



Choice of Location when Incorporating a Company in the United Arab Emirates

Whenever a corporate entity or an individual decides to establish a company in the United Arab Emirates ("UAE"), choosing the appropriate location is of vital importance for the future economic success. On the one hand, a distinction has to be made between the incorporation of a company in one of the numerous free zones and the incorporation of a company in the territory of the UAE, thus, outside a free zone. On the other hand, the most suitable of the seven Emirates of the UAE needs to be selected for the business venture.

1. Definition of Free Zone and Territory

Free zones are geographically defined areas in the territory of the UAE, wherein no customs duties accrue upon the import of goods or their re-export to other countries than the UAE. In these special economic zones, the laws of the UAE are only partially applicable. In particular, the regulations of any free zone authority enable (contrary to the laws in the territory of the UAE) non-UAE nationals or corporate entities to acquire sole ownership of limited liability companies incorporated in free zones.

The remaining areas, which are not designated as free zones, can be defined as territory. Apart from statutory regulations which are applicable in all Emirates and, hence, constitute federal law, differences in administrative and regulatory procedures are to be observed between the individual Emirates.

2. Selection Criteria

When selecting the appropriate location for the incorporation of a company, considerations under the company law, such as the possibility to acquire the sole ownership or at least a majority of the company shares should not play the decisive role.

The exact definition of the medium and long-term objectives of the new company are of greater importance. These are determined by a multitude of factors, such as the company's sales structure, the place of business of the most important customers of which the new company shall be in charge of as well as the possibility to participate in public tenders and the chances of being awarded a contract.

3. Typical Examples

If a customer located in the territory of the UAE is unwilling to take care of the import of the goods on his own or does not dispose of the correct import code, the company itself has to arrange for the import and, therefore, requires an import code for the territory of the UAE and, consequently, a license issued for the territory. A free zone company would not be able to obtain such an import code.

The location in a free zone would further not be suitable should services be executed outside the relevant free zone, for example installation or maintenance works on the premises of a customer in the territory.

Finally, the choice of the specific Emirate can be crucial. Especially in case of companies in the oil and gas sector, main customers are most probably located in the Emirate of Abu Dhabi and access to their premises is generally merely granted after a certain gate pass has been issued. Such a gate pass is often only allotted to those applicants - apart from other requirements - who hold a residence visa issued in the Emirate of Abu Dhabi. Consequently, his employer, namely the company to be established, must be licensed in the Emirate of Abu Dhabi.

Therefore, it is always essential that the desired activities can actually and legally be performed by the new company.

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!