



In Focus: Limited Term and Unlimited Term Employment Contracts under the Laws of the United Arab Emirates

An employment contract can be concluded for a limited term or an unlimited term pursuant to the laws of the United Arab Emirates ("UAE"). The nature of the contract specifically has an impact on termination modalities as well as entitlements to severance pay and compensation.

What is a limited term contract?

A limited term contract is concluded for a fixed period of time. It therefore stipulates a commencement date as well as an expiry date and generally ends automatically at the end of the agreed term. An additional declaration of termination by the parties for bringing the employment relation to an end is not required unless otherwise provided for in the contract.

What is the possible duration of a limited term contract?

According to Federal Law No. 8 of 1980 as amended ("UAE Labour Law"), the contractual term may not exceed four years.

By contrast, Ministerial Resolution No. 765 of 2015 ("Resolution") determines a maximum term of two years. Despite the fact that the Resolution's scope of legal relevance is considered ambiguous, the local authority responsible for employment relations on state territory, i.e. the Ministry of Human Resources and Emiratisation, implements the Resolution by no longer providing standard employment contracts for a time period exceeding two years.

What constitutes an unlimited term employment relation?

An unlimited term contract is in place when an employment has been concluded for an open-ended period of time and, thus, does not determine a fixed date of expiry. Additionally, those types of employment relationships are considered unlimited that have either been concluded verbally, that lack a specific timely determination or that have actually been continued by the parties beyond their initial date of expiration without entering into a renewed limited term contract.

Do parties have a choice regarding the nature of the employment contract?

In state territory as well as in most free zones of the UAE, the contractual parties may choose which type of contract should govern their employment relationship. However, some free zones, such as the Jebel Ali Free Zone and the International Humanitarian City, are solely issuing limited term contracts at present.

May a limited term contract be renewed upon its expiry?

The parties of a limited term employment relationship are free to renew their contract for another term if so desired. The number of consecutively renewed limited term contracts (so-

called chain contracts) is not restricted. The employee's period of employment with the company continues with every renewed limited term contract or with the conversion of a limited term relationship into an unlimited one.

Does a notice period have to be observed before terminating a limited term contract early?

The UAE Labour Law does contain regulations on a notice period for early termination of a limited term contract. Consequently, those types of contracts may be terminated early at any time. However, the terminating party might subsequently be liable to pay damages to the other party.

The Resolution provides for a notice period between one month and three months for any renewed limited term contract. Should the parties not have agreed on such notice period, a fixed three-month notice period shall apply.

What is the notice period for an unlimited term contract?

An unlimited term contract can be terminated by both the employer and the employee by observing a notice period of at least 30 days provided that the parties have not contractually agreed on a longer notice period. The employment relationship continues for the duration of the notice period and therefore is part of the employee's period of employment with the company.

While the UAE Labour Law does not determine a maximum period of notice, the Resolution draws the limit at three months.

What effect does the early termination of a limited term contract have on the employee's entitlement to severance pay?

An employee who terminates his contract early whilst not having served at least five years with the company will lose his entitlement to severance pay according to Articles 132 ff. UAE Labour Law.

If, on the other hand, the employer initiates the termination, the employee's entitlement to severance pay will remain unaffected.

How does the termination of an unlimited term contract by the employee affect his entitlement to severance pay?

If an employee terminates an employment relationship that has existed one year, but not yet more than three years, his entitlement to severance pay reduces to one third of the original



amount. If the employment relationship has existed longer than three, but not more than five years, he is entitled to two-thirds of his initial severance pay. However, if the employment relationship has continued for more than five years, the employee will receive the full amount of his severance pay regardless of his decision to terminate.

Is the employee liable for compensation payments if he terminates a limited term contract early?

In case of an early termination by the employee, he will be liable for compensation payments towards his employer if none of the reasons of termination for good cause according to Article 121 UAE Labour Law can be assessed. Unless the contract stipulates otherwise, the amount of payable compensation is either capped at a maximum of one and a half monthly salaries or capped at the salary that the employee would have been entitled to until the expiration of the contract, whichever amount is less.

The Resolution specifies a fixed compensation of a three-month salary for any renewed limited term contract provided that no lower amount has been agreed upon.

Is the employer obliged to compensate the employee if he terminates the employment relationship early?

As per UAE Labour Law, if the employer terminates an employment relationship early, he must compensate the employee in the amount of up to three-month salary or, respectively, the salary that the employee would have been entitled to until the expiry of the employment relationship, whichever amount is less. The aforementioned holds true unless grounds for termination for good cause according to Article 120 UAE Labour Law exist or the employment contract contains differing provisions.

However, the Resolution determines a fixed amount of a three-month salary for renewed limited term contracts, provided that the parties have not agreed upon a lower amount.

Do compensation claims exist in case of a termination of an unlimited term contract?

If one party fully or partially does not abide by the contractually stipulated notice period, he will be liable for compensation

towards the other party. The amount of compensation is determined according to the employee's last paid salary for the (remaining) notice period. The other party thereby does not need to actually sustain any damages.

If the employer terminates without a valid reason, the employee is entitled to a compensation of up to three months salary. The exact amount will be determined by the court in case of a dispute. A corresponding right of the employer in case of termination by the employee does not exist.

Which is the preferred type of employment contract?

Whether the conclusion of a limited term or an unlimited term contract is the most suitable must be determined on a case-by-case basis.

A limited term contract, for example, might be preferable for an employer who is engaged in project business, who solely plans to fill a vacancy temporarily, such as in case of a maternity leave replacement, or who has only limited funds available for a certain job position, which would often be the case with start-up companies.

Do you have questions? - We would be glad to answer them!

From our office located in the heart of Dubai, our team of German attorneys has been advising small and medium-sized companies, corporations and individuals on the laws of the United Arab Emirates for more than a decade. Our areas of expertise include corporate and commercial law (in particular business set ups), commercial agency law, employment law as well as tenancy and real estate law. We would be happy to attend to your questions as well. Contact us!