

¹Trade Union agreement versus Statutory Provisions: A Balancing Act: Tilahun Tachible versus Global Hotel PLC

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Abstract

This case analysis involves an analysis of a case involving a dispute between an employee, Tilahun, and his employer, Global Hotel, before the federal supreme court cassation division, over severance pay entitlements. The core issue centered on the precedence between a union agreement and a statutory provision regarding pension eligibility which impacted severance pay eligibility, the court prioritized the statutory provision, granting severance pay to the employee despite the union agreement. This decision is critiqued for undermining contractual autonomy and interfering with collective bargaining. The case analysis explores the principles of contractual freedom and its limitations, comparing the Ethiopian case to Indian contract law. The potential impact on labor relations and public policy is assessed, emphasizing the need for a balanced approach that respects both contractual autonomy and statutory protections.

1. Facts of the Case

Tilahun, a security guard employed by Global Hotel, found himself embroiled in a legal dispute following the termination of his employment contract. Contending that the termination was unlawful, Tilahun sought severance pay as outlined in Article 40 of Ethiopia's Employment Proclamation No. 1156/2019. A key provision of this proclamation stipulates that employees eligible for severance pay due to unlawful termination only entitled to this payment when at the time of employee ask for severance pay he does not eligible for pension payment.

Global Hotel, in opposition, argued that the union agreement in place dictated a retirement age of 55 for pension eligibility. Given that Tilahun had attained this age, the hotel maintained that he was not entitled to severance pay. Conversely, Tilahun asserted that the Pension Payment Proclamation established a retirement age of 60, rendering him eligible for severance benefit.

The issue is

- 1) The crux of the matter was determining the precedence between the contractual provision (union agreement) and the statutory provision (Pension Payment Proclamation) regarding the retirement age for pension benefits?

2. Use of legal jargon

The case is presented in a manner that is exceptionally clear and understandable. Even complex legal terms, often referred to as jargon, are defined and explained within the court's brief, making the case accessible to individuals without legal training, including laypersons and non-judicial legal professionals. Moreover, the clarity and comprehensiveness of the case make it an excellent precedent for other judges to reference and apply in future legal matters.

3. The Court's Decision

The court, in its ruling, prioritized the statutory law over the contractual agreement. This decision was based on the interpretation that laws should always be construed in favor of the debtor, in this case, the employee. Specifically, the court determined that the Pension Payment Proclamation, which establishes a retirement age of 60, superseded the union agreement's provision of a 55-year retirement age. This interpretation led to the conclusion that since Tilahun had not yet reached the age of 60, as stipulated in the statutory law, he was entitled to severance pay despite the provisions of the union agreement. In essence, the court's decision elevated the rights granted by the

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statutory law over those outlined in the contractual agreement, thereby granting Tilahun the benefit of the more favorable legal provision.

4. Analysis of the Court's Decision

At the heart of this case lies the fundamental principle of contractual autonomy. This principle posits that parties to a contract are free to negotiate and agree upon the terms that govern their relationship. Contracts are considered the embodiment of the parties' mutual assent, representing a solemn undertaking to abide by the agreed-upon terms. As such, they are accorded a high degree of sanctity in legal systems.

The Ethiopian Civil Code, in Article 1675(1), explicitly recognizes the contractual agreement as law between the contracting parties. This provision underscores the primacy of contractual terms in governing the rights and obligations of the parties. The law's role is primarily to provide a framework for contract formation and enforcement, while respecting the parties' freedom to shape their contractual relationships.

The court's decision to prioritize the statutory provision (Pension Payment Proclamation) over the contractual provision (union agreement) is a departure from the principle of contractual autonomy. By disregarding the terms of the union agreement, the court effectively substituted its judgment for the parties' agreed-upon arrangement. Such an approach raises concerns about the potential erosion of contractual sanctity and the implications for legal certainty.

Furthermore, the court's reliance on the principle of interpreting laws in favor of the debtor is questionable in this context. While this principle is generally applicable in resolving ambiguities in statutory provisions, it should not be invoked to override clear and unambiguous contractual terms. The parties to the union agreement were presumably sophisticated entities capable of negotiating and agreeing upon terms that reflected their mutual interests. To override these terms without compelling justification undermines the integrity of the contractual process. The court's decision also has implications for industrial relations. Union agreements are typically the product of collective bargaining, representing a compromise between employers and employees. By disregarding the terms of the union agreement, the court interferes with the delicate balance achieved through this process. Such interference can erode trust in the collective bargaining process and discourage parties from engaging in good-faith negotiations. The court's decision in this case is problematic for several reasons. It departs from the fundamental principle of contractual autonomy, undermines the integrity of the collective bargaining process, and has broader implications for legal certainty and predictability. A more appropriate approach would have been to respect the terms of the union agreement, unless there was a compelling reason to override them based on public policy or other overriding legal considerations.

The freedom to contract is often justified on several grounds:

- ✓ **Economic Efficiency:** The argument posits that parties are best placed to determine the terms of their agreements, as they possess superior knowledge of their respective needs and interests. This allows for efficient allocation of resources and fosters innovation.
- ✓ **Individual Autonomy:** Freedom of contract is seen as an extension of personal liberty, allowing individuals to exercise choice and control over their economic affairs. It is linked to concepts of self-determination and responsibility.
- ✓ **Certainty and Predictability:** Contracts provide a framework for commercial interactions, creating certainty and predictability in business relationships. This fosters trust and facilitates economic activity.

However as discussed latter detail, the principle of freedom of contract is not absolute. It is subject to limitations imposed by law to protect public interest, vulnerable parties, and to maintain fairness in contractual relationships. These limitations can manifest in various forms, such as:

- **Illegality:** Contracts that contravene statutory law or public policy are generally void.
- **Capacity:** The law may restrict the contractual capacity of certain individuals, such as minors or those with mental incapacity.
- **Unconscionability:** Courts may refuse to enforce contracts that are deemed to be unduly harsh or oppressive.
- **Good Faith and Fair Dealing:** While not explicitly codified in all jurisdictions, the principle of good faith and fair dealing imposes certain obligations on contracting parties to act honestly and reasonably.

The case of Tilahun versus Global Hotel raises important questions about the appropriate balance between freedom of contract and other legal principles. While the court's decision may have been motivated by a desire to protect the employee's rights, it also raises concerns about the potential consequences for contractual relationships more broadly. If courts are to routinely override contractual terms in the name of fairness or equity, it could undermine the principle of contractual autonomy and create uncertainty for businesses. By prioritizing contractual autonomy, courts can promote legal stability, encourage efficient dispute resolution, and foster a conducive environment for commerce and investment. While statutory law plays an essential role in regulating social and economic relations, it should not be used to arbitrarily interfere with the contractual rights and obligations of parties.

However it is also important to state that even contractual autonomy is a cornerstone of legal systems, it is not absolute. Statutory law, representing the collective will of society as expressed through legislative enactments, may impose limitations or modifications upon contractual relationships. In certain instances, statutory provisions may override contractual terms, particularly where public policy concerns or the protection of vulnerable parties are at stake. It is essential to approach the interplay between contract and statute with caution. Unwarranted interference with contractual freedom can undermine the principle of *pacta sunt servanda*, which emphasizes the binding nature of contracts. Courts should be circumspect in invoking statutory provisions to override contractual terms, especially when the contract is fair, equitable, and does not contravene public policy.

4.1. Impact on Labor Relations and Public Policy

The court's decision in this case has far-reaching implications for labor relations in Ethiopia. By prioritizing statutory law over contractual agreements, the court undermines the collective bargaining process, a cornerstone of labor relations. Union agreements are typically the outcome of negotiations between employers and employees or their representatives, representing a delicate balance of interests. When courts interfere with these agreements, it erodes trust in the collective bargaining process and discourages parties from engaging in good-faith negotiations. Moreover, the decision creates uncertainty for employers and employees alike. If contractual terms can be easily overridden by statutory provisions, employers may be hesitant to enter into collective bargaining agreements, fearing that their obligations could be unilaterally altered by the courts. This could lead to a decline in unionization rates and a weakening of workers' rights.

From a public policy perspective, the court's decision is also problematic. While it is essential to protect the rights of workers, this should not be achieved at the expense of contractual freedom and legal certainty. A more balanced approach would be to recognize the importance of both contractual autonomy and statutory protection, striking a harmonious balance between the two.

5. Comparative Analysis: Indian Contract Act

The Indian Contract Act of 1872 offers a valuable comparative perspective on the interplay between contract and statute. Chapter 10 of the Act explicitly recognizes the principle of contractual autonomy, emphasizing that contracts freely entered into are binding on the parties. The Act also provides for certain statutory exceptions to contractual freedom, but these exceptions are generally limited and narrowly construed.

The Indian courts have consistently upheld the principle of contractual autonomy, emphasizing the importance of respecting the parties' freedom to shape their contractual relationships. In cases involving conflicts between contractual provisions and statutory laws, Indian courts have generally given precedence to contractual terms, unless the statutory provision is mandatory or intended to override contractual arrangements.

6. Conclusion

The court's decision in the Tilahun case, prioritizing statutory law over contractual agreement, raises significant concerns about the erosion of contractual autonomy and its potential negative impact on labor relations and legal certainty. While statutory law plays a crucial role in protecting workers' rights, it should not unduly interfere with contractual freedom. A balanced approach is essential to ensure the integrity of contractual relationships while safeguarding workers' interests. By respecting the principles of contractual autonomy and good faith, legal systems can promote economic efficiency, individual liberty, and predictability in commercial interactions.

The case underscores the need for careful consideration of the interplay between contract and statute in labor law. Future legal developments should aim to clarify this relationship, striking a balance that protects both contractual rights and workers' interests.

Reference

- [1] Ethiopia civil code, 1960
- [2] Indian contract act 1862
- [3] Ethiopia pension payment proclamation no 715/2003
- [4] Ethiopia employment law proclamation no 1156/2019