

**DOING BUSINESS IN  
THE UNITED ARAB EMIRATES**

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## **Disclaimer**

This booklet contains brief information on the United Arab Emirates, particularly Dubai and Sharjah, and is prepared by SALIM RAJKOTWALA CHARTERED ACCOUNTANTS, a member of MGI International. The purpose of this booklet is to inform those who might be interested in doing business in Dubai or Sharjah in the U.A.E.

Information in this booklet is subject to change from time to time and we would request readers to seek local professional advice when before investing.

Adequate care has been taken in the preparation of this booklet. However we do not take any responsibility for any errors that might have, unwittingly, crept in.

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# INTRODUCTION

## History

Originally a small fishing settlement, Dubai was taken over in about 1830 by the Maktoum family who still rule the emirate today.

Trade complemented traditional activities, and by early 1900's Dubai became a regional trading centre.

Commercial success allied to the liberal attitude of Dubai's rulers, made the emirate attractive to traders from India and Iran.

On the British withdrawal in 1971, Dubai came together with Abu Dhabi, Sharjah, Ajman, Umm Al Quwain, Fujairah and (in 1972) Ras Al Khaimah to create the federation of the United Arab Emirates.

This was shortly after the discovery of oil in 1966, which soon transformed the emirate and its way of life. Dubai's first oil exports in 1969 were followed by a period of rapid development that laid the foundations for today's modern society. The result is that Dubai is constantly building up its infrastructure of transport facilities, schools, hospitals, tourism developments and other amenities of an advanced society.

# **THE COUNTRY**

## **Geography**

The UAE is located on the eastern part of the Arabian Peninsula, with the Persian Gulf in the North; Oman and Saudi Arabia in the South; the Gulf of Oman, the Arabian Sea and Oman in the East; and Qatar and Saudi Arabia in the West. Abu Dhabi is the largest emirate with 81% of the land area, followed by Dubai and other emirates.

## **Economy**

Until the end of the 1950's, the economy of the emirates was based mainly on local and regional trading. The discovery of oil in the sixties and gas in the seventies dramatically changed the economy and transformed it into a modern prosperous country. Although oil and gas remain primary sources of revenue, a determined government strategy diversified the economy, creating new productive sectors. Tourism, conferences and exhibitions, free zones, an Internet city, Media city, Knowledge park, etc. in Dubai have changed the face of the country.

## **Banking and Finance**

The regulatory authority since 1980 has been the UAE Central Bank. Some 47 commercial banks operate, with a total of around 370 branches, of which about 27 are foreign banks with a combined total of more than 200 branches. Federal law restricts foreign banks to no more than eight branches each.

There are few investment or merchant banks at present but with the establishment of the Dubai International Financial Centre such banks should soon be established.

For medium-term or long-term industrial finance, the UAE government has set up the Emirates Industrial Bank. Its main objective is to help develop the private sector.

Bill discounting can be arranged with the commercial banks. Leasing and hire purchase are available from local finance companies. Factoring is not practised in the UAE. Import/export financing and other trade financing can be arranged through the commercial banks.

## **Exchange Control**

There are no exchange controls in the UAE and its currency, the UAE Dirham, is freely convertible. The Dirham is linked to the US dollar, the currency by which

oil prices are measured. The exchange rate has remained at Dh 3.675 = US\$ 1 since 1977.

## **Legal System**

There is a comprehensive framework of legislation to ensure that business in the UAE is conducted in a fair and orderly manner. There are laws dealing with commercial transactions, intellectual property, labour and other aspects of business life.

There are Federal Courts in all emirates except Dubai and Ras Al Khaimah, which have retained their local courts. Dubai has civil, criminal and Shariah (Islamic) Courts of first instance. All court decisions may be brought to the Dubai Court of Appeal. Thereafter, a final appeal may be made to the Dubai Court of Cassation.

The Civil Court (as opposed to the Shariah court) has jurisdiction over labour, civil and commercial transactions, as well as personal matters (e.g. wills, divorces etc) relating to non-Muslims. The language of the Courts is Arabic and advocates admitted to plead are Arab nationals.

## **Government**

The Supreme Council of the UAE, comprising the hereditary rulers of the seven emirates, is the highest federal authority. It is responsible for general policy matters involving communications, education, defence,

foreign affairs and development, and for ratifying federal laws.

The Federal Council of Ministers, responsible to the Supreme Council, has executive authority to initiate and implement laws. The council monitors and debates government policy but has no power of veto.

While Abu Dhabi is the centre of federal government activities, most ministerial departments also maintain offices in Dubai.

## **Climate**

The UAE has a sub-tropical, arid climate. Rainfall is infrequent and irregular. Falling mainly in winter, it amounts to some 13 centimetres a year. Temperatures range from a low of about 10 degrees Celsius in January to a high of 48 degrees Celsius in July and August.

# **SETTING UP IN DUBAI**

## **Dubai Business Climate**

In the UAE, individual emirates as well as the Federal Government regulate economic activity. The business environment is well ordered and not unduly restrictive. Operating conditions are very liberal. International companies can opt to establish a trading relationship or an on-the-spot presence. Personal relationships are much more important in doing business in the Arab world than they are elsewhere. The buying patterns of some countries served by Dubai tend to be unpredictable, creating a need for first class market intelligence and information.

## **Licensing**

The basic requirement for all business activity in Dubai is one of the following three categories of licences:

- Commercial licences covering all kinds of trading activity;
- Professional licences covering professions, services, craftsmen and artisans;
- Industrial licences for establishing industrial or manufacturing activity.

The Department of Economic Development issues these licences (with the exception of licences for hotels and other tourism-related businesses). Some categories of businesses require approval from certain ministries also: for example, banks and financial institutions from the Central Bank of the UAE; manufacturing from the Ministry of Finance and Industry; and pharmaceutical and medical products from the Ministry of Health. More detailed procedures apply to businesses engaged in oil or gas production and related industries.

## **Ownership Requirements**

Fifty-one per cent participation by UAE nationals is the general requirement for all UAE established companies except:

1. Where the law requires 100% local ownership;
2. In the Jebel Ali and Airport Free Zones where 100% foreign ownership is permitted;
3. In activities open to 100% AGCC ownership;
4. Where wholly owned AGCC companies enter into partnership with UAE nationals;
5. In respect of foreign companies registering branches or a representative office in Dubai;
6. In professional or artisan companies where 100% foreign ownership is permitted

## **Legal Structures for Business**

Federal Law No. 8 of 1984, as amended by Federal Law No. 13 of 1988 - the Commercial Companies Law - and its by-laws govern the operations of foreign business. In broad terms the provisions of these regulations are as follows:

The Federal Law stipulates a total local equity of not less than 51% in any commercial company and defines seven categories of business organisation, which can be established in the UAE. It sets out the requirements in terms of shareholders, directors, minimum capital levels and incorporation procedures. The seven categories of business organisation defined by the Law are:

1. General partnership company
2. Partnership-en-commendam
3. Joint venture company
4. Public shareholding company
5. Private shareholding company
6. Limited liability company
7. Share partnership company

Partnerships General partnership companies are limited to UAE nationals only. The Dubai government does not presently encourage the establishment of partnership-en-commendam and share partnership companies.

## **Joint Venture**

A joint venture is a contractual agreement between a foreign party and a local party licensed to engage in the desired activity. The local equity participation in the joint venture must be at least 51%, but the profit and loss distribution can be mutually agreed. Joint ventures are suitable for companies working together on specific projects.

## **Public and Private Shareholding Companies**

The Law stipulates that companies engaging in banking, insurance, or financial activities should be run as public shareholding companies. Foreign banks, insurance and financial companies, however, can establish a presence in Dubai by opening a branch or representative office.

Shareholding companies are suitable primarily for large projects or operations, since the minimum capital required is Dh. 10 million (US\$ 2.725 million) for a public company, and Dh. 2 million (US\$ 0.545 million) for a private shareholding company. The chairman and majority of directors must be UAE nationals and there is less flexibility of profit distribution than is permissible in the case of limited liability companies.

## **Limited Liability Companies**

A limited liability company can be formed by a minimum of two and a maximum of 50 persons whose liability is limited to their shares in the company's capital. Most companies with expatriate partners have opted for this form of company.

In Dubai, the minimum capital is currently Dh. 300,000 (US\$ 82,000), contributed in cash or in kind. While foreign equity in the company may not exceed 49%, profit and loss distribution can be mutually agreed. Responsibility for the management of a limited liability company can be vested in the foreign or national partners or a third party.

## **Branches and Representative Offices of Foreign Companies**

Branches and representative offices of foreign companies in the UAE may be 100% foreign owned, provided a local agent is appointed.

Only UAE nationals or companies 100% owned by UAE nationals may be appointed as local agents. Local agents - also often referred to as sponsors - are not involved in the operations of the company but assist in obtaining visas, labour cards, etc and are paid a lump sum and/or a percentage of profits or turnover.

# TAXATION

**There is no corporate tax or personal tax in the UAE.**

The only exceptions to this are oil producing companies and branches of foreign banks.

The Rulers of individual emirates have in the past issued decrees on the subject of Income Tax, but with the exception of oil companies and banks, these have never been enforced.

Direct taxation is against the traditions of the UAE and it is highly unlikely that it will be introduced in the near future.

# **FREE ZONES IN DUBAI**

## **Background**

The Jebel Ali Free Zone and Dubai Airport Free Zone have been set up with the specific purpose of facilitating investment. The procedures for investing in the zones are relatively simple.

The companies operating in the Free Zones are treated as being offshore, or outside the UAE for legal purposes.

The free zones are suitable for companies intending to use Dubai as a regional manufacturing or distribution base, with the bulk of their business outside the UAE.

## **Free Zone Incentives**

- 100% foreign ownership;
- Exemption from all import duties;
- 100% repatriation of capital and profits;
- Freedom from corporate taxation for 50 year;
- Inexpensive energy;
- Efficient recruitment procedures ensuring the availability of a skilled and experienced workforce;
- A high level of administrative support.

## Licenses

Companies approved for operation in Jebel Ali Free Zone or Dubai Airport Free Zone, can apply for one of the following types of licences: Trading; Industrial; Service; or National Industrial. These licences are renewable annually.

1. Trading licences are granted locally incorporated companies, and to companies incorporated outside the UAE. Trading licences are also issued to Free Zone Establishments (FZE) and Free Zone Companies (FZCo).
2. Industrial licences are issued to companies incorporated outside the UAE, FZE's and FZCo's.
3. Service licences are only granted to companies holding a UAE licence.
4. National Industrial licences are issued to industrial companies registered within or outside the UAE, provided they meet the conditions of having at least 51% AGCC equity and their local production accounts for at least 40% value added. Products exported by such companies to AGCC states will be exempted from custom duties. Companies holding a Free Zone licence are also permitted to operate outside the UAE.

Operations within the UAE can be undertaken by appointing a commercial agent.

## **Setting Up a Branch of a Foreign Company**

A simple questionnaire, and a licence application form with necessary documents are all that may be required to set up a project by a foreign company. Thereafter, a lease agreement and a personnel secondment agreement will be signed.

If the company's project involves the erection of a structure, a building permit will be issued after detailed plans are submitted and agreed.

Administrative work, such as importing equipment or engaging labour for installation of equipment, may proceed in parallel with construction work.

## **Setting Up a Free Zone Establishment**

A Free Zone Establishment - or FZE - is an establishment formed and registered within the Free Zone and regulated solely by the Free Zone authorities. Such establishments must have a capital of Dh.1 million and liability will be limited to the amount of paid-up capital. A FZE need only have a single shareholder and is an independent legal entity.

# **EMPLOYMENT REGULATIONS**

## **Labour Law**

Administered by the Federal Ministry of Labour and Social Affairs, Labour Law in the UAE is loosely based on the International Labour Organisation's model. UAE Law No. 8 of 1980, as amended by Law No. 12 of 1986 (the Labour Law), governs most aspects of employer/employee relations, such as hours of work, leave, termination rights, medical benefits and repatriation. The Labour Law is protective of employees in general and overrides conflicting contractual provisions agreed under another jurisdiction, unless they are beneficial to the employee. End of contract gratuities are equivalent to 21 days pay for every year of the first five years of service and 30 days for every year thereafter. The total gratuity should not exceed two years' wages.

Trade unions do not exist. In the case of a dispute between employer and employee, the Ministry of Labour and Social Affairs will act as an adjudicator. If a party wishes to appeal any such decision, it can take its case to court. Strikes and lockouts are forbidden.

## **Working Hours and Holidays**

The normal maximum working hours are eight per day or 48 per week. However, these hours may be increased to nine daily for people working in the retail trade, hotels, restaurants and other such establishments. Many businesses work on a two-shift system (for example, 8am - 1pm and 4pm - 7pm). As in all Muslim countries, Friday is the weekly day of rest. During the Muslim holy month of Ramadan, normal working hours are reduced by two hours per day.

There are 10 days of public holidays (paid) in any year. The employee's annual leave is 30 days for every completed year of service.

Overtime is used extensively and additional pay is required for manual and lower ranking staff.

# **LIFE STYLE**

## **A Welcoming Environment**

Expatriates and foreign visitors can enjoy a relaxed and pleasant life style in Dubai. There is virtually no crime, the city is clean, there are few traffic jams, apartments and villas are modern and spacious and, the climate is tolerable and extremely pleasant for most of the year.

There are many clubs and societies in Dubai. Freedom of worship is allowed to all religions, and Christian churches have existed in Dubai for many years. Foreign newspapers, magazines, films and videos are readily available. Alcohol may be consumed at home, in hotels, and on licensed club premises.

## **Transport**

It is essential to have a car, as Dubai is a spacious city with most residences situated some distance from the commercial areas. There is an excellent road system. Driving is on the right hand side of the road.

Taxis are easily available.

Driving licences issued by some overseas governments may be exchanged for a Dubai licence.

## **Education**

There is a comprehensive network of government schools throughout the emirate, providing free primary and secondary education to UAE nationals.

For expatriate families, there are 85 private foreign schools offering education of a high standard to the curriculum requirements of the UK, USA and a number of others, including Italy, Japan, Iran, India and Pakistan. In neighbouring emirates there are French and German schools. English is usually the main language of instruction.

## **Communication**

Telecommunications in the UAE are excellent. Telephones have international direct dialling to most countries in the world. Full telex, fax, and electronic mail facilities are widely available.

There is an efficient and reliable postal service. Commercial courier services are widely used.

## **Accommodation**

High quality accommodation is in good supply throughout the UAE. Luxury apartments are available in complexes. A wide variety of villas are available to suit most tastes and circumstances.

## **Clothing**

For men, office wear is generally lightweight trousers, long or short sleeved shirts and ties. Jackets are worn for formal visits to Government offices and important meetings.

For ladies, normal smart lightweight office wear, such as a dress or long sleeved blouse and skirt is expected, or national dress.

## **Medical Services**

The Health and Medical Services Department provides medical care for all UAE nationals, visitors and resident expatriates. Dubai has many well-equipped public and private hospitals.

Emergency medical care in Dubai is free for anyone and there are no restrictions. For non-urgent health care, any UAE resident seeking treatment may register for a health card for which a fee is paid.

New arrivals are advised to register immediately for a health card. They may otherwise have to pay full medical costs after the first two visits.

## **Media**

In addition to the Arabic press, there are four English language dailies published in the UAE - Gulf News, Khaleej Times, Gulf Today and Emirates News. Popular magazines include "What's On" and "Emirates Woman". International newspapers, magazines and journals can be bought at bookshops and supermarkets. Dubai has both Arabic and English commercial radio and television stations, as well as access to international satellite TV programming.

# **SELECTED BUSINESS REGULATIONS**

## **AGCC Customs Exemption**

According to the AGCC Unified Economic Agreement drawn up on 8 June 1981, products originating in any AGCC state are exempted from customs duty (and other charges having an equivalent effect) in any other AGCC state.

However, to qualify as national products, the value added ensuing from their production in member states must not be less than 40% of their final value and the factory must be licensed by the Ministry of Finance and Industry. In addition, the share of the member state citizens in the ownership of the producing plant must not be less than 51% unless the ownership is 100% AGCC.

## **Tenders**

In Dubai, government projects and orders are generally put out to tender. The required qualifications, specialisations and other terms and conditions for participation vary according to the project and the authority concerned.

Certain tenders are offered internationally but where local tenders are involved only those companies licensed and registered with the department concerned

are eligible to bid. In order to qualify to participate in a tender one or more of the following may apply:

The tendering shall either be wholly owned by UAE nationals or in the case of a partnership, at least 51% of the equity shall be owned by UAE nationals. A foreign party may only tender if it has a UAE representative or agent with the necessary documents.

## **Trade Regulations & Practices**

Businesses with appropriate trade licences can undertake imports into the UAE. Import duties have been largely standardised at 4%, but there are many exemptions, including food, building materials, medical products and any item destined for the Jebel Ali and Airport Free Zones. Food products must carry dates of manufacture and expiry and meat for the local market must have a certificate to prove compliance with Islamic law.

Trade practices in Dubai are in line with normal international standards. All correspondence should be in Arabic or English. The UAE is a member of the World Trade Organisation.

## **Land Ownership**

Foreign companies and individuals are not permitted to own land or real estate in Dubai. All property must be

rented or leased for the purposes of running a business. Recently however a few residential properties have been offered to foreigners on a freehold basis.

## **Trade Marks and Patents**

Three UAE Federal Laws cover the protection of industrial and intellectual property. They are: Federal Law No. 37 of 1992 on Trademarks, Federal Law No. 40 of 1992 on Protection of Intellectual Property and Copyright, and Federal Law No. 44 of 1992 on Protection of Industrial Property.

## **Commercial Agencies**

The main provision of the Federal Commercial Agency Law No. 18 of 1981 as amended by Law No. 14 of 1988 is that an agent must be a UAE national, or a company 100% owned by UAE nationals.

A commercial agent may not carry out activities in the UAE unless its name is entered in the Commercial Agency Registry maintained at the Ministry of Economy and Commerce. The procedures and conditions for such appointments are as follows:

A commercial agency agreement should be drawn up specifying the products and territories to be covered by the contract. The agreement should be signed by both parties (principal and agent) and, if signed in Dubai,

legalised before a Court Notary Public. A sworn translator licensed to operate within the UAE should then translate the agreement into Arabic.

## **DOING BUSINESS IN DUBAI**

### **The Opportunities**

Dubai presents international business with a wide range of opportunities for:-

- Trade.
- Transport and distribution.
- Manufacturing and processing.
- Regional offices.

### **The Market**

Dubai is the leading regional trading hub; it offers access to a market of outstanding potential for overseas companies. Among its key characteristics are:

A large market - more than \$17 billion in domestic imports annually; gateway to a \$150 billion p.a., 1.4 billion-population regional import market:

- A growing market - Dubai's imports have more than doubled since 1989; regional economic growth and liberalisation is set to boost demand;

- A prosperous market - strategic location at the heart of one of the world's richest regions;
- A diversified market - wide import requirements; opportunities for suppliers of most products;
- An accessible market - served by more than 170 shipping lines and 86 airlines; An open market - no exchange controls, quotas or trade barriers.

## **The Business Environment**

Dubai offers incoming businesses all the advantages of a highly developed economy. The infrastructure and services match the highest international standards, facilitating efficiency, quality and service. Among the benefits are:

- Free enterprise system.
- Highly developed transport infrastructure.
- State-of-the-art telecommunications.
- Sophisticated financial and services sector.
- Top international exhibition and conference venue.
- High quality office and residential accommodation.
- Reliable power, utilities etc.
- First class hotels, hospitals, schools, shops etc. Cosmopolitan lifestyle.

## The Costs

Overseas companies setting up in Dubai can secure cost advantages not generally available internationally. Among the reasons are:

- No corporate taxes.
- No income taxes.
- No foreign exchange controls.
- No trade barriers.
- Competitive import duties (4% with many exemptions).
- Competitive labour costs.
- Competitive energy costs.
- Competitive real estate costs.