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# THE EMPLOYMENT LAW REVIEW

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SEVENTH EDITION

EDITOR  
ERIKA C COLLINS

LAW BUSINESS RESEARCH

# THE EMPLOYMENT LAW REVIEW

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Seventh Edition

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ERIKA C COLLINS

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## EDITOR'S PREFACE

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Every year around this time when we update and publish *The Employment Law Review*, I read the Preface that I wrote for the first edition back in 2009. In that first edition, I noted that I believed that this type of book was long overdue because multinational corporations must understand and comply with the laws of the various jurisdictions in which they operate. This continues to hold true today, and this seventh edition of *The Employment Law Review* is proof of the continuously growing importance of international employment law. It has given me great pride and pleasure to see *The Employment Law Review* grow and develop over the past six years to satisfy the initial purpose of this text: to serve as a tool to help legal practitioners and human resources professionals identify issues that present challenges to their clients and companies. As the various editions of this book have highlighted, changes to the laws of many jurisdictions over the past several years emphasise why we continue to consolidate and review this text to provide readers with an up to date reference guide.

Our first general interest chapter continues to track the variety of employment-related issues that arise during cross-border merger and acquisition transactions. After a brief decline following the global financial crisis, mergers and acquisitions remain active. This chapter, along with the relevant country-specific chapters, will aid practitioners and human resources professionals who conduct due diligence and provide other employment-related support in connection with cross-border corporate M&A deals.

Global diversity and inclusion initiatives remained a significant issue in 2015 in nations across the globe, and is the topic of the second general interest chapter. In 2015, many countries in Asia and Europe, as well as North and South America, enhanced their employment laws to embrace a more inclusive vision of equality. These countries enacted anti-discrimination and anti-harassment legislation to ensure that all employees, regardless of sex, sexual orientation or gender identity, among other factors, are empowered and protected in the workplace. Unfortunately, there are still many countries where homosexuality is a crime, and multinational companies have many challenges still with promoting their diversity programmes.

The third general interest chapter focuses on another ever-increasing employment law trend in which companies revise, or consider revising, social media and mobile device management policies. Because companies continue to implement 'bring your own device' programmes, this chapter emphasises the issues that multinational employers must contemplate prior to unveiling such a policy. 'Bring your own device' issues remain at the forefront of employment law as more and more jurisdictions pass, or consider passing, privacy legislation that places significant restrictions on the processing of employees' personal data. This chapter both addresses practice pointers that employers must bear in mind when monitoring employees' use of social media at work and provides advance planning processes to consider prior to making an employment decision based on information found on social media.

Our fourth and newest general interest chapter discusses the interplay between religion and employment law. Religion has a significant status in societies throughout the world, and this chapter not only underscores how the workplace is affected by religious beliefs but also examines how the legal environment has adapted to such beliefs. The chapter explores how several nations manage and integrate religion in the workplace, in particular by examining headscarf bans and religious discrimination.

In addition to these four general interest chapters, this seventh edition of *The Employment Law Review* includes 46 country-specific chapters that detail the legal environment and developments of certain international jurisdictions. This edition has once again been the product of excellent collaboration. I wish to thank our publisher, in particular Gideon Robertson and Sophie Arkell, for their hard work and continued support. I also wish to thank all of our contributors and my associates, Michelle Gyves and Ryan Hutzler, for their efforts to bring this edition to fruition.

**Erika C Collins**

Proskauer Rose LLP

New York

February 2016

## Chapter 39

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# SAUDI ARABIA

*Amgad T Husein, John M B Balouziyeh and Jonathan G Burns<sup>1</sup>*

### I INTRODUCTION

Saudi Arabian law is based fundamentally on shariah (Islamic) law as taught by the Hanbali school of jurisprudence. Secondly, the Saudi Arabian authorities and governmental agencies issue, *inter alia*, royal decrees, resolutions, and circulars that have the effect of creating binding law. Generally, the codified law in Saudi Arabia is limited solely to matters of commercial law and public order.

The employment law framework in Saudi Arabia is based on the Labour and Workmen Law, enacted by Royal Decree No. M/51, dated 23 Sha'ban 1426 H, corresponding to 27/9/2005 G (the Labour Law, or LL), as well as by shariah, as interpreted and applied in Saudi Arabia.

In addition to the Labour Law, numerous subsequent circulars enacted by the Ministry of Labour are applicable to any relationship pursuant to which a party agrees to work in Saudi Arabia for another party. The Labour Law applies to and governs the employment relationship between the two parties.

Under the aegis of the Ministry of Labour, the Commission for the Settlement of Labour Disputes (the Commission) is the Saudi Arabian entity that is currently primarily responsible for adjudicating labour disputes.<sup>2</sup> However, before a case may reach the Commission, it must first be heard by the Labour Office for mandatory mediation. Only if the employer or employee refuses to accept the non-binding decision of the mediator may the case advance to the Commission.

---

1 Amgad T Husein is a partner and John M B Balouziyeh and Jonathan G Burns are associates at Dentons in Association with The Law Firm of Wael A Alissa.

2 In 2015, the Ministry of Labour and Ministry of Justice announced that jurisdiction over labour disputes would be transferred to the Ministry of Justice and a proper tribunal system implemented.

As a general rule, the Labour Law is drafted in favour of the employee, creating statutory rights that the employee may not waive (Article 6 LL). Among other issues, it regulates the employment of non-Saudis, training and qualification of employees, labour relations, work conditions, part-time work, protection against occupational hazards and industrial accidents and the employment of women and minors. The most common areas of dispute under the Labour Law between the employer and employee relate to the scope of wages, working hours, overtime pay, termination and severance pay.

## **II YEAR IN REVIEW**

### **i Expansion and protection of workers' rights**

The hot topic of 2015 was increased attention to workers' rights and the expansion and protection of those rights through various government actions and programmes. For example, HRH King Salman approved an overhaul of the Labour Law that saw 38 amendments come into effect in October 2015. Among other similar things, the amendments provided for longer and more significant leave periods for employees, and extended notice periods. However, some of the amendments were created in favour of employers. For example, the original version of the Labour Law limited an employee's probation period to no more than 90 days except in certain specific statutory situations. The amended Labour Law now allows the employer and employee to agree to an extended probation period purely as a matter of contract.

In addition, 2015 saw the continued implementation of the Wage Protection System, a government programme that requires all employers in Saudi Arabia to electronically submit employee wage information to a database maintained by the Ministry of Labour and, further, to deposit and pay all employee salaries solely through in-Kingdom bank accounts.

The Wage Protection System has been implemented in stages since its inception, beginning with applicability to only the largest firms in the country that employ 3,000 employees or more. As of year end 2015, the Wage Protection System was in its ninth stage with applicability to all firms in Saudi Arabia that employ 100 or more employees.

### **ii 'Saudisation'**

In addition, the national policy of encouraging employment of Saudi nationals in the private sector, known as 'Saudisation', remained an influential and controversial topic in 2015. Saudisation was enacted due to pressure exerted by Saudi Arabian nationals complaining that the job market had been saturated by Saudi Arabia's significant expatriate population, leading to high unemployment rates among Saudi nationals. In response, in October 2011 the Ministry of Labour stated that it would cut the number of foreign workers in Saudi Arabia from the current rate of 31 per cent of the population to 20 per cent over the next several years.

As it currently stands, Saudisation is regulated by the Nitaqat programme, which labels companies as platinum, green, yellow or red, based on a formula involving two or more of the following variables:

- a* the number of employees;
- b* the size of the company;<sup>3</sup> and, under certain circumstances
- c* the activities of the company.<sup>4</sup>

Failure to hire required percentages of employees under the Nitaqat programme may result in fines, non-renewal of residency permits, non-issuance of future employment visas and similar actions.

The following table applies to a conglomerate that owns companies crossing various sectors and is provided as general guidance to illustrate which Nitaqat classifications apply to the percentage of Saudi Arabian persons employed out of the total number of persons employed by the business.<sup>5</sup> For example, a company with 37 total employees, 13 of which are Saudi Arabian nationals (i.e., 35 per cent), would fall into the Green category below.<sup>6</sup>

<i>Number of employees</i>	<i>Red</i>	<i>Yellow</i>	<i>Green</i>	<i>Platinum</i>
<i>1–9 (very small company)</i>	Percentages do not apply; a fixed requirement of employing at least one Saudi national (including the employer or business owner himself) is applied.			
<i>10–49 (small company)</i>	0–3%	4–9%	10–39%	40–100%
<i>50–499 (medium company)</i>	0–4%	5–16%	17–39%	40–100%
<i>500 or more (large company)</i>	0–9%	10–23%	24–39%	40–100%
Red: high risk that the company will not be able to grant visas or renew the CR (a Saudi Arabian commercial registration certificate issued by the Ministry of Commerce and Industry). Yellow: moderate risk that the company will not be able to grant visas or renew the CR. Green: satisfaction of minimum requirements; no risk. Platinum: exceeds minimum requirements; no risk.				

- 
- 3 For instance, large companies are required to employ a greater number of Saudi nationals than small companies.
  - 4 For instance, small laboratories with between 10 and 49 employees must employ 10–14 per cent Saudi nationals in order to remain in the Yellow category. In contrast, in the agricultural industry, only 2–4 per cent of Saudi employees is required for a company of the same size.
  - 5 See ‘Percentages of Saudisation Required’ (Nitaqat, Ministry of Labour), available at [www.emol.gov.sa/nitaqat/pages/Percentage\\_drop.aspx](http://www.emol.gov.sa/nitaqat/pages/Percentage_drop.aspx) (last accessed 11 November 2012).
  - 6 It is important to note that the percentages discussed herein are subject to constant change, based on Saudi public policy considerations. For example, in 2012, in an effort to boost the number of Saudi women and Saudi handicapped persons employed by companies, the Nitaqat programme counted one Saudi female as two Saudi males and one handicapped Saudi as four Saudi males. When it became evident, however, that Saudi males were having a difficult time finding employment, the distinction between Saudi males and females was eliminated (such that Saudi males and females count equally). The higher quota for handicapped Saudis does, however, remain in place.

A workshop or locale specialising in maintenance is subject to the following Saudisation percentages:<sup>7</sup>

<i>Number of employees</i>	<i>Red</i>	<i>Yellow</i>	<i>Green</i>	<i>Platinum</i>
<i>1–9 (very small company)</i>	Percentages do not apply. A fixed requirement of employing at least one Saudi national (including the employer or business owner himself) is applied.			
<i>10–49 (small company)</i>	0–4%	5–9%	10–29%	30–100%
<i>50–499 (medium company)</i>	0–9%	10–19%	20–39%	40–100%
<i>500–2,999 (large company)</i>	0–14%	15–29%	30–44%	45–100%
<i>3,000 or more (giant company)</i>	0–14%	15–29%	30–44%	45–100%

A workplace specialising in the information technology sector is subject to the following Saudisation percentages:<sup>8</sup>

<i>Number of employees</i>	<i>Red</i>	<i>Yellow</i>	<i>Green</i>	<i>Platinum</i>
<i>1–9 (very small company)</i>	Percentages do not apply. A fixed requirement of employing at least one Saudi national (including the employer or business owner himself) is applied.			
<i>1–9 (very small company)</i>	Percentages do not apply. A fixed requirement of employing at least one Saudi national (including the employer or business owner himself) is applied.			
<i>10–49 (small company)</i>	0–4%	5–9%	10–29%	30–100%
<i>50–499 (medium company)</i>	0–9%	10–19%	20–39%	40–100%
<i>500–2,999 (large company)</i>	0–14%	15–29%	30–44%	45–100%

In the contracting and construction sector, the following Saudisation percentages apply:

<i>Number of employees</i>	<i>Red</i>	<i>Yellow</i>	<i>Green</i>	<i>Platinum</i>
<i>1–9 (very small company)</i>	Percentages do not apply. A fixed requirement of employing at least one Saudi national (including the employer or business owner himself) is applied.			
<i>10–49 (small company)</i>	0–1%	2–4%	5–20%	21–100%
<i>50–499 (medium company)</i>	0–1%	2–5%	6–15%	16–100%

<sup>7</sup> See Nitaqat, Ministry of Labour, available at <http://www.emol.gov.sa/> (last accessed 2 September 2014).

<sup>8</sup> Id.

<i>Number of employees</i>	<i>Red</i>	<i>Yellow</i>	<i>Green</i>	<i>Platinum</i>
<i>500–2,999 (large company)</i>	0–3%	4–5%	6–15%	16–100%
<i>3,000 or more (giant company)</i>	0–4%	5–6%	7–13%	14–100%

Implementation of the abovementioned Nitaqat programme is still evolving, and the Kingdom entered a second Saudisation phase, which focuses on the quality of local employment and salaries of Saudi nationals compared to their expatriate counterparts in the private sector.

In 2015, the Ministry of Labour boosted Saudisation restrictions by requiring firms employing more than 50 employees to employ Saudi Arabian nationals in at least 6 per cent of the leadership positions in the firm, though this rule has not been strictly enforced. Similarly, the Ministry of Labour also published rules restricting 19 specific job categories<sup>9</sup> to Saudi Arabian nationals only, and declared that no new work visas for expatriate employees will be issued for such job titles, nor will the work visas of existing expatriate employees holding such job titles be renewed.

Also in 2015, the Ministry of Labour proposed new rules aimed at discouraging the long-term employment of expatriate workers, ostensibly so that firms would be more amenable to hiring Saudi Arabian nationals. The proposed rules would treat an expatriate worker with three to five years' experience of working in Saudi Arabia as two expatriate workers, an expatriate worker with five to seven years' experience of working in Saudi Arabia as three expatriate workers, and an expatriate worker with over seven years working in Saudi Arabia as four expatriate workers for Saudisation purposes. The proposed rules also took wages into consideration, with different wage levels counting for or against a company's Saudisation levels. The proposed rules would count an expatriate worker earning between 7,000 Saudi riyals and 10,000 Saudi riyals per month as one expatriate worker, an expatriate worker earning between 10,000 Saudi riyals and 15,000 Saudi riyals as three-quarters of an expatriate worker, and an expatriate worker earning over 15,000 Saudi riyals per month as half of an expatriate worker. It is not clear how the rules on earnings would interact with the rules on years of service, and when (if at all) the proposed rules would go into force.

Previously, the Ministry of Labour required employers to pay a Saudi employee a minimum monthly wage of 3,000 Saudi riyals in order to count him or her as a 'full Saudi employee' under the Nitaqat programme. In 2014, the Ministry of Labour announced intentions to set a minimum monthly wage for Saudi employees at 5,300 Saudi riyals and 2,500 Saudi riyals for expatriate employees. However, this has not come to fruition as of 2015.

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9 The 19 restricted job categories are: chief administrator of human resources; head of personnel department; director of labour affairs; director of individuals relations; individuals affairs specialist; individuals affairs clerk; employment clerk; personnel clerk; time-keeper; receptionist (general, hotel and hospital); complaints clerk; cashier; private security guard; expeditor; typist; customs broker; and employees in women's necessities shops.

### iii Employment of women

In accordance with increasing pressure from international human rights groups and internal dialogue on the future of the Kingdom's economy, the Saudi Arabian authorities have also continued in their commitment to encourage the employment of Saudi women.

In 2014, the Ministry of Labour announced the issuance of new regulations aimed at helping women obtain employment in telecommuting capacities, which would allow them to work from home.

Previously, the Ministry of Labour issued its Guide for Female Employment in the Private Sector near the end of 2013, which places restrictions on, *inter alia*, the employment of women at night, the sectors of employment in which women are allowed to work, and the work setting for female employees.

In addition, certain new amendments to the Labour Law also provide for increased leave entitlements, especially for female employees, and additional leave entitlements for Muslim female employees, which have the effect of making employment of women less attractive to employers.

### iv Unemployment compensation

2015 also saw the implementation of a new unemployment insurance scheme for Saudi Arabian national employees. The programme, called Saned, is implemented by the General Organisation for Social Insurance in addition to the already existing Occupational Hazards and Annuities programmes it oversees. Under the Saned programme, employers must pay 2 per cent of each Saudi Arabian employee's salary per month; 1 per cent may be deducted from the employee's salary, with the remainder covered by the employer out of pocket.

## III SIGNIFICANT CASES

Saudi Arabia is not a jurisdiction where case law forms binding precedent or is a source of law. Further, case law is not even available to the public for review. Therefore, any review of the laws governing Saudi labour law should focus on laws, implementation rules, circulars and other regulations put forth by the Saudi Arabian Ministry of Labour and other relevant government institutions, as well as the knowledge and experience of counsel.

## IV BASICS OF ENTERING AN EMPLOYMENT RELATIONSHIP

### i Employment relationship

As defined by the Labour Law, employment relationships in Saudi Arabia are created by a 'contract concluded between an employer and the employee, whereby the latter undertakes to work under the management or supervision of the former for a wage' (Article 50 LL).

The employment contract must be duplicated, with one copy to be retained by each of the two parties. However, the law provides for situations where an employment contract is not in writing (and thus not signed). In this case, the contract is deemed

to exist, but the employee alone may establish its existence and his or her entitlements arising therefrom. To do so, he or she may introduce any evidence, including testimony as to oral agreements entered into, in order to prove the existence of the contract. When the contract is not written, either party may demand at any time that it be put in writing (Article 51 LL).

Discussing specifically employment contracts for non-Saudi nationals, the Labour Law requires that they be in writing (Article 37 LL). The law does not state what would come to transpire if such a contract were not in writing. Presumably, Article 51, which recognises employment contracts even if they are not written, would come to apply. Under Article 51, the employee is allowed to prove the existence of an unwritten employment contract by any means available.

For Saudi employees, both fixed-term and ‘at-will’<sup>10</sup> employment contracts are permitted. Fixed-term contracts automatically terminate upon expiration of the duration term as specified in the contract, without giving rise to any claim against the employer should it opt against renewal.

For non-Saudi employees, only fixed-term employment contracts are available. The employment contract for non-Saudi employees must define with particularity the duration of the contract. However, if the contract does not include a term specifying the duration, then the duration of the work permit shall serve as the term of the employment contract (Article 37 LL).

It is recommended that an employment contract be made in writing and, even though not required under the Labour Law, signed by both parties in order to bind the parties to certain terms generally required under Saudi Arabian law and to avoid disputes. It is recommended that all employment contracts in Saudi Arabia include the following terms:

- a* a probation period (as discussed below);
- b* a stipulation of salary to be paid in Saudi riyals;
- c* a provision noting Article 98 of the Labour Law, which states that employees shall not work more than eight hours a day during non-holidays, and no more than six hours a day during the month of Ramadan;
- d* a provision providing at least 21 days of annual vacation, to be increased to at least 30 days if the employee spends five consecutive years working for the employer, as required by Article 109.1 of the Labour Law;
- e* a provision providing the employee an entitlement to days off with full pay during national holidays as set forth by the Ministry of Labour, and pursuant to Article 112 of the Labour Law and Article 21 of the Implementing Regulations, including:
  - four days for Eid al-Fitr (marking the end of Ramadan);
  - four days for Eid al-Adha (Festival of Sacrifice); and

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<sup>10</sup> As discussed below, the term ‘at-will’ does not strictly apply to indefinite term contracts, since 60 days notice and a ‘valid reason’ are still required to terminate the contract. That is, parties are not permitted to immediately terminate an indefinite contract without any reason as in most at-will jurisdictions.

- Saudi Arabian National Day;
- f* a provision providing for sick leave during a single year pursuant to Article 117 of the Labour Law, including:
- sick leave for the first 30 days at full pay;
  - 60 days following the first 30-day period at 75 per cent pay; and
  - 30 days following the 60-day period without pay, provided that the employee can substantiate his or her sickness; and
- g* a provision providing for an ‘end of service’ reward pursuant to Articles 84 and 85 of the Labour Law. The employer must pay the employee a reward for his or her period of service, the calculation of which is dependent on whether the employment relationship has expired, was terminated by the employer or was terminated as a result of the employee’s resignation from the employer.

In each of the cases specified in (g), the end of service reward shall be calculated as follows:

- a* employee dismissal or expiration of employment relationship:
- half a month’s wages<sup>11</sup> for each of the first five years the employee has worked for the employer; and
  - a full month’s wage for each year following the first five years (collectively the ‘EoS Reward’);
- b* employee resignation:
- one-third of the EoS Reward for an employee whose period of service was not less than two consecutive years and not more than five years;
  - two-thirds of the EoS Reward for an employee whose period of service was greater than five years and not more than 10 years; and
  - the entire EoS Reward if the employee’s period of service is greater than 10 years.

Parties must conclude an employment contract before the start of the employment relationship. The process for amending or changing an employment contract or the terms of employment are the same as those that apply to contracts generally in Saudi Arabia: through mutual rescission, termination or completion of the term of an existing contract, followed by the execution of a new contract, or otherwise by executing a valid substitute agreement that, with the agreement of both parties, expressly or impliedly revokes a former contract and includes new terms.

## ii Probationary periods

Article 53 of the Labour Law allows for one 90-day probationary period, which may be extended if the probationary period falls during either Eid al-Fitr or Eid al-Adha or both.

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11 The Labour law defines ‘wage’ (or ‘wages’) as ‘actual wage’, which includes all amounts paid to the employee under an employment contract, including fixed and periodic allowances (e.g., transportation, accommodation, etc.) and any other accrued amounts owed to the employee (e.g., commission, profit, etc.).

During the probationary period, either party may terminate the employment contract for any reason whatsoever, unless the contract states only one party is entitled to do so. The Labour Law does not impose any notice period requirement on a party seeking to terminate the employment relationship during the probation period.

As per the amendments to the Labour Law that took effect in 2015, the parties may agree to extend the probation period an additional 90 days after the first probation period expires. Further, as per Article 54, an employer may place an employee on an additional probationary period as long as both parties agree and either:

- a* the scope of employment involves a different profession or work;<sup>12</sup> or
- b* the employee has returned from a leave of absence of six months or more.

### **iii Establishing a presence**

A foreign company may not hire employees without being officially registered to carry on business in Saudi Arabia. Moreover, a company may not hire employees through an agency or another third party without being registered in Saudi Arabia. This is because of the Labour Law's requirement that employees be under the sponsorship of their employers (Article 39 LL). The only way around this requirement is for a foreign company to pay a local agent to have one of the agent's employees seconded to the foreign company for a set period of time. During this period, the employee will remain under the sponsorship of the agency, which will continue to pay the employee's salary and provide his or her benefits. The foreign company may pay the agency a contractually agreed fee in exchange for the services rendered by the agency's employee.

A foreign company that is not officially registered in Saudi Arabia may engage an independent contractor.

Saudi law defines a permanent establishment of a foreign company in Saudi Arabia as the permanent place of the foreign company's activity through which the company carries out business in Saudi Arabia. Under the Income Tax Law (ITL), the following are deemed to constitute permanent establishments:

- a* business carried out through the company's agents in Saudi Arabia (Article 4(a) ITL);
- b* construction sites, assembly facilities, sites used for surveying for natural resources, a fixed base where a non-resident natural person carries out business (Article 4(b) ITL); and
- c* a branch of a non-resident company licensed to carry out business in Saudi Arabia (Article 4(b) ITL).

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<sup>12</sup> Recently, an exception has been made for household (domestic) help employed in Saudi Arabia. In July 2013, the Council of Ministers passed a law that, among many other things, gave employers the right to place household help on probation for a maximum of three months.

Sites used for storage, displaying goods belonging to the non-resident, keeping stock belonging to the non-resident for the purpose of processing by another person or for the collection of information for the non-resident are not deemed to constitute a permanent establishment (Article 4(c) ITL).

Therefore, if the work of a contractor comes to create a relationship of agency with a foreign company through the formation of a relationship whereby the parties agree to the contractor's acting on behalf of the foreign company and subject to the foreign company's control, the contractor's business in Saudi Arabia on the foreign company's behalf can come to be deemed a permanent establishment of the foreign company, thus triggering certain tax and reporting duties. For example, any payments made from the contractor to any person or company that is not resident in Saudi Arabia must pay a withholding tax on behalf of the non-resident when the payment derived from any activity in Saudi Arabia (Article 68 ITL). This withholding tax may range from anywhere between 5 and 20 per cent of the payments to be made.

The employer must provide employees with health care in accordance with the standards set forth by the Minister of Labour, taking into account the provisions of the Council of Cooperative Health Insurance (Article 144 LL), whose directives require employers to provide health insurance to all of their employees based in Saudi Arabia.<sup>13</sup> In addition to the legally mandated minimum, some companies also provide other insurance, such as business travel and accident insurance, to their employees.

At the conclusion of an employment contract, the employer must provide the employee a certificate of service and settle the employee's entitlements, including the end of service reward (Article 88 LL). If the employee is non-Saudi, the employer must also bear the costs of a ticket for a return flight to the employee's homeland (Article 40.1 LL).

## **V RESTRICTIVE COVENANTS**

Article 83.1 of the Labour Law permits non-competition clauses in the employment contracts of employees whose scope of employment necessarily entails that they shall become acquainted with the employer's customers. For non-competition clauses to be valid, they must be in writing and include the following terms and conditions, which must be narrowly tailored to protect the legitimate interests of the employer:

- a* the duration of the clause, which shall not exceed two years as of the date of termination of the employment contract;
- b* the venue by which the employee shall be prohibited from seeking employment with a competitor; and
- c* the type of work that the employee shall be prohibited from engaging in with a competitor.

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<sup>13</sup> The Saudi comprehensive healthcare insurance scheme covers family members and other dependants holding a residency permit in Saudi Arabia.

In addition, Article 83.2 permits confidentiality clauses in the employment contracts of employees whose scope of employment necessarily entails that they shall become acquainted with the employer's business or trade secrets. For confidentiality clauses to be valid, they must be in writing and specific in terms of time, place, and type of work.

According to Article 83.3, an employer may sue an existing or former employee for breach of non-competition or confidentiality undertakings within one year of discovering the violation.

## VI WAGES

### i Payment

As per the recent and ongoing implementation of the Wage Protection System in Saudi Arabia, Article 90.2 of the Labour Law provides that all employee wages shall be paid into each employee's account through an accredited in-Kingdom bank. As of year-end 2015, the Wage Protection System entered its eighth stage where its requirements became applicable to all firms in Saudi Arabia employing 130 or more employees.

### ii Working time

Article 98 of the Labour Law provides that employees shall not work more than eight hours a day or 48 hours in a week during non-holidays ('normal working hours'), and no more than six hours a day or 36 hours during the month of Ramadan.<sup>14</sup> Article 106 of the Labour Law provides an exception to the normal working hours period, and allows working hours to reach up to 10 hours a day or 60 hours per week ('extended working hours') in the following circumstances:

- a* annual inventory activities, budgeting, liquidation, closing of accounts and preparations for discount and seasonal sales, so long as the extended working hours do not exceed 30 days a year;
- b* if the work is intended to prevent occurrence of a hazardous accident, mitigate its impact or avoid imminent losses in perishable materials;
- c* if the operation is intended to confront extraordinary work pressures; and
- d* holidays, other seasons, occasions and seasonal activities defined by a minister's decision.

Article 101 provides that no employee shall work more than five hours without a break of not less than 30 minutes for rest, prayer, and meals, and that no employee shall be required to remain at the workplace for more than 12 hours in any one day.

Articles 150 and 163 of the Labour Law place limitations on the number of hours that women and minors can work during the night. Women may not work at night for

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<sup>14</sup> Days, months and years mentioned in the Labour Law are references to the Hijri (Islamic), and not the Gregorian, calendar, unless otherwise stated in the employment contract or agreed with the employee. The Hijri calendar year is approximately 11 days shorter than the Gregorian calendar year. In most cases, and as a matter of practice, employers and employees use the Gregorian calendar. This should be made clear in the employment contract.

a 'period of at least 11 consecutive hours' except in certain enumerated instances, such as in the case of force majeure or emergency, or if the work takes place in a shop that sells womens' supplies. Minors may not work for a 'period of at least 12 consecutive hours' without receiving approval from the Ministry of Labour.

**iii Overtime**

Article 107 of the Labour Law requires that employees be paid overtime compensation – calculated as the regular wage plus 50 per cent of the regular wage – for employees who work beyond the normal working hours or during national holidays.

**VII FOREIGN WORKERS**

Employers must compile and keep detailed paperwork regarding their employees for the purpose of obtaining employment visas, contributing to the Occupational Hazards Branch of the General Organisation for Social Insurance, and so forth. However, there is no central database or register in which companies must participate or contribute employee information.

There is no strict limit on the number of foreign workers a workplace or company may have. However, there are required minimums as to the number of Saudi employees that a company must have in relation to the number of foreign workers hired. Therefore, the more foreign employees that are hired, the more Saudis must also be hired. Failure to hire the required percentage of Saudi nationals under the Saudisation policy may result in fines, non-renewal of residency permits and non-issuance of future employment visas.

There is only one tax that companies must pay for foreign workers: the contribution to the Occupational Hazards Branch of the General Organisation for Social Insurance. The employer's payment of 2 per cent of the employees' total wages is out of its own pocket rather than deducted from the employee's salary. For Saudi Arabian employees, the employer must pay an additional nine per cent of the employees' total wages out of pocket to the Annuities Branch of the General Organisation for Social Insurance, as well as one per cent of the employees' total wages out of pocket for Saned, the unemployment insurance scheme implemented by the General Organisation for Social Insurance.

Foreign workers are protected under the Labour Law, and are permitted to work in Saudi Arabia so long as they uphold the provisions of the Labour Law and secure valid work permits from the Ministry of Labour. Article 33 of the Labour Law imposes the following conditions precedent to the issuance of work permits to foreigners:

- a* the employee has entered the country legally;
- b* the employee possesses educational qualifications and professional qualifications that the country needs and that the nationals do not possess; and
- c* the employee has entered into a valid employment contract with his or her employer, whereby the employer agrees to hold itself responsible for the employee.

## VIII GLOBAL POLICIES

As a preliminary matter, both the employer and the employee must acquaint themselves with all contents and provisions of the Labour Law so that each party may be aware of its obligations. In addition, all employers with at least 10 employees are required to submit any and all internal work rules to the Ministry of Labour for approval. Once approved, the employer is required to post the rules in a conspicuous location within the employer's establishment, or use any other method of communication to make employees aware of the rules (Article 13 LL).

There are no internal disciplinary rules required by Saudi Arabian law. However, the Labour Law does set forth a list of permissive internal work policies and disciplinary measures that an employer may invoke. An employer has the power to impose the following penalties:

- a* a fine, in which the employer must specify in a written record the employee's name, wages, the amount of the fine, and the cause and date of the fine;
- b* deprivation or postponement of allowance, but only for one year and no longer;
- c* postponement of promotions, but only for one year and no longer;
- d* suspension from work and withholding of wages, the latter of which must be prospective and not retroactive for work already completed by the employee; and
- e* dismissal.

Each of these measures must be comprehensive in nature, and define the scope of the measures, with particular emphasis on the privileges and rules related to violations and disciplinary penalties (Article 66 LL).

Moreover, there are no mandatory global policies required under Saudi Arabian law. It is advisable, however, that all companies seeking to establish a uniform set of global policies declare adherence to Saudi Arabian laws and regulations when drafting, for example, the following common corporate global policies:

- a* Workplace standards: a 'workplace standards' policy should be written such that it does not contravene the shariah, including, but not limited to, the prohibition against the consumption of alcohol, pork and pork products on the employer's premises.
- b* Anti-bribery policy: an 'anti-bribery policy' should adhere to the Combating Bribery Law, enacted by Royal Decree No. M/36, dated 29/12/1412 H, corresponding to 1/7/1992 G, which seeks to counter both the offer and receipt of bribes involving public officials in Saudi Arabia. Under the Combating Bribery Law, a public official<sup>15</sup> is deemed as having received a bribe if such public official has solicited for him or herself or a third party, or accepted or received a promise or gift for the purpose of obtaining or retaining business or securing some

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15 A 'public official' includes: (1) a person employed by any of the Saudi Arabian public administrative authorities, regardless of whether the employment is permanent or temporary; (2) an arbitrator or expert appointed by the Saudi Arabian government or any entity having judicial specialisation; (3) a person assigned by a government authority or any other administrative authority to perform a specific assignment; (4) a person employed by a

other improper advantage.<sup>16</sup> Further, an anti-bribery policy should additionally require employees to comply with the US Foreign Corrupt Practices Act and, if a shareholder of the employer has a presence in the UK, the UK Bribery Act.

*c* Anti-money laundering policy: an 'anti-money laundering policy' should comply with the relevant anti-money laundering legislation in Saudi Arabia, which is the 2008 Anti-Money Laundering and Counter-Terrorist Financing Rules.

*d* Corporate authority and executive committee policy: a 'corporate authority and executive committee policy' may need to take into consideration the following Saudi Arabian laws and regulations:

- the Capital Market Law, enacted by Royal Decree No. M/30 dated 2/6/1424 H, corresponding to 31/7/2003 G;
- the Regulations for Companies promulgated under Royal Decree No. M/6 dated 22/3/1385 H (20 July 1965), as amended;
- the bankruptcy-related portions of the Commercial Court Law, dated 4/2/1349 H, corresponding to 1/6/1930 G;
- the Bankruptcy Preventive Settlement Law, dated 4/9/1416 H, corresponding to 24/1/1996 G;
- the Banking Control Law, enacted by Royal Decree No. M/5, dated 22/2/1386, corresponding to 11/6/1966 G;
- the 2006 Corporate Governance Regulations;
- the 2006 Real Estate Investment Fund Regulations;
- the 2007 Mergers and Acquisition Regulations; and
- the Commercial Agencies Law, enacted by Royal Decree No. M/11 dated 20/2/1382 H, corresponding to 22/7/1962 G, as amended.

*e* Securities trading: a 'securities trading' policy should adhere to the relevant legislation in Saudi Arabia, which includes the Capital Market Law.

*f* Records retention: a 'records retention' policy should comply with the Law of Commercial Books (the CB Law) (discussed in more detail in Section XI, *infra*).

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joint-stock company or company in which the state has a holding, a company that carries out banking operations or a company that manages and runs or maintains a public facility or that is performing a public service; and (5) certain chairmen and directors of companies.

- 16 A public official is deemed as having received a bribe if he or she has solicited for him or herself or a third party, or accepted or received a promise or gift in exchange for: (1) abstaining from carrying out his or her duties; (2) violating the functions of his or her duties; (3) performing or abstaining from one's duties as a result of a request, recommendation or mediation; (4) exercising real or alleged influence in order to obtain or attempt to obtain from any public authority any act, decision, contract, licence, job, service or any other kind of a benefit or advantage; and (5) lobbying a government authority on the basis of his or her position.

In addition to the above, it is also advisable that companies operating in Saudi Arabia include a policy that the company and its employees are expected to conduct themselves in a manner that does not offend local laws, practices and customs in Saudi Arabia, or do anything that would bring prejudice to the company in Saudi Arabia.

## **IX TRANSLATION**

Article 9 of the Labour Law mandates that all data, records, files, employment contracts, and all other documents provided for in the Labour Law, including any other decision issued by the Ministry of Labour, shall be written in Arabic. In this regard, between an employment document translated in Arabic and the same contract translated in a foreign language, the general rule is that the Arabic version shall prevail. In addition, it is recommended that employee handbooks and company policies be translated into Arabic in the event that the global policies become subject to litigation in the Saudi Arabian courts. It is common practice for most information to be in English, which is also the common commercial language.

## **X EMPLOYEE REPRESENTATION**

In April 2013, the Ministry of Labour announced that it would promulgate legislation for the establishment of the General Union of Saudi Workers (the Workers' Union), which will aim to represent Saudi employees in their efforts to improve salaries and working conditions, seek promotions, increase benefits, and ensure vocational safety.<sup>17</sup> The Workers' Union will only be available to businesses employing more than 100 employees. At year end 2015, the Workers' Union was still not operational.

## **XI DATA PROTECTION**

### **i Requirements for registration**

Article 1 of the CB Law requires that 'every merchant shall keep the commercial books required by the nature and importance of his trade in a way that shows his exact financial status and the rights and obligations pertaining to the merchant's trade.' Moreover, Articles 6 and 8 of the CB Law, when read together, provide that all merchants must keep for 10 years 'an exact copy of all correspondence and documents relating to his trade, issued or received by him,' which shall be 'kept in a regular way that facilitates review of the accounting entries, and ensures, where necessary, ascertaining of profits and losses.'

Articles 3 to 6 of the CB Law suggest that a company must identify with particularity the information being processed, including, but not limited to, financial transactions, inventory and other company financially related information.

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<sup>17</sup> See *Arab News*, 'Labor Unions to be a reality soon' (12 April 2013) available at ([www.arabnews.com/news/447872](http://www.arabnews.com/news/447872)).

**ii Background checks**

Background checks and credit checks are permitted. In practice, there are no areas that are prohibited from investigation and review.

**XII DISCONTINUING EMPLOYMENT**

**i Dismissal**

Under the Labour Law, an employee may not, regardless of whether the contract is an indefinite or fixed-term contract, be dismissed without cause unless the dismissal occurred during and pursuant to the employee's validly negotiated probationary period. Rather, dismissal must be supported by a 'valid reason' specified in a written notice. There is no guidance as to the scope of a 'valid reason', and there is some evidence to suggest that courts are more willing to find a 'valid reason' for dismissal when the employee is an expatriate, rather than a Saudi Arabian national.

An employer may dismiss an employee bound to a fixed-term contract in one of the following three ways: (1) non-renewal of the employment contract at the end of the contract's duration; (2) an event that triggers any of the contract's terms with respect to dismissal or termination, unless such terms are contrary to the Labour Law or to Saudi public policy; or (3) a conversion of the fixed-term contract to an indefinite term employment contract, which permits termination with 60 days notice and a valid reason.

In the event that none of these options are applicable, the Labour Court may, nonetheless, be willing to approve the dismissal of the employee for other reasons that it may deem valid, provided that adequate compensation is paid to the employee (e.g., the equivalent of three months' salary).

As a last resort, an employer may terminate an employment agreement with cause if the employee engages in egregiously inappropriate behaviour (e.g., by assaulting the employer; see below for a more detailed discussion of for-cause termination). In these cases, the employer must give the employee a chance to object to the termination and state his or her reasons for the same (Article 80 LL).

Dismissal of employees bound to indefinite term employment contracts, in addition to a valid reason, requires that the employee receive written notice describing the reason for the dismissal. Employees who are paid monthly must receive the notice at least 60 days prior to the termination, whereas all other employees must receive such notice at least 30 days in advance. The employer may, however, forgo the employee's respective statutory notice period in exchange for a payment to the employee equal to the employee's wage for the duration of the notice period.

As a general rule, an employer must provide a dismissed employee with a statutory end of service reward or indemnity. The Labour Law, however, does not require the employer to pay the reward or any other indemnity in the following cases of for-cause termination:

- a* the employee assaults the employer or any of his or her superiors;
- b* the employee fails to obey the orders of his or her superiors or does not meet the essential obligations under his or her employment contract;
- c* if there is proof to suggest that the employee has adopted bad conduct or behaviour, or has committed an act affecting honour or integrity;

- d* the employee commits an act with the intention to cause material loss to the employer;
- e* the employee resorts to forgery in order to obtain the job;
- f* the employee is dismissed during his or her contractual probationary period;
- g* the employee is absent without a valid reason for a period of time specified in the Labour Law, so long as a warning is first served;
- h* the employee unlawfully takes advantage of his or her position with the employer in order to receive personal gains; or
- i* the employee discloses work-related confidential information or trade secrets (Article 80 LL).

Irrespective of the way in which the employee is terminated, the employer is required to pay the employee's wages and settle all of the employee's entitlements within one week of the dismissal or termination date. If the employee is an expatriate worker, then the employer must also bear the costs of a return ticket to the employee's homeland, unless the employee resigns in the absence of a legitimate reason (Article 40.2 LL).

In cases in which an employer wishes to terminate an employee for cause, but the employee disputes the basis of the termination, the parties may enter into a settlement agreement in order to avoid protracted litigation before the Commission for the Settlement of Labour Disputes, which has jurisdiction to adjudicate disputes between employers and employees. Usually, agreements to settle are entered into between the parties after an employee has already filed a complaint.

#### **ii Redundancies, conclusion of certain activities, and closure**

Redundancies are deemed to be valid reasons for terminating employment contracts. If company restructuring or some other business decisions lead to redundancies in personnel, a company may terminate certain redundant employees, provided that it fulfils the statutorily mandated notice period or makes payment in lieu thereof.

In addition, where a company ceases operations in a certain activity, or ceases operations altogether, the amendments to the Labour Law that went into effect in 2015 provide as a matter of statute that the relevant employees working in such operations may be terminated (Article 74 LL).

### **XIII TRANSFER OF BUSINESS**

The Labour Law offers protection to employees affected by a merger, acquisition or other business transfer recognised under Saudi Arabian law. Article 18 provides that all employment contracts affected by a valid business transfer shall be deemed as continuous, regardless of whether the contract is with the predecessor company or the successor company.

Both the predecessor and the successor shall be held jointly liable for all of the employee's entitlements for the period preceding the business transfer, including, but not limited to, severance awards and wages. However, with respect to individual establishments involved in a transfer of ownership, the successor and predecessor may, but are not required to, agree on the transfer of all previous entitlements of the

employees to the new owner subject to the employees' written approval. If an employee does not approve of the agreement, then he or she may demand termination of his or her employment contract and delivery of all of his or her entitlements from the predecessor (Article 18 LL).

Notwithstanding Article 18 of the Labour Law, Article 11, which provided that both parties are jointly responsible to provide employees with all rights and privileges granted by the original employer where the employer sells all or part of his business to another, was amended as part of the 2015 amendments to remove such joint responsibility and place sole responsibility on the successor.

Thus, it would appear at present that there is a conflict between Articles 11 and 18 of the Labour Law.

#### **XIV OUTLOOK**

Companies doing business in Saudi Arabia should anticipate a continuation of the Saudi policy of restricting expatriate employment and conditioning the issuance of employment visas to foreign workers on satisfactory levels of employment of Saudi nationals, in addition to increased attention to workers' rights. Saudi policy is likely to begin to require ever-increasing percentages of Saudi nationals among workforces, even in fields where there is a shortage of skills among Saudi nationals, as well as higher protections for employees and workers generally.

## Appendix 1

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