

OPERATING AN E-COMMERCE PLATFORM IN THE UAE



The UAE's e-commerce sales are projected to hit USD 16 billion this year constituting about 10% of the total sales in the country¹. It is the largest and fastest growing e-commerce marketplace in the Middle East. Brick and mortar shops are increasingly tempted to access the e-market but not many know how to operate this shift. The present fact sheet helps you navigate through the available options to penetrate the local e-market.

What is e-commerce?

E-commerce businesses comprise firms distributing products on the internet marketplace requiring a financial transaction to be carried over through its online platform. It involves coordinating with payment service providers which offer online electronic payments by a variety of payment methods including credit card, smart cards, digital money E-cash.

Can I operate from a free zone?

The answer depends on the contemplated commercial model:

E-platform model

Establishing a **free zone company** with e-trading activities **is possible but will restrict entities to act as a middleman and prevent the distribution of the products in its own name**. The company can be licensed to deploy activities such as "e-market place service provider" or "portal". In that case, the services deployed must be restricted to brokerage or promotion of third party's products – no effective distribution can be carried out on this basis. This is a suitable option for entrepreneurs looking to provide a mobile platform, e.g. where sellers and buyers transact directly without any interference from the company and coordinate their own payment arrangements.

E-trader model

Where the entity intends to be an active participant to the transaction, carrying out e-trading activities via a dedicated website with a UAE domain name, it is effectively catering directly to customers. In this scenario, deploying the e-trading business via a mainland entity is the most compliant option.

As of writing, a general E-Trading license is not² available with the DED. However, several specific categories of e-trading licenses are available (e.g. Foodstuff e-trading, publications and media materials e-trading, jewelry & precious stones e-trading). For platforms specialized in very specific fields, these activities may be suitable. For less specialized businesses, a registered *bona fide* trading³ company can double as e-commerce platform in the UAE mainland as an ancillary activity.

The most suitable option to fully deploy a trading activity in the UAE is via a Limited Liability Company. Foreign shareholding into UAE mainland LLCs is limited to 49%, versus 51% for the mandatory UAE shareholder⁴. Sharia law compliant tailor-made mechanisms can nonetheless mitigate – to the point of elimination – risks associated with having a local partner in the mainland structure and ensure that the foreign investor retains full control over management and profits ([see our factsheet – UAE Structuring Series \(II\) Mandatory 51% Local Shareholder in UAE Mainland LLCs: How to mitigate the Risks?](#)).

Free zones, such as Abu Dhabi Global Market (ADGM) and Dubai Multi Commodities Center (DMCC), introducing "dual-licensing" regimes, whereby a free zone registered operating company can apply for a mainland license without being required to acquire additional office space or share the capital with a "local sponsor". Although this allows entities to conduct its activities beyond the border of the free zone, said activities are restricted to the Emirate of registration⁵.

1. The UAE eCommerce Landscape – Dubai Economy and Visa (June 2019).

2. The DED provides an E-Trader license that can be registered under the name of a single owner only; the owner must be an Emirati or GCC citizen. The e-Trader cannot open a shop or issue visas and in case of a legal dispute, the licensee alone will be held responsible.

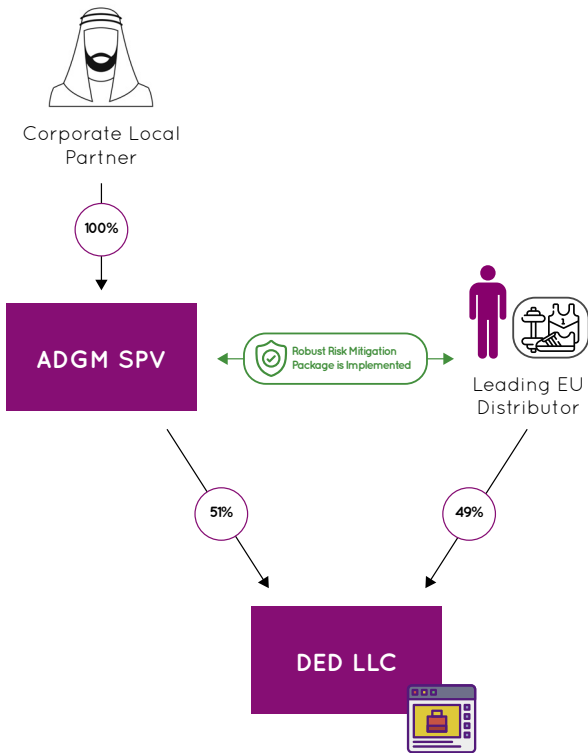
3. The activity should nonetheless be as specific as possible as "general trading" activities generally trigger red tape when opening a bank account due to their lack of indications on the activity effectively deployed by the company.

4. Pursuant to Article 10 of the New CCL. The Decree Law no. 19 of 2018 issued to complement Federal Decree Law No. (18) of 2017 amending the New CCL has opened the door to possible exceptions where the mandatory 51% shareholding of LLCs may be lifted via further resolution of the UAE Cabinet for specific sectors. However, in light of the obligations imposed on business deploying qualifying activities, retaining the standard 51/49% ownership division for mainland set-ups may be the most pragmatic option ([See our factsheet – UAE FDI Law](#)).

5. Implementation details are yet to be released.

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CASE STUDY: E-TRADER

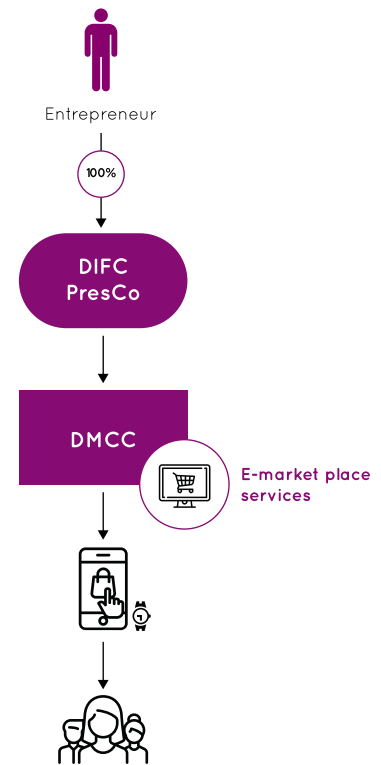


- Leading European distributor of sport clothes.
- Aims at distributing products via an e-commerce platform in the UAE to cater for UAE/GCC customers.
- Sets-up a DED LLC with a specific e-trading activity.
- 49% of the capital is owned by an ADGM SPV and 51% by a corporate local sponsor also structured via a SPV.

Key take-aways

- Ability to import products into the UAE.
- Ability to access the local market and cater for domestic/regional customers.
- Increased investor protection and full control over management and profits of E-commerce Co.
- Split between operational vehicle and holding structure.
- Lift from UAE mainland to ADGM (i.e. from civil to common law framework).

CASE STUDY: E-PLATFORM



- Mobile App of distribution of watches and other high value products.
- Aims at providing a platform to connect sellers with customers.
- Sets-up a DMCC company with “e-market place service” activity.
- 100% of capital is owned by an DIFC Prescribed company.

Key take-aways

- Services deployed are restricted to brokerage and promotion of sellers’ products.
- 100% ownership of the capital.
- Split between operational vehicle and holding structure.
- Lift from DMCC to DIFC (i.e. from a civil to common law framework).



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I only want to test the market for now, is there an alternative to registering a company?

Yes. Foreign investors can operate sales locally by appointing a local agent with rights to *effectively manage* a website with UAE domain on their behalf. In this scenario, no local legal presence will be required.

In practice, the products (purchased through the UAE website) will have to be either shipped from the home country directly to the UAE customers or distributed by the local agent who should have all the required licenses in place to sell the products on the UAE market.

In addition to the **lack of control over your distribution channel**, the UAE Agency Law⁶ bestows significant protection to the Agent such as the entitlement to commissions in transactions concluded in the area of the agency, even without the Agent's involvement. It is also worth mentioning that the registered distribution agreement may only be terminated or non-renewed by the mutual agreement of the parties – except in the case of a material reason – even where a fixed term has been agreed upon.

6. Federal Law no. 18 of 1981 concerning the appointment of commercial agents, sales representatives and distributors in the UAE.

Who we are

We are a multi-services platform catering to a broad spectrum of clients – from individual entrepreneurs and local SMEs to wealthy international families, to established blue-chip companies and multinationals. Our one-stop-shop offering is unique in the Middle East: a holistic and cross-disciplinary combination of a market-leading corporate services firm, a law firm's specialist expertise and a regulatory & compliance services practice, all through one single platform.

We have broad experience in facilitating entry-to-market for businesses across all major fields of activities. We have a one-of-a-kind practical expertise understanding and handling complex corporate structures.

Headquartered in the UAE, we are an entrepreneurial firm for entrepreneurial clients.

Who will assist you



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