

## **Commercial Law in UAE**

Commercial Law, also known as Business Law, which includes corporate law, is the body of law governing business and commercial transactions. It is a branch of civil law, which deals with issues of both private law and public law.

The UAE offers a supportive and effective legal framework for businesses in-line with vision of country's leadership that is on par with international standards, and is essential for a competitive and prosperous economy.

The country has issued several regulations pertaining to economy, trade and investment. The UAE is also working on upgrading several major legislations, particularly those related to economic infrastructure and investment in the country.

## **Foreign Investment Law**

This law helps remove a large part of regulatory and administrative obstacles to attract more foreign and Arab direct investment. It creates a unified regulatory framework for foreign investment in terms of regulating investment procedures, licensing and registration. The law deals with advantages, tax exemptions, and guarantees for foreign investors and their rights and obligations.

## **Competition Law**

This law is envisaged to free the national economy from all wrong practices that adversely affects its efficiency, including monopolies. It is prepared in line with recommendations made by the World Trade Organization (WTO) in

its last review of UAE's trade policy. The law offers a conducive environment for businesses to promote efficiency, competitiveness, consumer welfare and sustainable development in the country.

## **Law on Certificate of Origin**

It aims to re-organize legislations pertaining to the rules of certificate of origin, based on progress achieved in this area. It permits Ministry of Economy to impose penalties and fines on those issuing fake documents, certificates or data.

## **New Federal Law on Commercial Companies**

This new federal law on commercial companies makes it mandatory for all companies to develop a general framework for corporate governance to ensure protection of shareholder rights, disclose financial data, achieve transparency and improve efficiency and integrity of company's director board.

## **New Law on Commercial Arbitration**

This law will be applicable in resolving commercial disputes. According to this law, civil cases will be heard by civil courts of respective emirates, while the Abu Dhabi Federal Court of Appeal will hear international case disputes. The law is in line with international arbitration principles, particularly the Model Law of United Nations Commission on International Trade Law.

## Basic Laws for business activities in Dubai

The basic requirements for all business activities in Dubai are:

1. Commercial licenses covering all kinds of trading activity
2. Professional licenses covering services, professions, artisans, craftsmen
3. Industrial licenses for establishing industrial or manufacturing activity

The licenses are all issued by the Dubai Economic Department. However, licenses for certain categories of businesses require approval from certain ministries and other authorities. For example, banks and financial institutions from Central Bank of UAE, Insurance companies and related agencies from Ministry of Economy and Commerce, manufacturing from Finance Ministry and Industry, and pharmaceutical and medical products from Health Ministry.

More detailed procedures are applicable to businesses engaged in oil or gas production. Few other trade activities require submission of financial guarantee issued by bank operating in Dubai. In general, all industrial and commercial businesses in Dubai need to be registered with Dubai Chamber of Commerce and Industry.

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- When the law requires 100 percent local ownership
- In activities open to 100% AGCC (Gulf Cooperation Council) ownership

- In Jebel Ali Free Zone, Dubai Airport Free Zone, Dubai Media City, Dubai Internet City and DIFC
- When wholly owned AGCC companies enter into partnership with UAE nationals
- In respect of foreign nationals registering branches or representative office in Dubai
- In professional or artisan companies, with 100 percent foreign ownership

### **Categories of Business Organization**

As defined by law, the categories of business organization are:

- General Partnership company
- Joint venture company
- Partnership-en-commandite
- Public shareholding company
- Private shareholding company
- Limited liability company
- Share partnership company
- Partnerships (permitted only to UAE nationals)

## **Dubai Joint Venture Company**

A joint venture company is a contractual agreement between a foreign party and a local party, licensed to engage in desired activity. There should be at least 51 percent of local equity participation in a joint venture, but, the profit and loss distribution can be prescribed. The joint venture need not be licensed or there is no need to publish the agreement. Joint ventures are more suitable for companies working together on specific projects.

## **Dubai Public and Private Shareholding Companies**

The law stipulates that companies engaging in insurance, banking or financial activities should be run as public shareholding companies. Foreign banks, financial companies and insurance companies, can all establish a presence in Dubai, by opening a branch or representative office. Shareholding companies are ideal for large projects or operations, as there is minimum capital requirement of Dh.10mn for a public company, Dh.40mn for banks, Dh.25mn for insurance and investment companies and at least Dh.2mn for a private shareholding company. A minimum of 25% of shares of public shareholding company need to be offered to general public.

## **Limited Liability Company in Dubai**

A limited liability company can be formed by minimum of two and maximum of 50 persons, who liability is limited to the shares in the company's capital. Such companies offer suitable structure for organizations interested in developing long-term relationship in the local market. Law stipulates that such a company can engage in any lawful activity, except banking, insurance and investment of money for others. Foreign investors are allowed to hold an equity ownership in the UAE companies, provided, 51% of equity is held at all times by UAE nationals.

The procedures to be followed when setting up a limited liability company are:

1. Choose a commercial name for the company, and get it approved by the Licensing Department of the Economic Department.
2. Draw the company's Memorandum of Association and have it notarized by Notary Public in Dubai Courts.

3. Get approval from Economic Department and apply for entry in Commercial Register.
4. On completing step 3, the Memorandum of Association should be published in the Ministry of Economy and Commerce's Bulletin.
5. The Economic Department will issue a license
6. The Company needs to be registered with Dubai Chamber of Commerce and Industry.

## **Dubai Branches and Representative Offices**

When establishing branches or representative offices of foreign companies in UAE, the Commercial Companies Law stipulates that they should be 100percent foreign owned, provided, a local agent is appointed. Only UAE nationals or companies owned by UAE nationals should be appointed as local agents. Such companies are not licensed to engage in any importing activity, except for re-export or in case of products of highly technical nature.

To establish branch or representative office outside of free zones in Dubai, the procedure to be followed is:

1. Apply for license from Ministry of Commerce and Economy, submitting an agency deal with UAE national, or 100 percent UAE owned company.
2. Before issuing license, the Ministry will forward the application to Economic Department to obtain approval of Dubai government. This will further be forwarded to the Federal Foreign Committee for approval, after specifying the activity that office or branch will be authorized to undertake in the UAE.
3. The Ministry of Economy and Commerce will issue the required Ministerial license specifying the activity to be practiced by the foreign company.

4. The branch office should be entered into the Commercial Register of the Economic Department and required license to be issued.
5. The branch or office should also be entered in the Foreign Companies Register at the Ministry of Economy and Commerce.
6. The Branch should be registered with Dubai Chamber of Commerce and Industry.

Branches and representative offices of foreign professional firms or international firms, should be 100percent foreign owned, with UAE nationals or 100percent UAE owned companies being appointed as local agents. The main difference between a representative office and a branch office is that, a representative office is limited to gathering information and soliciting orders or projects to be performed by the Company's head office. Moreover, representative offices are allowed to sponsor only three to four employees. On the whole, representative office merely acts as an administrative and marketing centre for the foreign company. On the contrary, a branch office is a full-fledged business, allowed to perform contracts or conduct other activities as specified in its license.

## **Dubai Sole Proprietorship Companies**

When setting up a professional firm, 100percent foreign ownership, sole proprietorship or civil companies are permitted. Such firms are permitted to engage in artisan or professional activities. A UAE national need to be appointed as local service agent, but, has no direct involvement in the business, and is paid a lump sum or percentage of profit or turnover.

## **For Establishing Business in a Free Trade Zone**

Foreign firms seeking to conduct business in the UAE can do so by either establishing a formal and permanent presence in the UAE, or can do so through a commercial agent. A foreign enterprise can be permanently licensed in the UAE by either incorporating a Limited Liability Company or establishing a branch office (representative office) or by establishing a wholly owned entity in a UAE Free Trade Zone. On establishing a presence in the UAE using one of these methods, a foreign entity is allowed to engage in all activities as licensed in the UAE.

The UAE has a total of ten Free Trade Zones (FTZ) and two special Free Trade Zones targeting e-business and the media. The main advantage of establishing a branch office in a FTZ is that 100% foreign ownership is permitted. Apart from this, there are other benefits such as 100% import and export tax exemptions, 100% repatriation of capital and profits, exemption from corporate taxes for 15 years which is renewable for additional 15 years, no personal income taxes, and assistance with labour recruitment and additional support services such as sponsorship and housing.

Majority of the Free Trade Zones are tailored to meet the needs of shipping, industrial and manufacturing enterprises. There are large warehousing and storage facilities available for FTZs located near major ports.

## Commercial Agency

Foreign investors', who decide to have an agent to represent their interest in the UAE, rather than establishing a permanent presence, may decide on this option. The UAE Commercial Agencies Law regulates the appointment of commercial agents, distributors, and sales representatives in the UAE. The commercial agency is an arrangement, wherein a foreign company is represented by an agent to sell, distribute, offer or provide goods or services within the UAE for a commission or profit.

The most common type of agency is the contracts agency, wherein the agent undertakes on a permanent basis and in a specific area of activity, the instigation, and negotiation of conclusion of deals, to the advantage of the principal and in return for payment. Distributor contracts are those that involve one agent as the sole distributor.

Some primary requirements of commercial agencies are:

- A commercial agency must be by UAE national/s or companies incorporate in the UAE or owned wholly by UAE nationals.
- Commercial agents should be registered with UAE Ministry of Economy and Commerce to engage in commercial agency activities.
- The agency deal should be registered, so that the agent can avail of protections afforded under the law.
- Commercial agents are entitled to exclusive territory encompassing at least one Emirate for specified products.
- Commercial agents are permitted to receive commissions on sales of products in their designated territories irrespective of whether such sales are made through the agent.
- Commercial agents can receive compensation from the principal if the agency is terminated without substantial justification or if the

agency is not renewed by foreign principal. The Commercial Agency Law provides for compensation of agents terminated without due cause, if the agency deal has been registered with federal Ministry of Economy and Commerce. UAE Commercial Agents usually insist on a registered arrangement, so as to avail themselves of the protection of Commercial Agencies Law.

## Taxes

There is no federal income tax in the UAE for general businesses. However, the Dubai Income Tax Ordinance 1969 states that any organization conducting business or trade, including rendering of any services in Dubai, will be subject to a certain tax scale. For instance, for income range Dh.1,000,000 to Dh.2,000,000 (10% rate applicable); Income range Dh.3,000,000 to Dh.4,000,000 (30% rate applicable); Income in the range Dh.4,000,000 to Dh.5,000,000 (40% rate applicable) and for income above Dh.5,000,000 (50% rate applicable).

### **Other points to be noted to avoid any violations when practicing the above activities:**

A license is a must for conducting any commercial, industrial or professional activity in Dubai, UAE.

Business site should not be used for residential purposes.

Approval is required before re-locating businesses.

Additional permits are required for opening for work beyond regular working hours (after 12pm).

Additional permits may be required for other activities too such as working during the month of Ramadan, working in offices located in premises for



vehicles mechanicals testing, installing an ATM outside bank premises, conducting business activity from vehicles or carts, advertisement posters, and for promotional campaigns.

Sale or display of printed material that go against the public morality or Islamic teaching.

Presenting false or misleading documents to DED.

UAE Commercial Laws are updated on regular basis. Check the UAE Labour Ministry website for latest change in regulations.