

# LOCAL PARTNER VS. SERVICE AGENT

## COMPARISON

There has been a repeated confusion concerning the terms used in connection with the Local (Emirati) Sponsor, a mandatory requirement when establishing a business outside the free zones in the United Arab Emirates. The mix-up merges two expressions into one ("sponsor") without a proper distinction, which creates the impression that there is always an Emirati in full control of the business.

In fact the word "sponsor" is neither a job title or position nor a job description of the involved Emirati. However, it can be considered a status that a Local Partner or Local Service Agent gains after forming a company or after being appointed as a Service Agent for a certain entity.

Whether a Local Partner or a Local Service Agent is required depends on the kind of activity and the company structure that the entity will have. In Dubai, trading and industrial activities require a Local Partner (who holds 51% of the company shares) and are usually structured as a Limited Liability Company (LLC). However, a professional license can't use the LLC structure and can only be a civil

company. In Abu Dhabi, all sorts of commercial activities can use the LLC structure.

The main difference between the entities under the CCL (Commercial Companies Law) and those under the Civil Code is that the activities which may be practiced in the CCL are of a commercial nature, whereas in the Civil Code they involve the use of intellectual faculties, acquired information or the use of skills. Civil activities may not use the Limited Liability Company structure. Moreover, as mentioned earlier, the activities civil entities may be engaged in will be restricted to all those of a civil nature alone. Professional companies may be 100% foreign owned. However, it is necessary to appoint a local Emirati Service Agent from the same Emirate.

Under the Civil Code, service or professional companies are de-fined as companies where two or more agree to be bound to carry out work and to be liable to third parties against payment of consideration, whether they share their work equally or unequally. According to Dubai rules on licensing

professionals and trader and in order to establish a business which practices services or professional activities, the business will be formed as a "Business Partnership".

Most of the services related to professional activities require a professional license. A Local Service Agent has to be appointed while 100% of the company shares can be owned by foreigners. The Local Service Agent will deal with the government officials and Ministries on behalf of the company and facilitates the renewal process.

With a Local Partner/Local Service Agent, it is common to arrange side agreements that redefine the conditions between the parties in favor of the actual owners/managers of the company.

For the last few years, there has been a discussion whether or not certain activities should be exempt from the requirement to have a Local Partner and a correspondent law is in the pipeline.

	Local Partner	Local Service Agent
<b>Agreement</b>	Memorandum of Association Side Agreement	Local Service Agent Agreement
<b>Percentage of Share Capital</b>	At least 51%	None
<b>Financial Liability</b>	Yes	None



(Source: Arabian Business)