

# A Guide to Saudi Employment Law 2018-2019

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# A GUIDE TO SAUDI EMPLOYMENT LAW

## 1. The Legislative Framework

The basis of Saudi Arabia's employment legislation framework is fashioned on two pillars. The first pillar is the Royal Decree Number M/51 23 Sha'ban 1426/27 September 2005, with amendments announced in Royal Decree number M/46 of 05/05/1436H (The Labor Law).

The second pillar is the "Implementing Regulations" of the Labor Law. The Labor Law contains detailed provisions that address matters such as, recruitment, employment of non-Saudi personnel, employment contracts, termination of employment, and working conditions. The Labor Law also regulates dispute resolution and provides for fines and a punishment regime for specific offenses.



### Who is this Labor Law applicable to?

As per Article 5 of the Labor Law, the Law shall apply to:

- I. Any contract whereby a person commits himself to work for an employer and under such employers management or supervision for a wage/remuneration;
- II. Workers of public organizations and the government and institutions including those who work in pasture or agriculture;
- III. Charitable institution workers;

IV. Workers of agricultural and patrol firms that employ ten or more workers;

V. Workers of agriculture firms that process their products;

VI. Workers who on a permanent basis repair and operate agricultural types of machinery;

VII. Qualification and training contracts with workers other than those working for the employer within the limits of the specified provisions provided for in this law;

VIII. Part-time workers in connection with safety, occupational health, and work injuries, as well as, what is decided by the Ministry of Labor.

Article 12 of the Labor Law sets out that every employer who employs ten or more workers must prepare internal regulations that the firm will be bound by. The basis of the internal regulations must be on the draft regulations provided by the Ministry of Labor, following this, the approval by the Ministry of Labor of the regulations is required. The regulations shall include the work organization rules and all related provisions including the provisions relating to privileges, violations, and disciplinary penalties and procedures. The regulations shall not contradict with the provisions of the Labor Law.

The Labor Law applies to both Saudi-national workers as well as foreign workers. A matter of vital importance to the foreign workers is that, before they can participate in any work, they need to obtain from the Ministry of Labor a work permit, according to Article 33 of the Labor Law. For granting a permit, the fulfillment of some conditions must take place. Such provisions include that the foreign worker needs to have lawfully entered Saudi Arabia and must be authorized to work. The foreign worker also needs to possess the professional and academic qualifications, which the country needs or which are not possessed by the citizens.

*"It is only through labor and painful effort, by grim energy and resolute courage, that we move on to better things."*

*– Theodore Roosevelt*



The foreign worker must have a contract with the employer and must be under the employers' responsibility. Article 33 of the Labor Law also states that the definition of work in this specific article is any industrial, commercial, agricultural, financial or other work, and any service including domestic service.

The domestic workers' rights and duties are regulated by Ministerial Decision Number 310 of 1434 regulating the employment of domestic workers and Ministerial Decision Number 605 of 1434 permitting domestic workers to transfer between employers in certain circumstances (together with the Law of Domestic Workers).

Saudi Arabia has a select group of free zones which can be divided into industrial cities and economic cities. The authority for the industrial cities is the Saudi Industrial Property Authority, and it is the Saudi Arabian General Investment Authority (SAGIA) who has authority over the economic cities. SAGIA offers a fast track government immigration center for the cities to deal with, for example, visas, labor law requirements, renewal of visas, and work permits. The economic cities are private projects and therefore, they must adjust to the Saudization, but a more liberal regime will apply to employment issues than in the rest of Saudi Arabia.

## **2. Contracts**

### **2.1. Work contracts**

The contract concluded between an employer and an employee, is a contract whereby the employee undertakes to provide services under the management, control or supervision of the former for remuneration in pursuance of Article 50 of the Labor Law.

Generally, this contract shall be in writing, and each party should have one copy. This provision for a written contract can be an optional provision since the law still validates an unwritten work contract. In the case of an unwritten work contract, the interpretation of the terms

will be in favor of the employee. At any time one can demand that the contract shall be in writing, no matter if such person is the employer or employee, according to Article 51 of the Labor Law. There are some exceptions to this general rule about the work contract. The work contract for foreign workers needs to be in writing and of a specific period according to Article 37 of the Labor Law. Workers of the government and public corporations do not need a written contract of work. Instead, the appointment decision or order by the competent authority serves as the contract.

A person under 15 years may not be employed. In exceptional cases and for light works, the Ministry of Labor may allow persons between 13-15 years old to work, according to Article 162 of the Labor Law.

According to Article 52 of the Labor Law, a work contract shall primarily include, the name of the employer and employee, venue, nationality, identification number, agreed remuneration, type and location of work, date of employment, and duration of the contract (if it is a fixed contract).

#### **There are two types of work contracts:**

- I. Term contracts, which consist of fixed-term contracts and an indefinite term contract.
- II. Project-based contracts

Article 55 of the Labor Law states that a fixed-term contract terminates upon the expiration of its term. If the parties wish to continue the employment, the contract shall be deemed to be renewed for an indefinite period and thereby become an indefinite contract. This extension of contract does not need to be in writing. The fixed-term contract may also become an indefinite contract when renewal takes place for three consecutive times or the total period of the fixed-term contract and renewal is equal to 4 years or more. A project-based contract shall terminate with the completion of the work as agreed upon according to Article 57 of the Labor Law.



Foreign workers can only get a fixed-term contract. If there is no specification of the term in the employment contract, it automatically ends when the expatriates' work permit expires. A point worth noting is that according to Article 40 of the Labor Law, the employer shall incur the fees of recruitment of non-Saudi workers. The employer shall also incur the fees of the residence permit and employment permit in conjunction with their renewal and the penalties resulting from their delay. The employer is also obliged to pay the exit and re-entry visa and at the end of the work contract, pay return tickets to the foreign employee's home country.

Article 39 of the Labor Law provides that the employer may not employ the foreign worker in an occupation other than the one specified in his work permit. There is a prohibition against the foreign worker from engaging in a profession other than the one in the work permit, before the correct procedures take place for the changing of a profession. Until such time, the employer may not allow his foreign worker to work for another person or other employers according to Article 39 of the Labor Law.

## **2.2. Qualification and Training Contract**

Article 45 of the Labor Law states that a qualification and training contract is a contract which binds the employer to qualify and train a person for a specific profession. The contract shall be writing and shall include the profession for which training is contracted, the duration of the training and successive stages and the allowance to be paid to the trainee in each stage, provided that the basis of such allowance is on a piecemeal or productivity basis as per Article 46 of the Labor Law. The qualification and training contracts are subject to the Labor Law's provisions on official holidays, annual vacations, daily and weekly rest

*"All labor that uplifts humanity has dignity and importance and should be undertaken with painstaking excellence."*

*– Martin Luther King, Jr.*

periods, maximum working hours, work injuries and their conditions, occupational health and safety rules, as well as, whatever is decided by the Minister of Labor in accordance with Article 49 of the Labor Law.

## **3. Probation Period**

The Labor Law regulates probation rules; probation gives both the employer and the employee a chance to understand the work environment and other factors before a final decision to continue the contract of employment. If there is an agreement about a probation period, it should be expressly mentioned and indicated in the work contract. The probation period can be up to 90 days. Agreement of both parties can extend the probation period; however, such an extension cannot be for more than 180 days.

The probation period does not include Eid al-Fitr and Eid al-Adha holidays and sick leave. The provisions on probation are in Article 53 of the Labor Law. Additional probation rules apply to teachers who gain employment in Saudi Arabia – a teacher can have probation of a period of up to two years.

At the end of a probation period, an employee should not be placed on another probation period except where the parties otherwise agree, however, the extenuation of such must be due to the fact that the employee will now be undertaking to perform additional work or act under another profession as per Article 54 of the Labor Law. Both parties have the right to terminate the contract during the probation period as long as the contract does not include a clause giving the right to terminate the contract to only one of them. Neither party shall be entitled to compensation if the termination of the contract is during the probation period. The employee also has no right to an end-of-service benefit. A foreign employee has to bear the cost of returning to his home country if he resigns within the probation period or the employer terminates him as he is not fit for the necessary job.

**"Workers Rights are Human Rights!"**  
- Anonymous

The domestic workers regulation allow for a 90 day probation period, according to the Law of Domestic Workers. The employer may end the service without assuming responsibility if the worker is determined to be incompetent during the probation period.

#### **4. Working hours, Leave and Wages**

##### **4.1. Working hours**

Generally, according to Article 98 of the Labor Law, an employee may not work more than eight (8) hours a day or forty-eight (48) hours a week. Article 100 of the Labor Law states that it is acceptable to exceed these work hours when the work is done in shifts, as long as the average hours in a three-week cycle is not more than eight (8) hours a day or forty-eight (48) hours a week. The employees must not stay more than twelve (12) hours per day at his/her workplace.

An exception from the general rule of working hours is during Ramadan for Muslims. Article 98 of the Labor Law states that during Ramadan the work hours are reduced to a maximum of six (6) hours a day or thirty-six (36) hours a week.

In some particular industries and jobs where the workers do not work continuously, the raising of the work hours can be to nine(9) hours a day according to Article 99 of the Labor Law. The reduction of the work hours can also be to seven (7) hours a day for specific hazardous or harmful industries and jobs. For these exceptions, the employer needs to seek for the approval of the Ministry of Labor.

Article 108 states that in certain cases the regulation of work hours provided for in Article 98 and 100 shall not apply. Exempt from those articles, are persons occupying high positions of authority in management and policy, depending on whether the position grants the persons occupying such position authority over employees. They also shall not apply to preparatory or supplementary works, which must be finished on or



after the commencement of work, and on work that is intermittent by necessity. The provisions shall not apply for guards and janitors, excluding civil security guards.

According to Article 101 of the Labor Law, all employees have the right to a break in work of no less than half an hour every day for lunch and prayer. Employees shall not work more than five (5) continuous hours without a break. There is no inclusion of the breaks in the actual work hours. All employers are obliged to pay their employees overtime pay equal to the hourly rate plus 50% of his basic pay. As per Article 104, Fridays are the weekly rest day. However, the employer may replace this day for some of his employees by any other day of the week as long the employer makes a proper notification to the competent labor office. The weekly rest day shall be fully paid and shall not be less than twenty-four (24) consecutive hours.

Article 105 of the Labor Law states an exception to the abovementioned rule in that when it comes to professions which requires continuous work, there can be an alteration of the rest periods. In those cases, weekly rest periods will accrue to the worker, and the consolidation of such may be for up to 8 weeks. The employee and the employer must agree to such, and the Ministry of Labor must approve it.

##### **4.2. Wages**

According to Article 90 of the Labor Law, the payment of the worker's wages shall be in Saudi Arabia's official currency, which is the Saudi Riyal (SAR). When it is necessary, and upon a proposal by the Ministry of Labor, the Council of the Ministry may set a minimum wage according to Article 89 of the Labor Law. A minimum wage of SAR 3,000 per month applies to Saudi-nationals in the private sector. In 2014, the Ministry of Labor was considering fixing the minimum wage for Saudi-nationals, in the private sectors, to SAR 5,300 and SAR 2,500 for foreign workers.



According to Article 90 of the Labor Law, the wages shall be paid during working hours and at the workplace or, with the consent of the worker, through accredited banks in the Kingdom. The payment of the wages shall be in the following manner:

- i.* If the worker is paid on a daily basis, such payment must take place at least once a week.
- ii.* If the employee is remunerated monthly, such remuneration must take place once a month.
- iii.* If the work is done on a piecemeal basis and requires more than two weeks, the worker shall get a payment each week commensurated with the completed portion of the work.
- iv.* In other cases than above-mentioned, the payment of the worker shall be at least once a week.

If the wages are not set in the contract between the employer and employee, it shall be set by the wage estimated for the same type of work in the firm. If there is none, the setting of the wage shall be as per the professions' norms at the place where the performance of the work takes place. This provision is according to Article 95 of the Labor Law. The employer cannot reclassify a monthly-paid worker to, for example, a daily paid worker unless the employee agrees in writing.

Article 91 of the Labor Law provides that if the worker causes loss, damage, or destruction to machinery or products owned by the employer while under his watch, the deduction of the cost of the repair or restoration to the original condition can come from the worker's wages. The deductions cannot exceed five-days wage per month. This deductions will only apply if the damage, loss, or destruction is a result of the employee's fault or a violation of the employer's instructions. If it is a result of a third party's conduct or force majeure, the deduction shall not be made. Both the employee and the employer can file a grievance

*"Pleasure in the job puts perfection in the work."*

*– Aristotle*

with the Commission for Settlement of Labor Disputes (CSLD) if they do not agree with the other party.

According to Article 97 of the Labor Law, the employer shall continue to pay the worker 50 % of the employee's wage in cases where the worker is arrested or taken into custody by the competent authorities where such matters are related to work or occasions by it. The employer shall pay 50 % until the case is decided, provided that the period of custody does not exceed 180 days. If the period of custody exceeds 180 days, the employer is not required to pay any amount of the wage for the excess period. If the worker is acquitted or they did not have enough evidence, so the case is closed, the employer shall return the amount previously deducted from the worker's wage to the worker. The employer is not entitled to the right to get the payments back if the worker is found guilty, unless the judgment provides for such return.

#### **4.3. Leave**

There are different occasions for the granting of paid leave according to the Labor Law:

- I.** Paid Annual Leave- employees are allowed to have twenty-one (21) days paid annual leave. This leave can be increased to thirty days if the worker spends five (5) consecutive years in the service of the employer, according to Article 109 of the Labor Law.
- II.** Five (5) days fully paid leave is allowed where a male employee's wife dies. In case of the death of a female employee's husband, she is entitled to paid leave of fifteen (15) days leave according to Article 160 of the Labor Law.
- III.** Maternity leave entitles a female employee ten (10) weeks of leave as per Article 151 of the Labor Law. This entails four (4) weeks before the birth and six (6) weeks after the birth. If the female employee gives birth to a baby with special needs and the baby needs a permanent attendee, the female employee has right to a month paid leave after the end of maternity leave.



*"All labour is directed towards producing some effect"*

*- Alfred Marshall*

**IV.** Paternity leave is three (3) days according to Article 113 of the Labor Law.

**V.** Marriage leave- five (5) days of paid leave is allowed after marriage as per Article 113 of the Labor Law.

**VI.** Short-term work-related disability leave gives an employee the right to fully paid leave for the first sixty (60) days, and three-quarters of the wages owed to him/her for the next ten (10) months of treatment and recovery, regarding Article 137 of the Labor law.

**VII.** Eid leave

Domestic workers are entitled to one (1) month paid leave after two (2) years of service, according to the Law of Domestic Workers, as long as there is a renewal of the contract. The domestic worker is also entitled to thirty (30) days of sick leave as long as a medical report is provided certifying the need for leave.

The availing of the annual leave must be within the year of accrual. The employee can request his employer to defer his entire annual leave or part thereof to the next year according to Article 110 of the Labor Law. The employer also has a right to postpone the annual leave for not more than three (3) months after the completion of the year if work conditions require it. If the work requires an extension of the postponement, the employer needs consent from the employee in writing. During the leave, the worker is not allowed to work for another employer, as per Article 118 of the Labor Law.

Leave for injury - when it comes to work injuries, the employers have a responsibility to carry all the expenses in connection with to the treatment of the injury provided for by Article 133 of the Labor Law. If the employee's chances of recovery are meager after one (1) year, the injury will be treated as a permanent disability and will qualify as a ground for termination due to disability.

## **5. Disciplinary Matters**

According to Article 66 of the Labor Law, if the employee does not follow the regulations of the employer and workplace, the employer has at his/her disposal specific disciplinary penalties and actions to utilize. These consist of:

- I.** A warning;
- II.** Fines (maximum is the amount of a five-days wage);
- III.** Withholding the employees' allowance or postponing it for a period not exceeding one (1) year if prescribed by the employer;
- IV.** Postponement of position promotion for a period not exceeding one (1) year if prescribed by the employer;
- V.** Withholding of wages and suspension from work;
- VI.** If the law provides, dismissal from work.

No other penalty is accepted if it is not provided for in the Law or the work organization's regulations as per Article 67 of the Labor Law. Before the utilization of any disciplinary penalties, the employer needs to notify the employee in writing of the allegations, discuss with the employee, and provide him/her with an opportunity to provide a defense for his/her actions. This discussion should be recorded in minutes to be kept in his/her file. Then the employee must be notified in writing about the decision of whether or not to impose a penalty on him/her. If the worker wants to appeal the decision, he/she must do it within fifteen (15) days from the date notification with the CSLD. The CSLD shall issue its decision within thirty (30) days from the date of registering the objection.

In the event of a repeated violation, the penalty shall not be harsher if 180 days have advanced since the previous violation was committed. One can also find other time-limits when it comes to disciplinary penalties in Article 69 of the Labor Law.



*"The employer generally gets the employees he deserves."*

*- J. Paul Getty*



If more than thirty (30) days have passed before the discovery of the violation, no penalties are applicable. If thirty (30) days have expired since the conclusion of the investigation and establishment of the workers' guilt, the worker shall not be subject to any disciplinary penalty. Violations made by the employee outside the workplace cannot be subject to disciplinary measures unless it is related to the owner or the manager and falls within the employee's duties and scope of employment.

#### **6. Rights of an Employee when an Undertaking is Transferred**

It is not uncommon that a business, or a part of it, is assigned/transferred to another person. It is also not unusual that changes take place in the firms' legal form through merger, partition or otherwise. The Labor Law protects employees in those situations. According to Article 18 of the Labor Law, the work contracts shall remain in force in those cases and service shall be deemed continuous.

When it comes to the employee's rights accrued for the period prior to change, such as wages or unrealized end-of-service benefits, on the date of transfer of ownership and other rights, the previous owner, and the new owner shall be jointly and severally liable. The previous owner and the new owner can, when it comes to transfer of ownership of individual firms, with written consent from the employee, agree to transfer all the prior rights of the employee to the new owner. It is important to note that if the employee does not approve, he can request the conclusion of his contract and gather his dues from the previous owner. In the absence of Article 18 of the Labor Law, the transfer of employees is affected through a process of termination and rehire.

## **7. Termination of employment**

### **7.1. General**

There are diverse situations when an employment contract can be terminated. As per Article 74 of the Labor Law, the termination of the contract can be in the following situations:

- i.* When the employer and employee agree to terminate it, provided that the employee's consent is in writing.
- ii.* When the term mentioned in the contract has expired. An important point to note is that if an employee continues to work even after the completion of the stated period of the contract, the contract will become an indefinite contract.
- iii.* The termination of an indefinite contract can be by both parties based upon a valid reason.
- iv.* Unless both parties agree otherwise, the treatment of a contract would be as terminated or completed if an employee retires. The retirement age is 60 years for males and 55 years for females. Important to note is that fixed-term employment contracts which extend beyond the retirement age shall terminate at the end of its term and not when the employees attain retirement age.
- v.* Force majeure can terminate the contract. This can occur in natural events such as death, the insane mind of the employee, closure of department, closure of business, or other event causing the employee to become unfit for the job.

The situation number three, about an indefinite contract, requires a valid reason. The definition of "valid reason" is not stated in the Labor Law. Instead, the determination of the definition is on a case-by-case basis. Since Saudi Arabia does not utilize the concept of judicial precedent, it is hard to know whether the consideration of a particular reason would be a valid reason for termination.

*"Dignity of labour has to be our national duty,  
it has to be a part of our nature."*

*- Narendra Modi*



The traditional practice of Saudi labor courts accepts redundancy as a valid reason for termination, if justified.

Where there is liquidation or bankruptcy of an employers firm, the amounts due to the worker shall be deemed as first-rate privileged debts, and the worker or his heirs shall be entitled to privileges over all the employers' properties. According to Article 19 of the Labor Law, the worker shall be paid an expedited amount equivalent to one (1) months wages before payment of any other expenses such as legal expenses, bankruptcy, or liquidation expenses.

After the completion of an employment contract, the employer must provide a certificate of employment. This provision is under Article 64 of the Labor Law. The inclusion of information that has the capability of harming the reputation of the employee should not be in the certificate.

When it comes to qualification and training contracts, the employer can terminate the contract if the trainee is not manageable or is incapable of completing the training program beneficially, at least a week before the actual termination date, as per Article 48 of the Labor Law. At the same time, the employer has to notify the trainee about the termination. The employee must either work for the employer for an equal period or pay for the cost of the training, should the employee wish to leave before the completion of the training contract.

### **7.2. The Labor Law's notice period**

A notice period aims to give the other party to the contract a chance to find another position or to look for a suitable replacement for the leaving employee. The notice period depends on the type of contract. For a fixed-term contract, the employer needs to only give the employee notice as mentioned in the contract or if

it is not, one (1) month before the expiration of the contract. The same thing applies for the employee. Under Article 75 of the Labor Law, indefinite term contracts have a notice period of sixty (60) days if payment is on a monthly basis and not less than thirty (30) days for others. During a probation period, both the employer and employee can terminate the contract with only a one (1) day's notice. It is vital to note that the Labor Law only sets the minimum period of notice. If the work contract requires a more extended period of time, the employer and employee are obliged to follow that.

If the employer has served a termination notice on an employee, the employee has a right to paid time-off to seek alternative employment. The paid time-off is one (1) full day or eight (8) hours per week, as a minimum.

### **7.3. The employers right to terminate without any notice period**

There are some situations where the employer has the right to terminate a contract without any notice period. The Law also provides the employer the right to terminate without an end-of-service benefit and indemnity; however, it provides that the employer should give the worker a chance to state his reasons for objecting to the termination. As per Article 80 of the Labor Law, the situations are as follows:

- i.* The employee assaults the employer, the manager in charge, or any of his superiors during or because of the work;
- ii.* The employee fails to perform his essential work obligations, does not obey lawful orders, or fails to observe the instruction about the safety of other employees and work;
- iii.* The employee commits a deliberate default with an intention to cause material loss to the employer. This action requires that the employer report such default to appropriate authorities within 24 hours of the occurrence;



*"It is labor indeed that puts the difference on everything."*

*– John Locke*

- iv.* The employee was involved in the crime of forgery of documents to obtain the job;
- v.* The employee is in the probation period;
- vi.* The employee is, without any valid reason, absent from work for more than twenty (20) days in one (1) year, or more than fifteen (15) consecutive days, as long as the employer has sent the employee written warning after twenty (20) days in the first case and after ten (10) days in the latter case;
- vii.* The employee takes advantage of his work for personal benefits or illegitimately earns personal profits; and
- viii.* The employee is disclosing work-related, industrial or, commercial secrets to third-parties.

If the employers' termination of the contract is not due to any of the reasons listed above, the employer may not terminate the agreement unless he has given a reward to the employee, informing him, compensating him, or without giving the employee a chance to plea for an appeal.

#### **7.4. The employees right to terminate without any notice period**

Under Article 81 of the Labor Law, there are seven (7) situations where an employee can terminate without any notice period:

- i.* When the employer fails to fulfill his essential obligations towards the worker, e.g., not pay salaries;
- ii.* When the employer commits fraud with the employee, at the time when the contract was concluded, about the work conditions and circumstances;
- iii.* If the employee, without his consent, has to perform a work which is fundamentally different from the agreed work. Though the employer has a right to appoint the employee to undertake a substantially different task for a maximal period of thirty (30) days in a year;

- iv.* The employer commits a violent assault or immoral act against the employee or his family members;
- v.* If the characterization of the treatment of the employer is unjust, cruel, or humiliating.
- vi.* If the workplace is a serious threat to the safety and health of the employee, and the employer declines to do anything about it;
- viii.* When the employer has caused the employee to appear as the party that is terminating the contract through his actions mainly by unfair treatment or violation of the contract.

#### **7.5. Compensation for wrongful termination**

If the employer or the employee who wished to terminate the indefinite contract has failed to undergo the required notification period, such person must pay an amount to the other party in accordance to Article 76 of the Labor Law. The amount shall be equal to the employee's payment within the notification time, unless they agree on a higher amount. It is the last wage of the employee that will serve as the basis for estimating the compensation for the worker who is paid by the time frame criterion.

Under Article 78 of the Labor Law, there is an entitlement to the person, who is harmed by termination for an invalid reason, to indemnity. This indemnity will be assessed by the CSLD, taking into account the circumstances of the termination, the actual and potential material damages, as well as, moral damages. When termination of employment is for an invalid reason, the employee also has the right to demand reinstatement. The consideration of such claims shall be as per the provisions of this Law and the Litigation Regulations before the CSLD.

#### **8. End-of-service benefit**

An end-of-service benefit shall be paid by the employer to the employee when the employment ends.

*"Without labor nothing prospers."*  
– Sophocles



The benefit varies depending on different circumstances, such as, e.g., the length of service and whether the employee resigned or the term of employment has expired. Under Article 84 of the Labor Law, the benefit shall consist of a half-month wage for each of the first five years, and one-month wage for each of the following years when the fixed-term contract expires. If the employee resigns, after completion of two (2) consecutive years of employment, he/she is entitled to one-third of the end-of-service benefit. If he/she has completed five (5) years, he is entitled to two-thirds of the benefit. Not until he/she has completed ten (10) consecutive years of employment, can he/she be entitled to the full benefit. The calculation of the end-of-service benefit is from the last salary.

There are some exceptions in cases of the worker's resignation under Article 87 of the Labor Law. If the resignation was because of force majeure beyond his/her control, the employee should be entitled to the full benefit. A female employee has the right to the full benefit if she ends her contract within three (3) months from the time of giving birth, or six (6) months from the date of her marriage. According to the Law of Domestic Workers, domestic workers are entitled to service benefits in the amount of one (1) month's salary if he/she has spent four (4) consecutive years with the same employer.

### **9. Non-compete clauses**

The Labor Law ensures that no party gets an improper benefit out of any employment situation. One way to do this is through Article 83 of the Labor Law, which regulates the non-compete clauses.

The employer may require the employee, whose work has allowed him to get acquainted with the employer's customers or have access to the business secrets, to not

compete with him or reveal his secrets upon expiration of the contract. This requirement needs to be in writing in the contract, which means that it does not apply to employees automatically. The following terms and conditions have to be in the clause to protect the legitimate interests of the employer:

- i.* The duration of the clause;
- ii.* The area by which the employee will not be able to seek employment with a competitor; and
- iii.* Prohibition of the type of work that the employee shall not be engaging in with a competitor.

The non-compete clauses shall not exceed more than two (2) years from the date of termination of the employment agreement. However, the employer may require his employee to not disclose his business secrets to anyone for ten (10) years from the termination. If the employee contravenes any of the terms of the non-compete contract, the employer has right to sue the former employee within one (1) year from the date of the discovery of such violation.

### **10. Social insurance**

In Saudi Arabia, they have a Social Insurance Law issued by Royal Decree M/33 of 2000 (the Social Insurance Law). The administration of this social security system is by the General Organization for Social Insurance (GOSI). The Social Insurance Law applies to private-sectors and some categories of public-sector workers. Foreign workers have the right to payment for workplace injury or disease through such law.

#### **10.1 Work injury**

The rules about work injuries in the Social Insurance Law applies to both Saudi-national and foreign workers in the private sector. Article 28 of the Social Insurance Law states that the following benefits will be entitled to the contributor who has sustained an employment injury:



*"Work isn't to make money; you work to justify life."*

*- Marc Chagall*

medical care required, daily allowances for temporary work disability if he cannot work, monthly benefit and a lump sum compensation for permanent total or partial disability, monthly benefits for family members, and a grant for the family of the injured person.

As it already has been stated under chapter 3.2, leave for the worker, in case of a temporary disability, will be in conjunction with a right to 100% of his daily wage for the first sixty (60) days. If the employee is receiving inpatient treatment at a medical center, he has the right to 75% of his daily wages for ten (10) months after the first sixty (60) days. If the results of a work injury are death or total disability, the employee or the legal heirs of the employee is entitled to receive compensation from the employer. The compensation shall be equivalent to the employees' wages or salary for 36 months, but may not be less than SAR 54,000 as per Article 138 of the Labor Law.

When it comes to a permanent disability pension, the insured Saudi-national has the right to 100% of the monthly average earnings, if he has a 100% disability according to the Social Insurance Law. For insured Saudi workers, a lump sum equal to eighty-four (84) months permanent disability pension will be allocated. If assessed as a total disability, the maximum is SAR330,000. If the worker is only partially disabled, he/she will receive a lump sum equal to sixty (60) months' pension times the assessed degree of disability.

The survivor pension is 100% of the pension the deceased received would have been entitled to receive, if there are three or more survivors. If there are two survivors, it will be 75%, and only 50% if there is one survivor. This entitlement is according to Article 35 of the Social Insurance Law.

### **10.2 Old-age pension**

An old-age pension is only entitled to Saudi-national

employees. The minimum monthly earning, for contributions and benefits, is SAR 1,500 and the maximum is SAR 45,000. The funding of retirement benefits is by employer and employee contribution of 9 % each. This funding also applies to survivors and disability pensions. As per Article 38 of the Social Insurance Law, the old-age pension is for Saudi-national employees who have retired (sixty (60) years for men and fifty-five (55) years for women) and have at least 120 months of remunerated or credited contributions. The credited contributions cannot exceed sixty (60) months. A man at the age of fifty-five (55) and at least 120 months of contributions, is entitled to an old-age pension if his engagement is in an arduous or unhealthy work. If a worker does not satisfy the old-age pensions requirements, the payment of an old-age settlement will be according to Article 41 of the Social Insurance Law.

The old-age pension amounts to 25% of the insured persons average monthly earnings during the last two (2) years for each year of contributions, up to 100%. At the beginning of the last 5-year contribution period, the average monthly earnings used to calculate benefits must not exceed 150%. The minimum pension is SAR 1,725 a month. An old-age settlement consists of a lump sum of 10% of the insured's average monthly earnings during the last two (2) years before retirement, for each month of the first five (5) years of contributions, plus 12% for each additional month.

### **10.3. Disputes**

The most common areas of a dispute under the Labor Law, between the employer and the employee, is about the scope of remuneration, working hours, overtime pay, termination and end-of-service benefits. As mentioned above, the CSLD has jurisdiction over employment and labor disputes. It contains the Primary CSLD and the Supreme CSLD.



**"There is no excellence without labor. One cannot dream oneself into either usefulness or happiness."**

**- Liberty Hyde Bailey**



Saudi Arabia for less than two (2) years, and they are not permitted to apply for new visas. Red zone companies have the most restrictions, and they cannot open a new business or branch in Saudi Arabia until they have improved their Nitaqat rating.

According to the Saudization, some work positions are restricted solely for Saudi-nationals. According to Article 36 of the Labor Law, the Ministry of Labor shall issue such restrictions. These are specific jobs that the Ministry of Labor have prohibited foreign workers from working in, for example: the chief administrator of human resources, receptionists, employment clerks, and cashiers. The Ministry of Labor has recently decided that after September 2018, 12 more job categories within retail will be off-limits to foreign workers. Some examples are working at watches stores, eye-wear stores, building materials shops, medical equipment stores, electronic shops, and pastry shops.

There are some special rules in the Labor Law which regulate Saudization. If a company has fifty (50) or more employees, the employer must annually train 12% of their Saudi-national employees under Article 43 of the Labor Law. This training is with the purpose of gradually replacing non-Saudi employees. Article 35 of the Labor Law provides for the ascertaining of whether none of the Saudi-national applicants possess the required qualifications and are willing to undertake the same work before the renewal of a work permit. It is the Ministry of Labor who approves work permits. Article 35 asserts that the Ministry of Labor will not renew a work permit if the employer does not comply with the Saudization.

## **12. Joint Stock Companies**

When it comes to Joint Stock Companies, there are individual rights and duties for the employer and employee. Some of the stated rights are in the Regulatory Rules and Procedures issued under the Companies Law.

The inclusion of employee shares is in the employee's incentive plans through which the granting of Treasury Shares owned by the Company to the company's employees. According to Article 13 of the JSC Law, a company may buy back its shares to use them as Treasure Shares with the purpose to allocate them to company's employees as part of an Employee's Shares plan. The company must observe the following rules in Article 24 of the Law:

- i.* The company's bylaws must provide for and permit the same;
- ii.* The company must obtain the extraordinary General Assembly's approval on the Employees' Shares plan. The General Assembly may authorize the Board to determine the terms of the plan including the allocation price for each share offered to employees if offered for consideration; and
- iii.* Non-executive Board members shall not participate in the Employees' Shares plan, and Executive Board Members shall not vote on Board resolutions relating to the plan.

Article 20 of the JSC Law states that unless there is an allocation of Treasury Shares to the company's employees, a company may not increase its share capital through a rights issue, if it retains Treasure Shares or if the Extraordinary General Assembly approved a Share buy-back transaction, and did not cancel such approval.

### **Conclusion**

It is apparent that the Labor Laws are in favor of the employees. The employees have many rights when it comes to employment, even foreign workers. As stated in Article 12 of the Labor Law, both the employer and the employee shall be aware of their position and their rights and duties. Even if, due to the Saudization, the Saudi-nationals have better rights when it comes to employment, there is protection for all employees.

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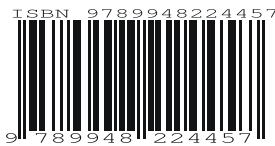
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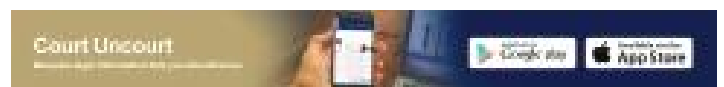
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