



Saudi Ministry of Labor Restricts Redundancy Terminations

On 29 January 2017, the Saudi Minister of Labor issued Resolution No. 50945 (“Resolution”) restricting termination of groups of Saudi employees for redundancy.

This significant development comes at a time when many employers (“Companies”) are facing financial strain caused by a downturn in the Saudi Arabian economy.

New Redundancy Framework

The Resolution applies to “giant, large and medium” sized Companies—those with a headcount of 50 and above—undertaking a “Group Termination” of Saudi employees.

A “Group Termination” is defined as: (i) the dismissal of Saudi employees due to reasons attributable to the Company, rather than the employees; where 10 employees or more than 1 percent of the Company’s total headcount, whichever is higher, are terminated; and (iii) where the dismissal occurs within one year of any previous dismissals.

Under the Resolution, the Company must notify its local Labor Office 60 days before undertaking a Group Termination. It must disclose, among other things, an analysis of the Company’s financial state evidencing

the need for Group Termination and any actions the Company took to avoid the Group Termination.

Significantly, the Resolution states that, in reviewing the Company’s notice, the Labor Office should take into account whether the Company can replace its non-Saudi staff with the Saudi employees being dismissed—provided they have similar job functions—or employ the Saudis elsewhere in the Company or its subsidiaries.

Failure to notify the Labor Office or obtain its consent to a Group Termination renders the Company liable to significant penalties seriously impairing its ability to employ and retain expatriate staff. Depending on the breach, the penalties may last from 30 to 720 days.

The Resolution does not apply if the Company is declaring bankruptcy or closing down.

Existing Regulation of Redundancy

Aside from the Resolution, Saudi labor regulations only briefly address redundancy. The Labor Law provides that an employment contract may be legitimately terminated if the employee’s particular job function is eliminated or if a Company closes down.

This position would appear to still apply to terminations for redundancy outside the scope of the Resolution, including, for example, terminations by small Companies (those with a headcount below 50), terminations of expatriate employees, and terminations of a number of Saudi employees below the Group Termination threshold.

Lawyer Contacts

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