

An Overview of the Abu Dhabi Free Zones

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Introduction

When establishing a new business in Abu Dhabi, one of the first decisions one makes is whether to do so on the mainland (sometimes referred to as 'onshore') or in a free zone (sometimes referred to as 'offshore').

Abu Dhabi has five free zones that cover multiple industries and sectors. This article aims to give a broad overview of the different free zone options available in Abu Dhabi. We will also briefly describe the differences between mainland and free zone companies.

What is a Free Zone?

1. *In General*

A free zone is a defined geographic area that is governed by a set of economic and business incentives that are different from the ones generally applicable in the jurisdiction in which it is based. The aim of a free zone is to support the development of a business or industry cluster, encourage foreign investment, boost employment, promote trade and diversify the economy.

In Abu Dhabi, the free zones form part of The Abu Dhabi Economic Vision 2030 (published in November 2008) plan to support Abu Dhabi's long-term economic growth whilst building a sustainable economy.

2. *Differences between Mainland (Onshore) and Free Zone (Offshore)*

• **Foreign Ownership**

The UAE Federal No. 2 of 2015 Concerning Commercial Companies ('Commercial Companies Law') requires companies incorporated in the UAE to have at least 51 per cent UAE national ownership. The same law excludes its application in the free zones, and allows up to 100 per cent foreign national ownership of the companies incorporated in those zones.

To further boost foreign direct investment in the UAE, the UAE Cabinet issued Federal Decree Law No. 19 of 2018 on Foreign Direct Investment ('FDI Law'). The FDI Law permits up to 100 per cent foreign ownership of limited liability companies seeking to perform activities on the mainland, so long as: (1) the intended business activities fall within a specified 'positive list' as issued by the Cabinet and (2) the companies satisfy certain investment thresholds. For a more in depth discussion on the FDI Law, please see our article entitled '[The Highlight of 2018: A New Foreign Direct Investment Decree in the UAE](#)' and our client update on the '[UAE Foreign Direct Investment Developments](#)'.

• **Applicable Regulation**

On the mainland, the Department of Economic Development or equivalent ('DED') in each of the UAE's seven Emirates is the licensing authority and corporate regulator of companies. However, each free zone is established by a decree which also establishes the free zone's own licensing authority and corporate regulator. Each free zone also has its own set of companies' and licencing regulations.

• Permitted Area for Doing Business

Strictly speaking, companies that are licenced in a free zone should not conduct commercial activities on the UAE mainland. In practice however, free zone companies can conduct certain activities there.

In a recent development, local DEDs and free zones have co-operated and approved a 'dual licensing' concept. With a dual licence, businesses registered in a free zone can be licensed to do business on the mainland of that Emirate. This is granted on a case-by-case basis and is subject to approval by the relevant authorities.

Abu Dhabi free zones

1. Abu Dhabi Airport Free Zone ('ADAFZ')

• General

ADAFZ is a free zone area covering several of Abu Dhabi's airports. It provides free zone facilities, business parks, a logistics park, and business centres at Abu Dhabi International Airport, Al Ain International Airport and Al Bateen Executive Airport.

• Permitted Activities

Generally, businesses that can set up in the ADAFZ broadly fall under the following categories (non-exhaustive.):

- aviation, aerospace, aircraft interiors and airport services, and aircraft charter;
- import and export;
- in-flight catering, and flight support services;
- logistics, transportation, warehousing distribution and storage;
- marketing and events;
- MRO (maintenance and repair organisation);
- regional HQ;
- service provider and consultancy;
- technology and ICT; and
- trading, assembly and manufacturing.

• Types of Entities Allowed

ADAFZ allows for setting up limited liability companies ('LLC') and branches.

• Other Items

The share capital requirements of the ADAFZ differ depending on the type of activity selected, and whether the shareholder is a corporate entity or natural individual:

- LLC operating in: aerospace, airport services, aviation and manufacturing: AED 500,000 (approx. US\$136,000) (if corporate shareholder), AED 1,000,000 (approx. US\$273,000) (if natural person);
- LLC operating in other segments: AED 150,000 (approx. US\$40,800); and
- Branch company: N/A.

(ADAFZ can change these requirements without notice.)

ADAFZ also requires companies to have at least one shareholder, at least one director, and a general manager.

2. Abu Dhabi Global Market ('ADGM')

• General

ADGM is a financial free zone that was established in late 2015. It is a common law jurisdiction, with rules and regulations supported by the common law of England and Wales. ADGM is the most recent free zone in Abu Dhabi and it is Abu Dhabi's only financial free zone. In addition, ADGM has a separate court system, the ADGM Courts, that can hear commercial cases of ADGM companies and of other businesses that 'opt in'.

• Permitted Activities

ADGM allows for a wide variety of financial, non-financial, and retail business to be conducted, including:

- **Financial** includes financial activities such as banks, financial advisers, investment advisers, trust service providers, fintech etc.;
- **Non-Financial** includes non-financial activities such as manufacturing, civil engineering, hotels, real estate, legal and accounting, advertising, marketing, consulting, education, social work activities etc.;
- **Retail** includes the manufacturing of items such as food products, beverages, and jewellery, the retail sale of such items, setting up retail stalls etc.

• Permitted Entities

ADGM allows for setting up different types of legal structures and corporate vehicles. These include:

- private companies limited by shares (similar to limited liability companies) and special purpose vehicles;
- foundations;
- private companies limited by guarantee (i.e. associations);
- public companies;
- branches of foreign companies and of partnerships;
- partnerships – limited partnerships and limited liability partnerships;
- cell companies – protected cell and incorporated cell companies; and
- investment companies.

• Other Items

ADGM also approves the use of trust instruments so long as the trust is compliant with ADGM's trust law provisions. These are directly applied from UK trust laws and amended in certain aspects.

ADGM companies have no minimum share capital requirement. They also require at least one shareholder, one authorised signatory, and one director. Appointing a company secretary is optional for private companies. However, if the company is to operate in the financial sector and be regulated by ADGM's Financial Services Regulatory Authority ('FSRA'), it is possible that there may be additional requirements imposed on the company.

3. *Masdar City Free Zone ('Masdar City')*

• General

Masdar (Abu Dhabi Future Energy Company), which was founded in 2006, aims to establish the UAE as a global leader in renewable energy and sustainable urban development. It seeks to develop the UAE's role in the renewable and clean energy sectors with the objective of making sustainability solutions commercially viable. Masdar City Free Zone is a business hub based in Masdar City (the urban community) located just outside the capital of Abu Dhabi.

• Permitted Activities

In line with Masdar's mandate, the permitted activities at Masdar City broadly fall under the following categories (non-exhaustive.):

- renewable energy;
- clean tech and ICT;
- energy industry; and
- oil and gas services

Masdar City also allows for non-energy activities such as those listed below, aimed at developing a thriving business ecosystem:

- marketing and events;
- human resources development;
- healthcare services;
- service providers (e.g. insurance services, courier, banking, translation, etc.);
- consultancies (e.g. legal, accounting, architecture, management, interior design, etc.);
- property development services;
- regional headquarters, trading and holding companies;
- business centre and data centres; and
- community services (e.g. education, medical, hospitality, retail, food, etc.).

• Permitted Entities

Masdar City allows for setting up LLCs and branches. It can also issue licenses for association (non-profit) activities.

- **Other Items**

The LLC share capital requirements at Masdar City are AED 50,000 (approx. US\$13,600).

Masdar City also requires companies to have at least one shareholder, a director, a general manager, and a company secretary.

4. *Khalifa Industrial Zone - Abu Dhabi ('KIZAD')*

- **General**

KIZAD is Abu Dhabi's first integrated, trade, logistics, industrial free zone. It officially opened in 2012 and is part of Abu Dhabi Ports Company, the entity that owns, operates and manages ports and terminals in Abu Dhabi. KIZAD is located at Al Tawila between Abu Dhabi and Dubai, and has access to Khalifa Port.

- **Permitted Activities**

KIZAD can issue the following types of licenses:

- **Industrial**

this permits the import of raw materials, and the manufacturing, processing, assembling, packaging and export of intermediate and/or finished products. The list is non-exhaustive and other industrial activities are allowed.

- **Trading Licence**

this permits trading activities that include import, export, distribution, stocking, warehousing of products and items specified on the licence. The list is non-exhaustive and other trading activities are allowed.

Trading activities that can be specified on the licence include trading in agricultural products, flowers and plants, aircraft and trains, building materials, jewellery etc.

- **Service Licence**

this permits service activities such as management and economic consulting services, marketing services, logistical support services such as cargo and freight forwarding, restaurants, retail food outlets, catering services, and travel agencies. The list is non-exhaustive and other service activities are permitted.

- **Permitted Entities**

KIZAD allows for setting up LLCs and branches.

- **Other Items**

The minimum share capital requirements at KIZAD are AED 150,000 (approx. US\$40,800) although the KIZAD registrar may require more.

KIZAD requires companies to have at least one shareholder, at least two directors, a general manager, and a company secretary.

In terms of customs' duties, a KIZAD company is considered to be performing industrial manufacturing activities if:

- it has full non-UAE ownership: it can avoid duties on imported goods kept in bonded status in KIZAD and re-exported from the UAE. The company can also avoid duties on raw materials; and
- in a joint venture with a 51 per cent (or more) UAE partner can claim exemption from import duties on raw materials. Goods manufactured will be exempt from customs duties when exported to GCC countries.

5. *Twofour54 Media & Entertainment Hub ('twofour54')*

- General

Twofour54 is a media free zone aimed at building a creative and media cluster in Abu Dhabi. It is a driving force in the development of Abu Dhabi as a filming location, and is a major supporter of developing both local content and local talent.

- Permitted Activities

twofour54's activities are generally limited to the creative media space. Among others, the activities include:

- advertising;
- animation;
- branding;
- content Management and monitoring services;
- content portal management;
- content production – audio visual/eCorporate/digital/publications;
- event management;
- gaming development;
- graphic design;
- news gathering services;
- post-production services;
- publishing – book/magazine/newspaper;
- broadcasting – satellite/radio

- **Permitted Entities**

Twofour54 allows for setting up LLCs and branches. It can also issue freelancer licenses.

- **Other Items**

There are no minimum share capital requirements at twofour54.

Twofour54 requires companies to have at least one shareholder, one director, a general manager, and a company secretary.

Conclusion

As shown above, Abu Dhabi's five free zones broadly cover the aviation (ADAFZ), finance and financial services (ADGM), renewable energy (Masdar City), manufacturing & logistics (KIZAD.), media (twofour54) sectors and their related support activities. Each of these hubs endeavours to develop its respective sector in Abu Dhabi, with the aim of building Abu Dhabi into a competitive and world-class business location that attracts local and international business investment.

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