



BELIZE CHAMBER OF COMMERCE & INDUSTRY

for industry, commerce, services and trade

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OUR REF: BCCI/PRES 04/03-09

March 16, 2009

Hon. Gabriel Martinez
Minister
Ministry of Labour, Local Government
and Rural Development
68 Trinity Boulevard
Belmopan City, BELIZE

Dear Minister Martinez,

The Belize Chamber of Commerce and Industry thanks the Ministry of Labour for the opportunity provided over the past months to discuss and dialog the proposed severance amendments. We are encouraged by your commitment to inclusive governance evidenced by your ministry's willingness to ensure all relevant stakeholder voices are heard.

Attached please find our official position on the proposed severance amendments. You will note that our position is twofold: (1) The government should not consider any initiative that threatens to increase the cost of doing business in an economic recession; (2) the private sector would prefer to understand and plan for the absorption of a revised labour and industrial relations environment in its entirety rather than the piecemeal approach postulated by the severance amendments. Thus, we must say we are highly encouraged by your speech of - Friday, March 13th, at the occasion of the Launch of the Labour Advisory Board, where you tasked the C-ouncil with a complete revision of the labour law and the drafting of a "National Labour Policy for Belize", stating *"that the piecemeal approach to amending our legislation, which has been the practice over the years, must be replaced by a comprehensive review . . ."*

Please know that the BCCI and the private sector stand ready to lend their input toward a mutually beneficial resolution of this and the wider reform measures contemplated for the labour environment in Belize.

Sincerely,

Amparo Masson
President

**Submission by the Belize Chamber of Commerce & Industry
on the Severance Initiative**

The Belize Chamber of Commerce and Industry would first like to reiterate its respect for and recognition of the value of employees. Our members understand that our employees are very often the cornerstone of our organizations and as such we must share in the responsibility to ensure their wellbeing. However, when we are asked to bear the full burden of that responsibility at the expense of our very survival, we are compelled to act.

No increase in cost

Our members express, in the strongest possible terms, their concern that the government is considering measures that would increase labour costs in these trying times. The burden of business costs on our membership across all sectors, such as the escalating tax and fee schedules at both the national and municipal levels in the forms of customs duties, environmental taxes, business taxes, trade licenses and other fees, and high utility costs is already straining our members to their limit. Our members have asked us to convey the sentiment that until the economic climate begins to improve, the government **should not consider any measure that may add to the current costs of doing business.**

The Operating Environment

The world is in the throes of a financial crisis. This is evidenced by the scramble in developed countries to rescue their economies through measures aimed at restoring market stability and investor confidence. While the Central Bank of Belize has gone to unprecedented lengths to allay fears about the impact on Belize's economy, the evidence suggests that our economy has registered a worrisome contraction in 2008, when compared to its performance in 2007. According to the Central Bank of Belize's December 2008 Economic report, even though traditional exports, with the exception of sugar and marine products delivered a respectable performance, (see table 1), there is a noticeable contraction in the tourism sector, one of the pillars of our economy and its largest foreign exchange earner. Total tourist arrivals fell by 3.6% in 2008, with the majority of the shortfall in the cruise sub-sector (4.1%) and the Central Bank projects a further decline in visitor activity in 2009. The fact that the largest service industry in our economy, comprised almost exclusively of small and medium size businesses is facing a sizable contraction in business is not to be ignored. Further, since this contraction persists without expectation for improvement in the short to medium term, the real impact of this on our economy remains to be seen.

Table 1 : Production of Main Domestic Exports

	2007 Jan-Dec	2008 Jan-Dec	% Change
Sugarcane Deliveries (long tons)	1,163,319	1,000,733	-14.0
Sugar (long tons)	94,610	81,869	-13.5
Molasses (long tons)	46,408	40,041	-13.7
Banana (metric tons)	61,811	77,934	26.1
Citrus Deliveries (boxes)	6,097,237	7,590,900	24.5
Citrus Juices ('000 ps)	33,608	43,193	28.5
Marine Products ('000 lbs)	13,236	13,078	-1.2
of which shrimp ('000 lbs)	11,885	9,379	-21.1
Garment ('000 lbs)	1,682	29	-98.3
Papaya ('000 lbs)	72,943	63,716	-12.6
Petroleum (barrels)	1,047,720	1,294,397	23.5

Sources: Statistical Institute of Belize, B.S.I., B.G.A., shrimp industry, Citrus Products of Belize (CPBL), Citrus Growers Association, Geology & Petroleum Department

Domestically, the inflation rate recorded its highest level in nine years in 2008, peaking at 6.4%. The Central Bank reports that this was driven mostly by higher fuel and food prices¹. This level of cost inflation typically forces producers to raise prices with a commensurate demand for increase in wages which increases the wage bill for businesses across the board. With this starting point, any increase in the wage bill now will only exacerbate inflation since the increased costs in operations will force many businesses to

raise prices, with the predicted response from consumers and wage earners, continuing the cycle and promising to send inflation spiraling out of all control.

¹ CBB December 2008 Monthly Economic Report

In addition to higher input costs, in the past year the private sector has had to battle increased competition from Mexico as Belizeans take their dollars across the border to Chetumal in record numbers. According to the Immigration Department, on average Belizeans travel to Chetumal in numbers of between three hundred (300) to four hundred (400) persons per day on the weekdays, and more than five hundred (500+) per day on the weekends and holidays². As such, they estimate that in any given month the business of between 13,000 to 15,000 Belizeans are diverted to the Chetumal economy. Using the higher end of the spectrum (15,000 per month) and assuming each individual spends an average of BZ\$75.00³ in Chetumal, in a month a little over \$1.12 million, or \$13 million over the course of a year is diverted from Belizean businesses.

Further the sector has faced increased competition from the informal sector as more and more contraband products compete with those from sanctioned local producers and distributors. A study on the impact of contraband and under-invoicing conducted by the BCCI in 2006, established that losses to the Government of Belize from a sample of eight companies and sixteen product lines, accrued to \$9.6 million or roughly 5% of all revenue from customs for the same year. Empirical evidence suggests that three years later, the situation is much worse.

The Impact of the Proposed Severance Amendments

The proposed severance amendment to the Labour ordinance which contemplates a change in the formula for the calculation of severance which will increase the payout to employees and includes considerable relaxation of the eligibility requirements for severance, is regarded by the private sector as a significant threat to harmonious industrial relations, since it threatens to destabilize the operations of employers across the SME spectrum and force contemplation of a shorter relationship with each employee.

In a study conducted by the BCCI on a sample of small and medium enterprises randomly selected from among its membership and assuming the proposed changes were implemented today, (under current salary and tenure conditions), the severance liability would increase on average 154% with most of the burden residing with those members who had the majority of employees in the 10 year plus category. Across the sample the liability would increase from \$1.7M to \$4.6M. Those members who had no current employees in the 10 year plus category fared best with on average a 100% increase in severance liability. Those at the other end of the spectrum face an increase in liabilities in excess of 200%! See summarized data below in Table 2. Making the situation worse is that there is no obvious correlation between size of business and employee tenure. In the sample there were smaller businesses (categorized by sales turnover), albeit with a smaller employee base than their larger counterparts, but with a disproportionate amount of longer term (10+ year employees). These businesses face the greatest threat from this proposal since they are the ones that can least afford the increased liability over time.

² Information courtesy of Misters Gilroy Guzman and Ronald Romero, Department of Immigration Northern Border. According to the sources, the department does not keep precise numbers on travellers whose only purpose for crossing the border is to visit Chetumal. They do have precise numbers of those travelling further than the border point. Thus the figures provided are their best estimates.

³ We believe this is a conservative assessment

Table 2 – Summarized Impact on a Sample of BCCI Members

17 Total Liability					
Company	Current	Proposed	Variance	% increase	
A	\$ 84,530.80	\$ 240,092.40	\$ 155,561.60	184.03%	
B	\$ 136,138.22	\$ 362,692.32	\$ 226,554.10	166.41%	
C	\$ 20,800.00	\$ 47,800.00	\$ 27,000.00	129.81%	
D	\$ 125,000.00	\$ 346,153.85	\$ 221,153.85	176.92%	
E	\$ 7,836.00	\$ 15,673.08	\$ 7,837.08	100.01%	
F	\$ 32,476.77	\$ 83,449.54	\$ 50,972.77	156.95%	
G	\$ 27,020.25	\$ 54,040.50	\$ 27,020.25	100.00%	
H	\$ 69,426.92	\$ 138,853.85	\$ 69,426.93	100.00%	
I	\$ 8,750.00	\$ 23,000.00	\$ 14,250.00	162.86%	
J	\$ 25,480.76	\$ 73,076.91	\$ 47,596.15	186.79%	
K	\$ 114,266.82	\$ 228,533.64	\$ 114,266.82	100.00%	
L	\$ 22,500.00	\$ 56,538.46	\$ 34,038.46	151.28%	
M	\$ 32,476.92	\$ 83,449.99	\$ 50,973.07	156.95%	
N	\$ 76,211.72	\$ 225,397.47	\$ 149,185.75	195.75%	
O	\$ 713,000.00	\$ 2029,000.00	\$ 1316,000.00	184.57%	
P	\$ 46,862.43	\$ 147,287.30	\$ 100,424.87	214.30%	AVG
Q	\$ 160,372.54	\$ 407,736.28	\$ 247,363.74	154.24%	154.17%
Total	\$ 1703,150.15	\$ 4562,775.59	\$ 2859,625.44	167.90%	

Note that numbers do not consider the impact of the proposal tables for retirement/illness/death

Below are a few of the comments from members who were invited to make submissions on the matter:

“Most if not all companies record severance expense monthly as an accrual, and based on this proposed amendment to the law, we would see an increase of 400% in severance expense, which works out to a substantial addition annually against the bottom line. Where will this come from?”

“I hope you can convince the Minister that this is a very sensitive and very important matter for the survival of many businesses”

“I find it incomprehensible that they feel this will improve the economic climate of Belize”

“With so many businesses worrying about the economy and what the future will bring it certainly is a ridiculous time to increase tax! No matter how you look at it . . this is like a tax increase.”

“The proposal is unsustainable and provision for severance would bankrupt many businesses. This is asking private companies to take on the responsibilities of the state in terms of pensions”

“The proposed amendment will cause labour costs to increase astronomically at a time when a world recession appears to be looming. Businesses are under intensifying pressure to remain competitive in a global market and their failure to adapt is translating into losses. As bottom lines are declining and wage freezes or jobs are lost, it may seem like an ideal time to review and improve severance provisions. However this will only add to the downward spiral of failing businesses and the vicious cycle goes on.”

Moving Forward

While the Chamber does not necessarily challenge the need for some sort of review as it relates to severance/pension provisions, we submit that it should be within the context of a review of the entire Labour ordinance to make it more contextually relevant and aligned with the country’s national development objectives. In the view of the Chamber, taking on the issues related to severance and pension without first consolidating the legislation pertaining to the regulation of labour generally, and considering other issues which may impact and affect productivity, is at best inefficient and at worst injurious to the development of a thriving private sector. The private sector would prefer to understand and plan for the absorption of a revised labour and industrial relations environment in its entirety rather than the piecemeal approach postulated by the severance amendments.

In addition, to seek to enact new and burdensome legislation in the current environment is in our view, unreasonable. In fact, our members are seeking initiatives from the government that will stimulate economic activity, provide incentives for growth and level the playing field for more of our businesses to export and compete effectively in the global arena. Any cost-increasing initiative, but particularly one as burdensome as the severance amendment, threatens not only the competitiveness of our producers but indeed the very ability of our most promising enterprises to survive the current crisis.

Our members request that the government consider a more strategic approach to labour and the role it plays in the development and competitiveness of our businesses and seek to provide an enabling environment which encourages a sustainable, long term relationship between the employee and employer built on mutual respect and shared responsibility.