of 600 pesos (€43) per year. In the case of the productivity bonus, the average bonus at the Santa Clara site is \$750, and the bonus reached 4,000 pesos (€286) at the Santiago plant in 2004. So the higher bonus in the Santiago plants might compensate to some extent for the lower wages. These bonuses are part of agreements established with the unions. The company also convoked the establishment of the profit-sharing committee and has provided the unions with the information needed to calculate profit-share distribution.

At the Santiago plant, it was affirmed that, following modification of the company’s activity category —from production company to assembly plant—, the amount of profit shares declined, with a subsequent drop in worker motivation, although production levels have been maintained. The company did not report on profit transfers abroad, and the unions have even less information in this regard.

## Working hours

- ILO convention: 30, ratified
- ILO convention: 52, 14, ratified

### Laboratorios Organon S.A.

The company complies with the law established to regulate working hours in factories. Interviewed workers say that they are free to choose extra hours although rejection would imply non co-operation with the administration. They also said that the Company respected the upper limit of working hours. Workers are paid twice the normal wages for extra hours, as it is stipulated by the law.

### Intervet de México S. A. de C. V.

Both plants respect the maximum established workday and both give advance notice for overtime requests (between two days and up to five days ahead at the Santiago plant and one day for the Santa Clara plant). Workers at both plants may refuse overtime hours if they have a good reason. Overtime hours are paid in accordance with norms established by the Federal Labour Law and the collective bargaining agreement. No relation has emerged between overtime work and increased workplace accidents.

## Health and safety and training

- |   |                     |
|---|---------------------|
| • ILO convention 148 (environmental conditions)           | not ratified        |
| • ILO convention 155 (safety and health)                  | ratified 01-02-1984 |
| • ILO convention 161 (health services)                    | ratified 17-02-1987 |
| • ILO convention 170 (chemical products)                  | ratified 17-09-1992 |
| • ILO convention 174 (prevention of industrial accidents) | not ratified        |
| • ILO convention 12                                       | ratified            |

*Employers have to follow the orders of the authorities concerning the adjustment of their installations. In practice, protective measures depend to some extent on an enterprise's economic capacity and level of development. The Mexican labour law states that employees have the right to training provided by their employers.*

### Laboratorios Organon S.A.

The company has annual programmes for improving skills in the fields of production. It claims that the obligations established by the official norms have been fulfilled. The individual contract, for example, establishes that it is the responsibility of the company to conduct such activities. In 2004, priority was given to training on subjects such as hygiene, the prevention of accidents, risks, the management of materials, maintenance etc. Workers trained six times annually on these subjects.

## **Intervet de México S. A. de C. V.**

The company has annual training programmes for production areas, with priority given to addressing health and safety topics. Some of the topics included in the 2004 programme were: accident prevention, risks, handling materials, maintenance, etc. The company indicates that it fulfils the commitments established by official norms in this regard. In the individual labour agreement, it is established that the company has an obligation to provide this type of activities. In 2005, a total of 308 diplomas were granted, verifying labour skills achieved after receiving these training courses.

## **Social security schemes, medical insurance, pensions and housing facilities**

- ILO convention 102 (minimal social security)                      ratified 12-10-1961
- ILO conventions 42, 17, 19    ratified

*The Mexican Social Security Law states that a public institute, financed by employees, employers, the state or a combination of these, has to provide assistance to employees or their families in the case of working accidents or social calamities. This includes health care and medical assistance, social security and pensions to cover working risks, disease, maternity, disability and retirement. The public institute that implements this law is the decentralised Mexican Institute of Social Security (IMSS). The Federal Law of Workers in Service of the State also deals with these issues. For pensions there exists also a Savings System for Retirement.*

*The labour code obliges all enterprises to provide appropriate housing for their employees. To this end they have to contribute a sum equal to 5% of all wages to the National Housing Fund (INFONAVIT). The objective of INFONAVIT is to create financing systems that allow employees to obtain cheap and sufficient credit for the acquisition of living accommodation.*

## **Laboratorios Organon S.A.**

All employees are IMSS members; as a result, they are entitled to such benefits as medical services, medical security, retirement benefits and other social benefits. The workers also enjoy an additional medical plan for higher medical expenses. Moreover, employees can dispose of a special clinic. Finally, all employees are entitled to additional benefits such as paid matrimony and maternity leave and life insurance.

## **Intervet de México S. A. de C. V.**

Benefits at Intervet are similar to those at Organon.

## 5. Reorganisations, outplacement, flexible working and job security

### Reorganisations and relocation

#### **Laboratorios Organon S.A.**

The already mentioned transformation from a production to a service company was the most important structural adjustment in the company. According to the Company “the new firm, Laboratorios Organon S.A. de C.V. administers the entire operations of the old OMSA and, all its employees and workers were transferred to the new firm under the same conditions that were applicable in the original firm including salary and benefits.” This was confirmed by the workers. Almost all workers accepted to have their contracts renewed, four workers did not agree and were compensated according to Mexican legislation (while it was the company that ended their contract).

#### **Intervet de México S. A. de C. V.**

Interveterinaria has not carried out any reorganisations or relocated production units in the past five years.

### Outsourcing and subcontracting<sup>4</sup>

#### **Laboratorios Organon S.A.**

The company follows the general practice of leasing tasks such as private security, catering, maintenance, cleaning and infrastructure through the process of subcontracting. There is currently no outsourcing. The amount of permanent employment has not been affected, nor has a direct change in labour relations been caused in recent years. The trade union and the liaison committee are not involved in any way in these matters.

#### **Intervet de México S. A. de C. V.**

At both plants cleaning, surveillance, cafeteria service, construction, transportation, and some administrative tasks are subcontracted. Only at the Santiago plant maintenance is also subcontracted. In reference to outsourcing, the company notes that “it has been used only for work overloads in production and in administration” without providing precise details on which

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<sup>4</sup> Subcontracting is understood as the engagement with another company for the supply of services or products. Outsourcing is understood as the assignment of certain functions that were previously performed by the contracting company to an external agent.

functions. In general, the union representatives interviewed agree that outsourcing has not directly resulted in job losses or tensions on the work floor.

## **Work flexibility**

### **Laboratorios Organon S.A.**

Organon has no formal work flexibility policies; nevertheless, its internal rules permit the transfer of a worker from job to another, as long as there is no effect on the wages received. However, the same rules establish the obligation that employees work the extra hours required by the company. According to workers, there is flexibility in the process of learning, the use of multiple skills, rotation among different jobs (the latter proposed by the company as an ergonomic solution), and the reorganisation of workdays and roles of workers. However, workers report that the company assumes the responsibility for maintaining job security and income stability.

There are very few temporary workers at Organon. The company opts for temporary workers *“to comply with the production demands or for the modification or extension of the infrastructure.”* There are hardly any differences in labour conditions for permanent workers and temporary workers; the only differences are with respect to certain benefits.

### **Intervet de México S. A. de C. V.**

The administration claims that it has not carried out a flexibility plan. However, clauses in the collective bargaining agreements and in the internal regulations give a broad margin of flexibility in terms of mobility among job posts and working hours. The result is that workers can be freely moved among posts and working hours, workdays and shifts can be modified according to company needs. For the Santa Clara union, the possibility of mobility among posts is perceived as positive from the point of view of increased labour capacities; but they add that incentives should be applied in the case of job or workday modifications. The management notes that incentives are in place: compensation is allocated for changes to the second shift, and —a larger payment— for the third shift.

Workforce flexibility through contracting seasonal workers is another modality used at the Santiago plant. The number of seasonal workers at this plant is substantial according to the plant's own data, and the majority of seasonal workers are occupied in production tasks. Seasonal workers are not entitled to benefits such as annual bonuses or the savings fund, but they do receive payments to buy groceries and are included in the profit sharing scheme. According to the Santiago union, temporary workers do not affect job security or income levels. In general, plant workers seem to accept to situation vis-à-vis seasonal workers. Moreover, the unions agree with the opinion that the management aims for job and income security for its workers.

## 6. Conditions in the supply chain

### Laboratorios Organon

The company claims to check the quality standards of products, imports, and services coming from suppliers and subcontractors. In the case of continuous failure to comply with the norm, all established contracts are revoked. The company, however, does not regularly visit the installations of suppliers and subcontractors. There is no evidence of any co-operation or contact between the workers or the trade union of *Organon* with the trade unions of suppliers. The trade unions of the most important suppliers do not have access to information regarding the main company.

### Intervet de México S. A. de C. V.

The company verifies quality, safety and hygiene in transportation of the products, and responsibilities of the suppliers in the delivery of their merchandise.

## 7. Conclusions

### Laboratorios Organon

Laboratorios Organon is a law-abiding company and its employees enjoy social benefits and good working conditions with respect to safety and hygiene. However, a few points need consideration.

From a company perspective the transformation of Laboratorios Organon from a production company into a firm offering services makes good sense, taking advantage of an odd fiscal policy of the Mexican government. However, it also resulted in a reduction in reported profits that consequently affected workers' profit sharing. The company attempted to compensate for this effect by increasing the performance bonuses. Nevertheless, a likely effect of this measure is that its implementation will lead to intensified competition among employees for obtaining the full bonus.

Secondly, although the transformation of the company hardly resulted in conflicts on the work floor, a moral and economic tension was perceived due to the large and sudden lay-offs of personnel. The workers were left with very few options and were severely threatened with the imminent danger of unemployment.

With respect to the freedom of trade unions and collective bargaining within the company, some other issues should be raised. The current union within the company is a so-called "white union", which does not represent the workers and does not bargain collectively on other matters than profit sharing schemes and the savings fund. In effect, because of the exclusion clause the

current union could effectively prevent employees from joining or forming new unions. The company so far did not use this clause but explicitly stating it will not use this clause could improve matters greatly. Although the company is not responsible for the proper working of the trade unions, it does have a responsibility to eliminate obstacles for their free functioning. Other actions from the company in this respect could include allowing administrative personnel to join unions and explicitly encouraging the formation of new unions. So far, however, the company's rather hostile attitude against the formation of critical trade unions surely does not contribute to improve matters. Additionally, if the committees currently representing workers in collective bargaining were to substitute collective bargaining by unions, their mandate should be broadened to include collective bargaining on labour conditions such as wages and bonuses. For instance, at the moment, the bonus system, which is crucial for workers to integrate their salaries, creates anxiety among workers. A committee with the right mandate could improve the situation for workers with this respect. All in all, compared with the findings of the previous research on these issues, matters have not improved.

With regard to specific knowledge of the Akzo Group's CSR policy, it seems limited both among workers and at the department that would have to deal with breaches of this Group's COC. To illustrate: whereas the group's COC claims "business unit management is responsible for making the Akzo Nobel standards with regard to child labour known to key suppliers and contractors", Organon does not in fact communicate such labour standards nor does it demand commitments from suppliers in this respect.

#### **Intervet de México S. A. de C. V.**

Intervet respects and upholds local labour legislation; the company's employees enjoy social benefits and good working conditions with respect to safety and hygiene. However, as with Organon, some points need to be addressed.

With regard to Intervet's CSR policy, its "Principles of Conduct" have not been disseminated in an adequate manner so as to ensure that they are understood and applied in all levels of the organisation. There is no periodic review of CSR commitments by the administration but actions to this end are currently being proposed. The management has no knowledge of international labour standards regarding CSR. Suppliers and subcontractors do not have to comply with the principles neither are they communicated to them. The exception is that in-company subcontractors may not employ people below 18.

The company respects the right of the workers to have a union, but within a very limited framework. The unionised worker population has in fact stagnated and the non-unionised workforce, among which the significant number of temporary workers, has grown. Both matters merit the attention of the company and stakeholders. Unions may bargain collectively on behalf of the workers with the company's management. No strikes or work stoppages have been registered.

The company fulfils its obligations in reference to the payment of wages, remuneration and benefits to which it has committed. In general terms, the company compensates above the legal minimum, although wages at the lower salary scales at Santa Clara and for all technical personnel on the factory floor are insufficient for adequate purchasing power. Bonuses might, to some extent, compensate for these relatively low wages.