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Urgent deadline for LLC side agreements

November 15th begins the ban of
Company Formation
Side-Agreements and Letters.



For decades, UAE-based companies with international partners are governed by a dangerous and complicated mix of official contracts and 'side agreements'.

This has been a long-standing business practice established to accompany Article 22 of the UAE Company Law, stating 'it is a requirement for the establishment of a company to have one or more national partners whose share in the company's capital is not less than 51%.'

Under existing laws for most of the commercial sector, foreign investors can own a maximum of 49 %.

'Legislative changes now are making domestic and international investors with holdings in the country very nervous,' states Kirsten Kraeter, GM of KLP Group Emirates, a local provider for innovative company formations and domiciliation models.

'Effective November 15th, an amendment to the Commercial Company Law is set to ban all kinds of side agreements and side letters between foreign and local co-owners of UAE-based firms.'

The push to abolish these side agreements was passed in 2004. 'But the date for implementation was deferred for three years, to give the Ministry of Economy time to better protect business investments.' says Martin Kraeter, Principal at KLP.

'The problem now is: Three years passed without getting major changes in company legislation - and now further 'side agreements' are banned.

This means, all legal handshakes in the past between foreign and domestic investors will be made null and void. It will be as if these agreements never existed!'

Major downside of the ban is that it could discourage international investors who may be hesitant to sink money into the UAE without any legal protection, due to the existing 49:51% regulations.

The risk is high, that the country will lose a lot of potential investment from around the world. But the ban concerns also all existing companies and might lead to reconsideration of UAE activities in many cases.

USA Business speaker and KLP Associate Alan W. Altmann says: 'At the moment, only a handful of investors are aware that side-agreements are not upheld in the UAE Courts disputes.

This is because their content contradicts the official Articles of Association. Only from very few consultants and advisors state-of-the-art company contract systems are written without side-agreements.'

To deploy a suitable contract system which really protects all partners and investors is of course more effort, and maybe promised 'days for getting a license' might be revised - but it is worth it.

'In summary and for the benefit of our foreign investors, there are still legitimate ways to protect investments in Dubai', says Martin Kraeter.

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About KLP Group Emirates

KLP is an international active Management & Consulting Group, specialized in Business Development, Domiciliation and Business Setup handling. The KLP team consists of entrepreneurs with practical and legal backgrounds as well as profound experience in developing companies and protecting investor interest. With own offices in UAE, Germany and the U.S., KLP is focused on the business environments in the entire GCC (Gulf Cooperation Council) region in a combination with onshore and offshore knowledge for the benefit of clients from high-taxed economies all over the world.

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