

**Guideline
for investments and economic projects
in the United Arab Emirates**

During the past 40 years the United Arab Emirates have evolved into a national and international financial and business center. Nowadays, the economic importance is no longer only limited to the trading of crude oil and related industries. In fact now a variety of fields of economic activity in the United Arab Emirates is established due to the liberal economic policy and the promotion of other sectors such as financial services, general trading, building and construction, tourism and many others. This has had the effect that the growth of the business location United Arab Emirates and of the local markets completed the development of infrastructure and other necessary and useful facilities and services at a rapid pace. Furthermore, this trend continues and experts certify the United Arab Emirates as a business location an extremely positive growth forecast. This results in an increased attractiveness of the United Arab Emirates as an investment and business location for both local and foreign entrepreneurs.

Political stability and the excellent infrastructure and communication network in the United Arab Emirates, which meet Western demands fully, complete the incentives for local economic activities.

This guide is intended to give the most important information and to answer first questions on the way to deciding whether to start an economic activity in the United Arab Emirates.

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General and cultural customs and differences in business practices

The United Arab Emirates are impressed by Islam and most Emirati are strictly religious. This is affecting not only everyday and social life, but also economic transactions. For example during Ramadan the United Arab Emirates follow their own rules. Ramadan takes a total of 30 days and its beginning and end shift approximately 11 days each year as these are based on the Islamic lunar calendar. During this time eating, drinking and smoking in public is strictly prohibited and even the daily working time is limited to 6 hours by law. The economic and social life mostly takes place after sunset, when the Muslims are allowed to break their fast. During the day, most of the shops are closed and public life almost comes to a standstill. When Ramadan is over, there are again following several days of public holidays, on which is also not worked.

In the United Arab Emirates business contacts and relationships are established and maintained differently than it is the case in Europe or the US. Here the business connections take place on a more friendly level and are mainly based on personal contacts. For initiating economic cooperations or to grant contracts it is necessary to invest time. First a trust between the potential business partners is created and deepened, which happens through personal meetings. Only secondarily the intended project is discussed, because getting to know the potential business partner is paramount. After personal connections have been made and the common interests of the parties were discussed and emphasized, the actual negotiations start. It is outstandingly important to show flexibility and expose the unique features and capabilities, such as the quality seal "Made in Germany". But in following a long breath pays back twice as much. On the one hand, it ensures the possibility to get to know the characters, the views and the mind of the business partner as well as to choose him carefully. On the other hand, during this initiation phase there is the possibility to establish a broad network of contacts from which you can (and will) also benefit during future economic activity.

Local characteristics in legal relations

The Sharia and their interpretation, which should always be considered, play a significant role in the legal system. Not infrequently whole contracts or individual agreements and clauses are very differently interpreted by various places and courts in the United Arab Emirates. Therefore, an experienced consultant, who is familiar with the local legal system and specific intercourse in the United Arab Emirates, is needed to make sure a reliable assessment and evaluation of individual interests and points. This is especially important regarding liability and indemnity clauses. In this context it is important, that the consultant also knows and understands the European view of things, because only when both requirements are fulfilled, the need of security and the aims of an European investor can be considered and realized in the specific negotiations and contracts in accordance with the law of the United Arab Emirates and its system.

Position and prestige of German companies in the United Arab Emirates

The products and procedures of German companies for the management of projects and the way of working of German employees are highly regarded in the UAE. For example, the reliability and punctuality are appreciated and also this appreciation especially applies to the services and products "Made in Germany", which are considered very high quality. Especially there also "German engineering" referring to machinery, motor vehicles and electrical and chemical products and production processes is hughely demanded.

Conditions for economic activity in the UAE

For the formation of a company and any other economic activity in both the UAE and in the free trade zones the issuance of a state permit is generally required. This state license is issued for paying a fee and the amount of this fee depends mainly on the nature of each intended economic activity. For establishing a company or opening a branch by a foreign or a company with a headquarter, which is not located in the United Arab Emirates an Emirati partner is always needed, because of the so called principle of local participation. In case a company shall be founded in the United Arab Emirates, the local partner must be the majority

shareholder of the company to be established, which means he has to bear at least 51% of the shares. This local partner, the so called sponsor, may either be a natural or a legal person.

If the intention is to establish a branch of a foreign entity in the United Arab Emirates, there indeed is also the requirement of a national National Service agent, but the foreign company is able to hold 100% of the shares. The National Service Agent does neither have to be employed by the foreign company, nor be a shareholder of the company and he also will not need to have participation rights. He is only dealing with solely formal tasks for the branch, such as the signing of license agreements or visa applications. For this functions he receives an expense allowance for his services by the company.

Furthermore, a foreign operation is generally excluded in certain sectors such as the real estate brokerage industry in some states of the United Arab Emirates.

To handle all regulatory requirements and obtaining all consents, investors and other interested parties can benefit from our excellent network of local contacts and years of experience. In addition to that our attorneys offer you a maximum of information and clarify any time through comprehensive processes, developments and the status of your project.

Possible legal structure of economic activity

For economic projects in the United Arab Emirates following types of companies are permitted by law:

(1) General Partnership:

The establishment of a General Partnership is solely provided for nationals of the United Arab Emirates by law, which is why an economic activity of foreigners in this legal form of organisation is excluded.

(2) Limited Partnership:

The limited partnership consists of several shareholders with different shares of the company and also different liability. On the one hand here is respectively are one or several shareholders, whose liability is individually with their whole private asset (general partners) and on the other hand there are one or more shareholders, who are only liable in the amount each of them incorporated in the company's capital and not beyond (limited partners), who are excluded from management. However, the importance of partnership in practice is very limited.

(3) Limited Liability Company:

In such a least two partners must be involved and the participation of a legal entity is possible. The LLC can consist of up to 50 shareholders. The amount of the initial capital in Dubai must at least be Dirham 300,000.00 (equivalent to approximately € 60,000.00) respectively at least Dirham 150,000.00 (equivalent to approximately € 30,000.00) in the rest of the United Arab Emirates. It is equally allocated to all shareholders and the liability will also be limited to the amount of that capital.

(4) Joint venture:

The Joint Venture merely is a participation, which is formed by two shareholders, which may also be a legal entity. The Joint Venture itself is not a separate legal entity, so no government approval is required for this form of investment. This type of company is chosen in most cases to perform a profit and loss distribution.

(5) Joint Stock Company:

The Joint Stock Company in the United Arab Emirates must consist of several shareholders - both natural persons and legal entity are capable for a participation -, which are sharing equal parts of the company. Here the liability of the shareholders can and should be limited to the amount of capital participation in the Joint Stock Company. The so called Board of Directors is responsible for the business management. In a Private Joint Stock Company, where shares are not accessible to the public, the minimum capital is Dirham 2.000.000,00 (equivalent to approximately € 400,000.00) and it needs to have at least three partners founding the Private Joint Stock Company. In a Public Joint Stock Company the minimum capital has to be Dirham 10.000.000,00 (equivalent to approximately € 2,000,000.00), from which the founding shareholders have to hold a amount of between 20% and 45%. For establishing a Public Joint Stock Company there are at least 10 founding partners required. The remaining shares have to be provided for public subscription.

Furthermore, there also ist the possibility to found a Limited Partnership by Shares, whose practical significance, however, is extremely limited.

Also the establishment of a Branch or a Representative Office is possible. However, a Representative Office is not allowed to do economic activities on its own, but rather is limited to the acquisition, care and mediation of business contacts to the parent company. The establishment of a branch is advisable for example to participate locally in public announcements.

Other forms of companies cannot be established in the United Arab Emirates, as the so called "numerus clausus" of company law applies here as in Germany, so that exclusively the foundation of the expressly provided company forms by law is possible.

Due to limited and conceivable liability and the amount of identifiable risk the Limited Liability Company (LLC) is highly recommendable in most cases and also the most frequently chosen company structure by foreign investors. The foundation of a company corresponding to the German model of the One-Man Limited Liability Company is not possible, because Emirati law does not allow a single shareholder to hold the total amount of the shares of a company (contrary applies in the free trade zones, see below).

When establishing a LLC, there is also the possibility of regulating the distribution of profits independently or apart from the shares of each partner in the partnership agreement. With use of this instrument it is possible to particularly compensate the position of the local partner as the majority shareholder, what appears to be extremely favourable and interesting for the majority of foreign entrepreneurs and investors.

Taxation

Also from a tax point of view the United Arab Emirates represent a very advantageous. Taxation of personal income and salary does not occur. The taxation of corporations is reserved to be done by the individual emirates and indeed the imposition of a corporate income tax is provided by law, but the individual administrative districts make use of it only in exceptional cases, so that in most cases a corporate tax does not occur. Taxation only takes place for companies that are operating in the sectors of banking or trading of crude oil and related industries. Companies operating in other industries are in fact not taxed. In A Taxation of dividends is not practiced in the United Arab Emirates.

However, a new double taxation agreement has been signed by Germany and the United Arab Emirates in 2010 and it also entered into force in 2011. Since then for the income of German citizens, who have their place of residence in Germany or at least a permanent domicile in Germany is no longer the exemption method but the credit method used. Following the exemption method, earned income is only subject to German taxation if no taxation is provided in the country in which the income is received, regardless of whether the source country actually charges taxes. This led in most cases to immunity from taxes. Under the new double taxation agreement now the credit method is used. According to the credit method German income tax rates will also apply for income realized in foreign countries. Only the taxes, that have already been charged for the specific income in the source country, will be credited to the tax burden according to German tax law. In most cases, however, such a deduction of actual charging of taxes in the source country does not take place because of a lack of taxation in the source state. As a result of this, income achieved in the United Arab Emirates is in fact charged with a tax in Germany according to

German tax law, if the taxpayer is a German citizen, who has his place of residence in Germany or at least a permanent domicile in Germany.

Free trade zones

There are more than 20 free trade zones in the United Arab Emirates and also here the trend is rising. The free trade zones offer some excellent benefits to businesses, such as in most of them there is the possibility to register a company whose shares are held up to 100% by foreigners. Also the requirement of a local partner or Emirati participation does also not exist in the free trade zones. Furthermore, here the establishment of a so called Free Zone Establishment is possible, which is comparable to a Limited Liability Company. Also there is the possibility of creating a so called Free Zone Company, which is comparable to the German model of a so called One-Man Limited Liability Company. This means for establishing an LLC there is only one shareholder, who owns 100 % of the company and its capital, needed. The establishment of such in the Middle East is possible only in very few areas, which makes the free trade Zones even more attractive for investors.

In the free trade zones Jebel Ali in Dubai and Ras Al Khaimah Free Trade Zone in Ras Al Khaimah the requirement of deposit of the initial capital for founding a company and proof of providing the initial capital for offshore companies are eliminated. In the the free trade zones there is also a exemption from custom duties for companies located there and restrictions regarding the transfer and repatriation of corporate profits do not exist.

Furthermore, the excellent infrastructural facilities and each particularly convenient location enhance the appeal of free trade zones in the United Arab Emirates.

For the economic activity in a free trade zone in the United Arab Emirates the granting of a state license is required, which includes permission to import and export to and from the free trade zone. However, these licenses are limited to the territory of the respective free trade zone. This has the consequence that the acting company has its headquarters in the free trade zone and is respectively not regarded as resident in the United Arab Emirates. In turn this means that for importing and exporting a separate distribution channel is needed, for example in form of a distribution company or a commercial agent.

The establishing of a business in a free trade zone is always preferable, when the economic

activity should extend not only to the United Arab Emirates.

Entry Requirements

Basically German nationals get a free visitor's visa when entering the United Arab Emirates. This visa is valid for 30 days after arrival. It is also necessary that the passport is valid for at least 6 months after intended departure. It is possible to extend this visitor visa for an additional 30 days for a fee, for which a request at the Immigration Office is required. Secondly, there is the option of obtaining a qualifying multiple-entry visa with no extension possibility, which can be used up to 6 months. This visa allows a stay in the United Arab Emirates of up to 14 days and after each time interval the holder of the visa has to leave the country.

Work visa and long-term stay in Oman

For obtaining a so called residence visa some requirements have to be fulfilled. Firstly there is the requirement of a work permit, which must be requested at the Ministry of Labour and Social Affairs and signed by the employer. Secondly only a local sponsor or a company that has its headquarters in the United Arab Emirates itself may apply for the work visa for foreigners. There is also the possibility of a so called delegation of a German worker to the corporate office in the UAE. When this is intended, it is important to pay close attention to the delegation contract, because the contained clauses must not run contrary to imperative stipulations of the UAE labor law.

For further information and questions as well as for a individually tailored consulting to your planned project our lawyers are happy to assist you.