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## Editorial: Why deflation matters

For much of the twentieth century one of the greatest economic threats was runaway price inflation. Today that is still a characteristic of some economies, especially in South America where the 10 Bolivar note in Venezuela has declined in value from five US dollars to two cents over the last decade. However, for most advanced western country governments and their central banks the current fear is the less spectacular — but equally damaging — persistence of price deflation.

Many economies across the world face declining demand for goods and services and companies are forced to drop prices as they chase the same business opportunities. This has a powerful impact on profitability because, as companies cut prices, their internal fixed costs such as rents, service contracts, wages and salaries become a disproportionate burden if production volumes remain the same. It would make sense to refuse discounts and cut production, but that would lead to another recession and no-one wants to precipitate such an outcome after just coming out of such a painful downswing.

Deflation is, at a superficial level, good for workers as their wages and salaries are generally not geared to fall as well as rise — unless a significant part of their remuneration is profit-related or indexed to allow for falls in prices as well as increases. Workers and their representatives have also been conditioned to expect periodic basic rate pay rises — even if company profits are falling or deflation is increasing the real value of their pay. Workers are also consumers and many will react to falling prices by putting off key purchases — thus increasing the fall in prices and company profits even more.

In the European Union deflation is currently affecting more than half of the 28 member states, with some experiencing significant falls for the last two years. The most affected countries over the last year have been Bulgaria, Cyprus and Romania — all with overall price falls of around 2%. Of course deflation can affect just certain prices, whilst others continue to rise. This is the case in the UK where food prices have fallen by 2.7% over the last year and in the Netherlands where health costs have dropped by an average of 2.8%. How far these impact on overall prices will depend on their relative weight in the typical national 'shopping basket' used to compile the figures. Thus, although the cost of

food has fallen significantly, the impact is fairly low given that the importance of food in UK spending is lower than the EU average. The same is the case for healthcare in Netherlands — which makes up only 2.6% of consumer expenditure compared to 3.9% in the EU as a whole and 7.7% in Portugal.

Persistent deflation has huge implications for HRM because it necessitates radical changes in pay determination and adjustments that will be highly unpopular with workers and unions alike. The best example of a pay system that is fair, flexible and productive is one that guarantees all employees in an enterprise the same level of basic hourly pay — but with individual enhancements because of 'job size'. This total pay figure would then be adjusted each year to reflect individual and company performance variations and rises and falls in national or local price levels. There would be no need to negotiate pay rates as these would automatically be adjusted and would only need to be reviewed if company fundamentals changed.

Deflation challenges our assumptions and the question for us to ask therefore is 'why isn't such a system in place?' not 'why should we interfere with established custom and practice?'

## **Australia: Employee fairly dismissed for failing to follow reasonable complaints procedure**

In a recent case the Australian Fair Work Commission found that the dismissal of an employee for refusing to follow the correct complaints procedure was fair.

After being unsuccessful in his application for another position with his employer, the employee in question had raised an external complaint about the recruitment and selection procedure. This was referred back to the employer who then engaged a law firm to carry out an

investigation into the matter. Later, however, the employee revealed confidential details relating to the investigation via a general email address to which he also made further complaints and disparaging remarks about a colleague. He was twice asked not to use this general email address to communicate confidential details about the investigation and was told that failure to pay attention to these directions could result in disciplinary action, however, despite these warnings, he continued to use the general email address for these purposes. He was subsequently suspended and dismissed without notice.

Despite the employee's claim that he had been dismissed for raising a complaint, the Fair Work Commission (FWC) found that this was not the case and that the dismissal was fair. In coming to its decision the FWC considered the 'criteria for considering harshness' as stated under section 387 of the Fair Work Act. The FWC was satisfied that there was a valid reason for the dismissal — there was no evidence that the employee's initial complaint was the basis for termination but rather that the dismissal was related to his later conduct. The FWC also concluded that the directions issued to the employee were reasonable and he had deliberately breached these directions. Furthermore, no fault could be found with the dismissal procedure adopted. The claim for unfair dismissal was dismissed. [Ellem v Gladstone Area Water Board [2016] FWC 1893 (31 March 2016)]

## **Belgium/Germany: New integration laws approved**

The German Chancellor, Angela Merkel, has achieved an agreement within her ruling coalition about how to integrate the recent influx of immigrants, principally from the Middle East. A new law will be drafted that will end the requirement for employers to offer jobs first to EU citizens and then to immigrants only if posts are still not filled. However, immigrants would be granted

residency rights only if they undertook German language lessons and sought work. If they opted out of language or necessary skills training then their benefit rights would be cut.

Meanwhile, the Belgian government has approved a draft integration law which would require those coming to live in Belgium for more than three months from outside the EU to swear a 'newcomers statement'. Individuals would have to sign the statement or have their residence permit refused. The statement will contain a commitment to learn the official language of their region, familiarise themselves with their new society, grant equal opportunities to their children irrespective of their gender, not impose marriage on family members and respect the law. Asylum-seekers and students would be exempt, but it would apply to longer-term secondees and when residence permits are renewed. It is the aim for the measure to reach a final parliamentary vote before the Summer recess.

## China: Drive to make companies go global

A new government focus is being placed on the development of the southern city of Shenzhen as a location to base Chinese multinational enterprises. An incentive scheme has been established to encourage local companies to go global. It is offering an award of 30 million renminbi (4.5 million US dollars) to any enterprise that is the first to enter the Fortune Global 500 and 10 million renminbi (1.5 million US dollars) to any enterprise included in the Fortune China 500 for the first time.

There are also strong incentives for highly-talented individuals to move to Shenzhen. 'World-class' scientists and researchers are being offered the choice of one of three options if they move to Shenzhen: a one-off payment of 6 million renminbi (926,000 US dollars); a rent-free 200 square meter apartment for ten

years; or 10 million renminbi in cash and benefits, payable after 10 years. Other highly-skilled workers have had their rent subsidies increased from 4,800 to 10,000 renminbi (740-1,540 US dollars) per month and recent graduates may now qualify for one-off subsidies worth between 15,000 and 30,000 renminbi (2,300-4,600 US dollars) depending on their educational level. Those founding businesses will also receive increased rent subsidies and entrepreneurs that have gained previous experience in other countries may qualify for initial funding of up to 1 million renminbi (154,000 US dollars) to launch new projects.

Guangzhou, another major southern Chinese city, is focusing its attentions on foreign accredited scientific or managerial 'experts' by offering a subsidy of 200,000 renminbi (31,000 US dollars), to be used to cover travel costs, accommodation and other expenses, for those who will work in the city. If the expert stays for over six months it may be used towards salary — provided it does not exceed 60% of the total salary paid.

## European Union: Why major EU states have low productivity growth

Although the European Union is a unified trading area with many harmonised rules, the performance of individual member states continues to differ markedly. This is particularly the case with labour productivity.

Labour productivity per hour worked rose over the period from 2010 to 2015 by 23.2% in Romania, 18.5% in Latvia, 12.1% in Ireland and 9.8% in Malta. Yet in the leading states it rose only 4.2% in Germany, 2.2% in the UK and in France by so little that it has not released its data. In fact, the UK's Office for National Statistics estimates productivity is still 14% lower in the UK than it would have been if the economy had not been hit by the recession.

These differences are to some extent due to the economic structure of the countries concerned, with service-based economies such as the UK having much higher productivity growth outside its declining manufacturing base. But productivity is largely a function of investment and there have been huge differences in recent years — particularly in foreign investment. Net foreign direct investment as a percentage of GDP in the major EU economies was virtually negligible in the major national economies such as Italy (0.1%), Germany (1.4%), France (1.8%) and the UK (2.0%). However, it was 22.4% in Malta, 27.2% in Cyprus and 53.3% in Ireland. The reason why is also clear — because these three countries operate the lowest corporation tax rates in the EU.

## Saudi Arabia: Saudization to apply to HRM

New restrictions on foreign investments and posts held by foreigners are being introduced to ensure that multinationals make significant investments that spread benefits to the Saudi population.

The Saudi Arabian General Investment Authority has ordered that Saudis hold at least 75% of jobs in foreign-owned enterprises. They also require that the local head of the company or investment permit applicant be college educated, have no criminal record, have at least 10 years of experience in an executive position, and hold a majority stake in the company.

In an even more draconian move, the Saudi Ministry of Labour has published plans to ban all foreigners from holding any human resource management position or any function involved with the hiring of workers. Companies infringing the proposed rules — which could be introduced in the near future — will face punitive fines of 20,000 riyal (5,333 US dollars) for a first offence and doubled for any further offence.

## Pay, Tax and Benefit Trends

**ARGENTINA:** Argentina's president, Mauricio Macri, is threatening to veto two Bills if they are eventually voted through the country's houses of parliament. Both measures have so far been voted through parliamentary committees. A lower house Bill states that anyone laid off since March 1st 2016 must be reinstated and anyone laid off between now and December 31st 2017 must receive double compensation. An upper house Bill simply declares that double compensation must be paid for six months.

**CHINA:** A number of local reforms are being introduced in China to reduce the financial burdens on employers and speed up the process of dispute resolution. In several municipalities such as Beijing, Shanghai, Guangdong, Zhejiang, and Tianjin, for instance, social security has been reduced. In Shanghai this amounts to a cut of 2.5% in total premiums paid by employers. The new range for calculating social security is 3,563 to 17,817 renminbi (550-2,750 US dollars) per month. The Human Resource and Social Security Bureau in Beijing has also announced that arbitration shall be applied to all labour disputes where the claimed amount is worth up to 12 months of the local minimum wage.

**CZECH REPUBLIC:** The Czech car manufacturer Skoda Auto has concluded a wage deal with trade unions. The agreement covers the period from April 1st 2016 until March 31st 2018 and will increase average basic rates by 11.2%. Terms have also been agreed for the introduction of flexible working practices (*Flexikonto*) and 'non typical' shift systems.

**POLAND:** Average monthly gross earnings in the Polish enterprise sector rose over the year to March 2016 by 3.7% to 4,351 zloty (1,136 US dollars). Profit-related pay represented only 0.01% of total pay bills. Poland's general business climate indicator in March



was 4.9% up in manufacturing, but declined by 6.9% in construction.

**PORTUGAL:** A tax loophole that allows foreign retirees from private sector jobs to retire to Portugal with a ten-year tax holiday has been closed to Finnish taxpayers. Finland negotiated a similar deal with Spain last year. There are estimated to be 100,000 expat retirees living on Portugal's Algarve coast.

**SLOVENIA:** Average gross monthly wages in Slovenia grew by 3.5% to 1,574.22 euros (1,779 US dollars) over the year to February 2016. Average net monthly earnings in February were 1,022.32 euros (1,156 US dollars) and ranged from 1,390.57 (1,572 US dollars) in the utility sector to 719.40 euros (813 US dollars) in administrative and support services. The statutory minimum wage in Slovenia is 790.73 euros, unchanged since January 2015. However, only around 6% of the population are on the minimum wage.

**SOUTH KOREA:** A dispute between Korean Air and its pilots over pay has led to their union advising pilots not to stay any longer than legally necessary in their cockpits. The situation has been exacerbated by disparaging remarks by the company Chairman and one pilot being dismissed after refusing to work overtime. The company is seeking to restructure in the face of declining demand and has offered 1.9% in response to a 37% pay claim. But worsening union-management relations and a growing lack of confidence in the Chairman following the infamous 'nut incident' involving his daughter are making it very difficult to make the changes necessary to keep the airline solvent.

**SWITZERLAND:** Ahead of a national referendum in June, the Swiss city of Lausanne has decided to experiment with offering a basic income to a section of its 150,000 citizens. This follows a similar experiment in the Dutch city of Utrecht, which began in January, where individuals receive 900 euros (1,010 US dollars)

per month and couples 1,300 euros (1,459 US dollars). Other places in the world where similar systems are being considered are Finland and the Canadian province of Ontario. This approach (pioneered with mixed results in certain US cities such as Seattle between 1968 and 1978) aims to remove the top heavy system of welfare benefits by simply dividing the welfare budget between all citizens.

## Other Global HR News in Brief

**BOSNIA HERZEGOVINA:** The new labour law of the Federation of Bosnia and Herzegovina that entered into force on August 20th 2015 has now been repealed. This follows a decision by the Constitutional Court in February that the law had been adopted using the wrong parliamentary procedures. As a consequence, statutory changes such as extending fixed-term contracts to a maximum of three years and annual leave from 18 to 20 days will not strictly apply until the law has passed through the state parliament once again. Employers are left in a grey area with the old laws (43/99, 32/00 and 29/03) possibly applying once again.

**CHINA:** Evidence of a changing attitude towards LGBT identities in China is evidenced by a number of recent developments. In Changsha, Hunan Province a court recently heard China's first gay marriage case, whilst in Guiyang, Guizhou Province a decision is awaited in China's first transgender employment discrimination case. Last Autumn China's Ministry for Education was sued for describing homosexuality as a psychological disorder, whilst in 2014 a clinic was found by a court to have broken the law for offering gay-straight conversion therapy.

**EUROPEAN UNION:** The European Commission is concerned about working conditions in the context of greater longevity and an increasing number of people staying at work beyond their normal retirement age.

According to a survey conducted by Eurofound last year, 25% of workers in the EU think that their health is adversely affected by work and 27% think that they would not be able to do the same job until the age of 60. For this reason the Commission and the EU health and safety agency have launched a joint two-year initiative. This will seek to improve training and flexitime opportunities for older workers, support workers returning to work after a long-term sickness absence, encourage healthy working lifestyles and cater for gender-specific problems associated with ageing.

**FINLAND:** There is a growing demographic crisis in Finland where the number of live births has fallen for the fifth year running and was lower in 2015 than when records began in 1868. The birth rate of 1.65 is now well below the population-sustaining rate of 2.1. Furthermore, one in every five people is now aged over 65 — the sixth highest proportion in the EU28. The influx of foreigners needed to keep the economy in operation is not matching the natural decline — as indicated by the fact that only 6% of the population speak a foreign language as their native language and live permanently in Finland. The majority of these are from Russia or Estonia.

**INDONESIA:** A joint ministerial decree has been issued in Indonesia setting out national and other mandatory leave days for 2017. They will amount to 19 days and include New Year's Day (January 1st), Chinese New Year (January 28th), Nyepi (March 28th), Idul Fitri (June 25th-26th), Independence Day (August 17th) and Christmas Day (December 25th), with the addition of June 23rd, 27th and 28th plus December 26th as mandatory leave days.

**MALAYSIA:** The Human Resources Ministry in Malaysia has announced that over the next year they will be pushing over 30 amendments to labour laws through the legislative process in preparation for the implementation of the Trans-Pacific Partnership Agreement (TPPA) in 2018. The changes will seek to

improve labour standards in line with ILO conventions and also achieve better compliance through more effective monitoring and enforcement.

**NEPAL:** The Nepalese government has stopped the exodus of women to work in domestic jobs in the Gulf States and now requires all unskilled and semi-skilled women to provide information on their future working hours and pay rates before taking up work abroad. In a further move, a voluntary programme has now been operating in Nepal's brick kiln industry since the beginning of the year to stop the use of forced, bonded or child labour. The programme has so far attracted 20 companies. Each has agreed to undergo annual inspections and to establish childcare and education facilities near to each workplace.

**POLAND:** The Ministry of Family, Labour and Social Policy in Poland has announced amendments to the Labour Code with respect to the obligation to provide a written statement of employment particulars. The current law provides that if there is no written contract of employment, the basic conditions of employment must be provided to the employee in writing no later than the end of their first day of work. The proposed amendment would oblige employers to provide a statement of employment particulars in writing before the employee commences employment thus preventing employers from using unregistered labour and simply claiming upon inspection that the worker has begun employment on that day.

**SWITZERLAND:** All restrictions on Bulgarian and Romanian citizens' right to live and work in Switzerland will be lifted from June 1st 2016. Like other EU nationals, nationals of Bulgaria and Romania will be able to freely enter Switzerland to work under a local employment contract without being subject to visas or quotas.

**UAE:** The ten-day grace period that used to follow a 30-day UAE visitor or business visa has been

abolished and those overstaying will now be subject to a fine of 100 Emirati dirham (approximately 27 US dollars) per day. This will affect only nationals of certain countries that qualify for 30-day visas — such as Australia, Canada, Ireland, New Zealand, Singapore, South Korea, the UK and the USA.

**UAE:** A UAE ministerial circular has declared that May 5th 2016 will be a national holiday for both the public and private sectors to celebrate Israa and Miraj.

**USA:** The US health and safety bodies CDC and NIOSH have issued joint guidelines to employers on how to protect workers from the vicious Zika virus. This involves the warning of outside workers about the dangers of the virus and how they can protect themselves from mosquito bites. Precautions include the issuing of repellents, requiring workers to wear full-length trousers and long-sleeve shirts and providing workers with hats that incorporate mosquito netting to protect their face and neck. Employers should also delay the sending of employees who are pregnant to high-risk areas.

## Dates for your diary:

**May 1<sup>st</sup> 2016:** The minimum wage will increase in **Ukraine** to 1,450.50 hryvnias.

**May 2<sup>nd</sup> 2016:** Deadline for submitting responses to the **Australian** government's public discussion paper on the possibility of introducing a deferred prosecution agreement (DPA) scheme.

**May 10<sup>th</sup> 2016:** New rules on post-termination non-compete clauses come into effect in Utah, **USA**.

**June 1<sup>st</sup> 2016:** Freedom of movement restrictions on Bulgarian and Romanian citizens removed in **Switzerland**

**July 1<sup>st</sup> 2016:** Increase in levies on construction sector and service sector work permits and S-Pass permits in **Singapore**.

**July 1<sup>st</sup> 2016:** The requirement for companies in Dubai, **UAE**, to provide health insurance cover for all employees extends to companies with fewer than 100 employees.

## Latest news for business travellers:

In the **Republic of Ireland**, workers at Dublin's tram operator Luas are currently undertaking a 24-hour strike with further 24-hour strikes planned for May 4th, 13<sup>th</sup>, 20th and 27<sup>th</sup> if an agreement over pay is not reached. Additionally, a four-hour stoppage is scheduled for May 26th between 3pm and 7pm.

In **Belgium**, Brussels underground network is now operating at full capacity after the reopening of Maelbeek station on Monday, April 25th.

SouthernRail train services in London, **UK** are due to be affected by 24-hour strikes planned on Tuesday, May 10<sup>th</sup> and Thursday, May 12<sup>th</sup>, from 11am.

Tours Val de Loire Airport in **France** will be closed on June 22nd, 23rd, 27th, 28th, 29th and 30th due to essential works.

National elections are scheduled to take place in the [Philippines](#) on May 9<sup>th</sup>. Those traveling to the country should avoid demonstrations and large crowds.

## FedEE news:

**IMPROVE YOUR KNOW-HOW ABOUT A MAJOR ISSUE FACING HR TODAY:** The way companies handle personal data has come to the forefront in the last few years and now represents one of the biggest risk areas facing HR Professionals. That is why FedEE is establishing a forum to allow HR generalists to get up to speed with all the practical things they need to do in the EU and other major jurisdictions across the world. Our first meeting has been rescheduled from June 2<sup>nd</sup> 2016 to July 13<sup>th</sup> 2016 in order to avoid a conflict with UK school holidays. The meeting is geared to non-specialists and forms part of the mission of FedEE to demystify legal and technical jargon and minimise the effort required to keep abreast with developments. To learn more about the event please call our events unit on +44 (0)117 975 8611.

**NEXT FELLOWSHIP MEETING:** The next Fellowship Meeting will take place on July 12<sup>th</sup> 2016 and Fellows will be sent further information shortly. If you are not currently a Fellow but are interested in becoming one please contact us on +44 (0)117 975 8611.

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