

# Doing Business In The Mainland Of Dubai Through A Free Zone Entity

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In Dubai, all economic activities conducted outside the free zone areas are regulated by the Dubai Department of Economic Development (“DED”).

The DED is the responsible government body for issuing all licenses for corporate entities or individuals who desire to carry out business in the mainland of Dubai, the territory in Dubai that falls outside the Dubai free zones.

In an effort to facilitate doing business in Dubai, DED has been updating its rules and regulations to act as a one window service center for all licenses in the mainland which will ultimately facilitate the licensing procedures for investors.

In fact, the DED provides remarkable and fast services compared to most of the free zones, even those which have a very well organized and friendly environment, without being excessively restrictive.

In 2011 a new law has been issued to clear the way for entities (a free zone company or a free zone establishment) operating in free zones to open branches in Dubai.

This article aims to shed light on doing business in the mainland in Dubai through an entity registered in one of the free zones in the UAE. There has been some confusion since the issuance of the Law No. 13 of 2011 which was issued by His Highness Shaikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai to regulate the economic activities for licenses to be issued by the DED. Some, inaccurately, thought that the law no. 13 of 2011 permitted free zone entities to do its business outside the free zone without the need to obtaining appropriate license from the DED. This is not entirely true as we will explain below.

## **Opening a branch with the DED through a free zone entity**

Most of the free zones in Dubai, if not all, do not permit a company registered with such free zone to do business outside the free zone in the mainland of Dubai unless such company obtains appropriate license from the local authority i.e. the DED.

Moreover, according to the law no. 13 of 2011 the DED is the only responsible authority for issuing licenses outside the free zones. The said law states that no one is permitted to conduct economic activities in Dubai outside the free zones except through a corporate entity licensed by the DED. Anyone who violates the provisions of this law can be fined up to AED 100,000. The common legal forms for free zone entities to conduct business in Dubai are civil work company, limited liability company or branch.

The civil work company can be established to carry on professional activities and it can be owned 100% by non UAE individuals or foreign corporate bodies including entities registered in the free zones provided that the activities of the corporate bodies matches with the activities of the civil work company. A UAE local service agent will need to be appointed in the civil work company.

In the case of a limited liability company a UAE national (or a company owned 100% by UAE

nationals) must legally hold at least 51% of that limited liability company.

While in the case of a branch, the branch will be wholly owned by the free zone entity and it will have the same trade name as of its parent. Again a UAE local service agent will need to be appointed however, the branch will be exempted by the Ministry of Economy from appointing a local service agent if the free zone entity is owned 51% or more by UAE nationals.

The local service agent does not have any civil responsibility or financial obligations related to the business of the branch. The local service agent's obligation is to ensure the branch is able to continue its business in Dubai but he shall not have any legal interest in the management, business, profits or assets of the branch.

### **Activities that can be conducted by a free zone entity's branch**

Although the Law No. 13 of 2011 is silent in terms of the activities that can be conducted by a branch in Dubai, in practice there are some limitations in this respect. The branch will also need to register itself with the Ministry of Economy and the Ministry of Economy has certain restrictions with regard to the activities that can be conducted in the UAE main land by a branch of a free zone company. For example, the Ministry of Economy will not allow a branch of a free zone company to conduct the activity of trading, commercial agencies, labor supply services or restaurants.

For the purposes of registering a branch office of a free zone company both DED and the Ministry of Economy are involved.

While the requirements of the DED for registering a branch seems to be less problematic. The requirements of the Ministry of economy to register a branch from a free zone entity include the following:

1. Initial approval certificate and trade name certificate as issued by the DED.
2. Copy of the corporate documents of the free zone entity including duly notarized resolution calling for opening the branch and power of attorney in favour of the branch's general manager.
3. Copy of the passport for the general manager and the local service agent or copy of the license in case the local service agent is a corporate body.
4. Local service agent agreement duly notarized at the notary public.
5. Payment of AED 15,000 as the Ministry of Economy fees.
6. Bank guarantee of AED 50,000 in favour of the Ministry of Economy.

### **Conclusion:**

To conclude, although the Law No. 13 clears the way for setting up branch office of free zone companies in the UAE mainland, there continue to be restrictions in context of the activities that such branches can conduct in the UAE, for example, activities such as trading, commercial agencies, labour supply services and restaurants cannot be conducted by branch office (in the UAE mainland) of a free zone company.