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**SUMMARY OF ARAB LABOR LAW**

**RULES AND PRACTICES --**

**TERMINATION OF EMPLOYMENT**

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In recent months, many US multi-national companies have reduced their work-forces, including employees based in Arab countries. Whether these reductions are attributable to the general economic down-turn in the United States, 'right-sizing' following corporate acquisitions and mergers, or other industry-specific causes, a US company's termination of employment arrangements in the Middle East may have local legal consequences.

The primary rules applicable to employment in Arab countries are contained in special statutory labor laws. These labor laws apply (with limited exceptions) to all employees working in the relevant Arab country, regardless of the nationality of the employer or employee. Arab labor laws contain detailed rules on such matters as probation, working hours, overtime and allowances, vacation and sick leave, safety conditions -- as well as rules on termination of employment (and compensation arising therefrom).

The following summary briefly examines some of the more important issues relating to termination of employment under Arab labor rules and practices. Of course, a thorough analysis of any employment relationship must consider all the circumstances relevant in the particular case.

**1. Documentation**

In order to accurately assess the Arab labor law implications of any proposed employment termination, a US employer should initially gather all relevant documentation, whether written labor contracts, terms of employment, overseas posting letters or the like -- all of which may reflect the parties' "employment agreement". After gathering these materials, the US employer will be in a better position to assess its contractual and statutory

obligations to an employee upon termination of the employment relationship.

In applying the relevant Arab labor law, local courts are likely to nullify any provision in an employment agreement whereby the employee waives a right established in his/her favor by virtue of the labor law. Thus, the local courts would not generally uphold an employee's advance waiver of statutory benefits or termination compensation. However, under most (if not all) Arab labor laws, local courts will enforce contractual provisions giving an employee more favorable rights than otherwise granted under the statutory rules.

## **2. Identity of Employer**

In general, an expatriate employee working and residing in an Arab country should have a written employment agreement with an employer licensed to do business locally; the employment agreement should then be formally registered with the local labor authorities. By gathering all relevant documents (as recommended above), including the locally registered employment agreement, a US employer will be able to confirm both the terms of employment and also the identity of the 'formal employer' (the local employer of record). Occasionally, a US employer will discover that its local (Arab) sponsor or distributor is actually the 'formal employer' of the expatriate employee(s), at least for purposes of local law.

Under Arab labor laws, the employment relationship (including any liability for termination of employment) is determined generally by the identity of the employer and employee listed in the locally registered employment agreement. (Of course, any local 'formal employer' might expect the US employer to acknowledge the latter's position of de facto employer, with all related financial responsibilities.) By ascertaining the details of the locally registered agreement, the US employer will be in a better position to effect the termination, e.g., draft the necessary releases, process the requisite documents, and arrange for appropriate severance payments to the employee.

## **3. Justification for Termination**

In some cases, Arab labor laws allow an employer to discharge an employee for justification (cause), without the need to pay termination indemnities, end-of-service compensation or other such benefits. Most Arab labor laws describe such justification to include, for example, cases of employee fraud, failure to fulfill

basic obligations of the employment agreement, or assault on the employer or a fellow employee.

In addition, some Arab labor laws allow an employer to terminate **indefinite term** employment agreements upon statutorily-defined advance notice or less stringent justification than may be required for termination of **definite term** employment agreements.

However, if an employee is dismissed without statutorily-adequate justification or cause, some Arab labor laws permit the employee to seek termination indemnities (beyond the end-of-service payment discussed below). In some Arab countries, these termination indemnities might be calculated by reference to such factors as the employee's type of work, professional qualifications and education, length of service, salary, as well as the employee's age, responsibility for supporting family and dependents, and the likelihood of finding another comparable job.

#### **4. End-of-Service Payment**

Under most Arab labor laws, an employee whose contract is terminated or expires, and who has completed the statutory minimum period of service, is entitled to an end-of-service payment. In such case, and absent a more generous formula agreed by the parties, the end-of-service payment is calculated according to local labor law rules.

For example, under United Arab Emirates federal labor law, the end-of-service payment is computed at twenty-one days' basic wage for each of the employee's first five years of service, and thirty days' basic wage for each year thereafter, with end-of-service payment being capped at two years' wage. (UAE labor law end-of-service pay is computed proportionately for any partial year of employment and generally at the employee's last wage.)

Under Arab labor laws, an employee may forfeit some or all of this end-of-service pay if dismissed by the employer for statutory justification, or if the employee unilaterally ends the employment relationship without statutory justification.

#### **5. Termination Process**

As a matter of practice in the Arab Middle East, a US employer should obtain some form of a 'Final Settlement and Release' from each departing employee, confirming that the latter has received all statutory and contractual entitlements. This document should include the calculation of end-of-service payment, termination and

related indemnities (if any), payment for unused vacation time, and (if the employee was hired from abroad) any required repatriation costs -- usually a return ticket to the place of hire. In some instances, US employers prepare such a Middle Eastern settlement and release agreement based upon corporate precedents used in other regions around the world, although with appropriate revisions to reflect Arab labor law rules and practices.

In addition, upon termination of employment in some Arab countries, the expatriate employee must sign standard documentation at the local labor office in order to cancel her/his work permit and sponsorship, and to acknowledge receipt of end-of-service benefits and any other entitlements.

## **6. Other Important Circumstances**

Finally, a US employer should carefully consider other important circumstances relating to any proposed termination of employment in the Arab Middle East.

For example, if a US company proposes to terminate the employment of its branch office manager (or any other employee with signatory authority) in an Arab country, the US company should ensure that the employee executes all necessary office registrations, assignments of authority, annual filings and other paperwork before being released from employment.

In addition, according to labor laws in some Arab countries, local nationals must constitute a specified minimum percentage of the employer's work-force. Thus, a US employer should ensure that local nationals comprise the requisite percentage of staff following any reduction in work-force.

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This memorandum is intended to summarize some general legal principles of labor law in the Arab Middle East, but not to provide legal advice on any specific question of law. Please let us know if you have any questions or comments regarding the background information in this summary, or if we might assist in connection with any Middle Eastern commercial law matter(s).