



12 May, 2017

HADEF & PARTNERS INFORMATION

HADEF & PARTNERS
12th Floor, Blue Tower
Khalifa Street
PO Box 3727
Abu Dhabi, UAE
T +971 2 627 6622
F +971 2 627 6556

HADEF & PARTNERS
Emaar Square, Building 3, Level 5,
Downtown Burj Dubai,
PO Box 37172
Dubai, UAE
T +971 4 429 2999
F +971 4 429 2888

HARMONISING THE FREE ZONES – ENABLING CHANGES OF DOMICILE

19 Apr, 2017, Author: Farsheed Abdul Rahman

HADEF & PARTNERS

In Brief:

- Addresses the implications of the Dubai Free Zone Council's proposal to allow free zone companies to re-locate to other free zones within the Emirate of Dubai.
- Debates the benefits of this change in legislation.
- Discusses the reasons behind this change.

The Dubai Free Zone Council ("**Council**") was set up in 2015 under the chairmanship of His Highness Sheikh Ahmed bin Saeed Al Maktoum, to coordinate and govern Dubai's various free zones. Currently, there are more

than twenty free zones in Dubai that cater to various industries and sectors, housing thousands of local and international companies.

Each free zone has its own features, geographic boundaries, and specific rules and regulations. The Council's decision to implement policies and rules to harmonize the relevant laws, regulations and procedures of the free zones was made with the key objective of facilitating business continuity, attracting further investment into the UAE and to encourage economic growth within the country.

In 2016, the Council announced that it would implement the necessary legal framework to enable companies located in one free zone to change their location (or "re-domicile") to any of the other free zones. Up to now, only a limited number of free zones allow companies under their relevant regulations to re-domicile. Therefore most free zone companies that wish to relocate are required to incorporate a new entity in the other free zone involved and, in parallel, proceed with the liquidation of its existing entity, which is generally a cumbersome and expensive process. In addition to the costs which will be incurred in the liquidation process, the relevant free zone regulations require that the directors sign a statement of solvency stating that the company will be able to discharge its liabilities in full within six (6) months of the commencement of any winding-up. Directors are often reluctant to sign such statements of solvency for a variety of reasons and, therefore, a company cannot be summarily wound up under the relevant free zone regulations.

By allowing companies to re-domicile more freely, the Council has recognised that this will give financial and administrative stability to companies wishing to relocate to a more appropriate environment. From a practical point of view, the ability to re-domicile should be welcomed as it will enable companies to benefit from better business continuity, without being subject to a liquidation process (as described above).

The ability of companies to freely re-domicile should also increase competition between certain free zones. This will encourage these free zones to develop further investor-friendly policies, aimed at both attracting new investors and retaining existing ones. This increased competition among the free zones should also lead to reduced registration and renewal fees, and potentially extend to more competitive office rents. This would particularly benefit cost-sensitive start-ups and entrepreneurship, as well as small and medium sized companies.

While the objectives of the Council constitute a step towards facilitating business continuity for local and international investors, it remains to be seen what the actual benefits of such legislation will be. As stated above, free zones cater to many different industries and the listed activities in each of these free zones are designed to reflect such specific industries. Therefore, a free zone company operating in a particular free zone will need to assess whether it can re-domicile and continue to be licensed to carry out the same activities. Other than free zone companies that intend to re-domicile their headquarters, free zone companies that carry out trading, industrial or professional related activities should seek legal advice to assess whether they would be permitted under applicable licensing regulations to re-domicile. For example, a company established in Dubai Healthcare City may not be able to re-domicile in the Dubai International Financial Centre, given the healthcare activity.

In conclusion, we believe that this is a step in the right direction, and we expect a number of companies to benefit from such new regulation. Also, this assists the UAE to align with optimum international practice in terms of providing a legal framework to ensure business continuity.

This article, including any advice, commentary or recommendation herein, is provided on a complimentary basis without consideration of any specific objectives, circumstances or facts. It reflects the views of the writer which may, in some cases, differ from those of the firm, especially in the developing jurisdiction of the UAE.
