

Spain's new Conservative Government has outlined reforms aimed at reviving the economy and promoting employment, especially amongst young people and the long-term unemployed. Described as an "extremely aggressive change", the new regulations will have a significant impact on the Spanish labour market.

What do the changes mean for companies doing business in Spain?
We set out below 10 key points for employers:

- **Reduced severance payments:** The amount of compensation for unfair dismissals has been reduced by more than a quarter from 45 to 33 days' salary per year of service. The cap on the total amount has also been reduced from 42 to 24 months' salary. These reductions will mainly affect new recruits, but they will also impact on existing staff, as any future service with their employer will be calculated at the rate of 33 days' pay per year of service. Employers will therefore be required to calculate severance payments based on different rates depending on whether the relevant period of service was pre- (or post) 12 February 2012.
- **Clarification on definition of "economic" grounds for redundancy purposes:** In Spain a dismissal will be treated as by reason of redundancy if it is based on "economic, technical, organisational or production" reasons. It has always been difficult for Spanish employers to determine whether a redundancy situation exists. In an attempt to clarify the position, the Government has made it clear that if a business has suffered a reduction in sales for three consecutive quarters then this will constitute an "economic" reason for redundancy purposes. This should make it easier for employers to make fair redundancies.
- **Collective redundancies:** The Government has removed the obligation on employers to obtain prior authorisation from the Labour Authority in a collective redundancy situation.
- **Fixed-term contracts:** With almost a third of Spain's workforce on temporary contracts, the Spanish Government is keen to boost permanent employment levels. There will be tax breaks for employers that convert fixed-term contracts into permanent arrangements. Furthermore, employers will now only be able to offer fixed-term contracts of up to 24 months at most.
- **Interim wages:** As a general rule if an employee was dismissed and the dismissal was found to be unfair, an employer was required to pay severance pay to the employee or reinstate him. It was also required to pay him an interim wages payment from the date of dismissal to the date of the Judge's ruling. Going forward employees will no longer be entitled to an interim wages payment.
- **Greater flexibility to change terms and conditions of employment:** Employers will have the ability to reduce salaries without obtaining employee consent in redundancy situations. The aim of this provision is to encourage employers to consider alternatives to redundancy.
- **Weaker collective bargaining:** Historically if an employer was unable to reach agreement on the terms of a new collective agreement, the provisions of the old agreement would remain in force indefinitely. The Government has now said that if the parties are unable to reach agreement then the old collective agreement will only remain in force for 2 years after its expiration date. There will then be no binding collective agreement in place. This could have significant repercussions and will be welcomed by employers, though clearly does not represent a short-term solution.
- **Small employers:** There will be a new type of contract to assist entrepreneurs (those with fewer than 50 employees) which contains a one-year probationary period. There will be tax and social security incentives for employers that enter into such contracts.
- **Training contracts:** The upper age limit for entering into a training contract will increase from 25 to 30. This is specifically designed to boost employment and the change will remain in place until unemployment rates fall below 15%.
- **Working from home:** The Government has clarified in statute an employer's rights and obligations when employing home workers.

Needless to say the trade unions are unhappy with these changes and Spain's Prime Minister has acknowledged that the new regulations are likely to result in a general strike.

Webinar: Ignacio Regojo and Juan Nasarre from our Spanish Labour & Employment team will be presenting a webinar on the changes and the implications for employers in Spain. An invitation to attend the webinar will follow shortly.

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