Legal 500
Country Comparative Guides 2025

United Arab Emirates
Joint Ventures

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This country-specific Q&A provides an overview of joint ventures laws and regulations applicable in United Arab Emirates.

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United Arab Emirates: Joint Ventures

1. In what industries or sectors are joint ventures most commonly used in your jurisdiction?

The UAE's joint venture (JV) landscape is thriving, reflecting the nation's strategic push toward economic diversification and innovation. At the forefront are industrial JVs, particularly in the manufacturing and factory sectors, where partnerships drive the UAE's ambition to establish itself as a regional leader in production and industrial growth.

Closely following is the technology sector, encompassing technology development, operations, and distribution. The UAE's dedication to innovation positions it as a hub for cutting-edge technological advancements, making this sector a top choice for joint ventures.

Other prominent sectors for JVs include renewable energy, infrastructure development, and healthcare. These sectors align with the UAE's vision of advancing clean energy solutions, improving its healthcare offerings, and enhancing infrastructure to support sustainable growth.

2. What are the main types of joint venture in your jurisdiction?

In the UAE, JVs are structured primarily as either contractual or equity-based, offering businesses the flexibility to align with their strategic goals.

Contractual JVs involve a collaboration agreement between parties without the need to establish a separate legal entity. This arrangement allows partners to define their roles, responsibilities, and profit-sharing mechanisms with complete flexibility, tailoring the agreement to meet the specific needs of the project. Contractual JVs are particularly favored for short-term projects or when the parties wish to preserve their existing corporate identities while leveraging the benefits of partnership. Equity-based JVs, in contrast, entail the creation of a new legal entity, with ownership shares allocated among the partners. This structure is well-suited for long-term partnerships, where establishing a distinct corporate identity and operational presence adds value.

3. What types of corporate vehicle are most frequently used for equity joint ventures?

In the UAE, several corporate structures are utilized for equity joint ventures, with Limited Liability Companies (LLCs) being the most common choice due to their flexibility and broad applicability. An LLC accommodates between two and fifty shareholders, with liability limited to their capital contributions. This structure is particularly attractive as recent legislative reforms allow 100% foreign ownership in many sectors, though some industries may still require local Emirati participation. LLCs are versatile and well-suited for a wide range of business activities, making them the preferred vehicle for equity joint ventures.

For larger ventures with significant capital requirements, a Private Joint Stock Company (**PrJSC**) may be considered. This structure requires a minimum of two shareholders and a share capital of AED 5 million. While PrJSCs are the least frequent used, PrJSCs are ideal for enterprises planning substantial investments without the need for immediate public trading of shares.

In free zones such as the ADGM and DIFC, private companies are often employed. These entities provide flexibility and efficiency, allowing businesses to isolate financial and legal risks associated with specific transactions or assets. With streamlined registration processes and minimal reporting requirements, private companies are particularly suited for holding assets or facilitating specialized ventures.

Choosing the right corporate vehicle for an equity joint venture in the UAE depends on various factors, including the nature of the ownership structure, business activities, capital requirements, business objectives, and other key factors.

4. What are the key factors which influence the structure of the joint venture and the choice of joint venture vehicle?

The most critical factor in determining the structure of a JV and its vehicle is the nature of the parties involved. This includes their backgrounds, nationalities, and whether the JV is privately or governmentally backed. This remains the number one consideration for both equity-based and contractual JVs. However, additional factors differ based on the type of JV.

For equity-based JVs, the number of shareholders significantly impacts the structure. As the number of parties increases, the arrangement becomes more sophisticated, often requiring a more formal legal framework. In these cases, a PrJSC is a preferred vehicle due to its ability to handle complex ownership arrangements. While most ventures begin with simpler structures, successful JVs may evolve into Public Joint Stock Companies (PJSCs) to access public funding and scale operations. This progression reflects a strategy of starting lean and transitioning to more robust structures as the business matures.

For contractual JVs, the focus shifts to the sector in which the JV operates, which is a key defining factor. By way of example, technology-sector JVs often involve straightforward roles like developers and distributors. In contrast, real estate JVs are more intricate, typically requiring collaboration among owners, developers, and other stakeholders. Further, the manufacturing sector adds another layer of complexity, involving owners, operators, and extensive personnel coordination.

Ultimately, while the nature of the parties is the cornerstone for both types of JVs, the additional considerations—such as scalability for equity-based JVs or sector-specific dynamics for contractual JVs—play a pivotal role in shaping the structure. By aligning the right factors with the business objectives, JVs in the UAE can be structured to maximize efficiency and success.

5. What are the principal legal documents which set out the terms of a joint venture and how does the constitution of the joint venture vehicle interact with the joint venture agreement?

The Joint Venture Agreement (JVA) serves as the cornerstone of any joint venture, outlining the rights, responsibilities, and obligations of the parties. However, the complexity and requirements of a joint venture may extend beyond a single document, particularly in specific sectors. In these cases, additional agreements tailored to the industry come into play, enhancing the JV's operational framework and ensuring it is equipped for success.

For example, in the infrastructure sector, a JVA is often paired with a management agreement to clearly define leadership roles, operational oversight, and decision-making processes for large-scale projects. In manufacturing ventures, an offtake agreement may be critical to regulate the purchase and distribution of goods produced, ensuring a steady supply chain. Meanwhile, a technology-focused joint venture might require a distribution agreement to establish the terms for marketing and delivering innovative products to market. Each sector has its separate demands, making it essential to craft bespoke documentation that reflects the venture's unique goals and challenges.

6. How long does it typically take to form a joint venture in your jurisdiction?

Setting up an equity-based JV in the UAE involves a series of essential steps, including selecting the most suitable legal structure, drafting comprehensive agreements, and securing the necessary licenses and permits. The timeline for this process can vary significantly depending on factors such as the JV's complexity, the nature and number of involved parties, and the specific Emirate or jurisdiction where the JV is being established.

Typically, forming a JV in the UAE can take anywhere from a few days to several weeks. This timeframe includes the preparation and submission of legal documents, adherence to regulatory requirements, and completion of administrative formalities. An important consideration in the formation process is the Know Your Customer (KYC) requirements, which vary between free zones and mainland jurisdictions. Certain free zones offer more simplified and expedited KYC processes, while others, along with mainland entities, may enforce stricter and more time-intensive compliance measures. If the chosen jurisdiction has rigorous KYC procedures, this can extend the overall timeline for establishing the JV. To mitigate delays, businesses should thoroughly research and understand the specific KYC requirements of their selected location and plan accordingly.

By carefully navigating these steps and leveraging the UAE's pro-business regulatory environment, companies can establish robust equity-based joint ventures that are well-positioned to capitalize on the region's dynamic market opportunities.

7. Is using a corporate joint venture structure effective in shielding the joint venture parties from liabilities for the operations of the joint venture entity under local law?

Employing a corporate JV structure in the UAE is an effective way to shield the parties from liabilities arising from the operations of the JV entity. A corporate JV, such as a LLC, limits the liability of shareholders to the amount of their capital contributions, thereby protecting their personal assets from any liabilities incurred by the JV. This is especially advantageous in large-scale projects or high-risk ventures, where financial exposure needs to be carefully managed.

A corporate JV structure is often used as a tool for ring-fencing specific assets and liabilities. By isolating the JV's operations within a separate legal entity, the parties involved can ensure that any risks or debts are contained within the JV and do not extend to their other business interests. This approach is particularly valuable in sectors like infrastructure, energy, and manufacturing, where projects can be capital-intensive and complex.

Practically, businesses often start with a contractual JV before transitioning to an equity-based JV once the viability of the venture is confirmed. A contractual JV allows parties to collaborate on specific projects without the commitment of forming a separate legal entity. This provides flexibility and minimizes initial obligations, allowing the partners to test the waters. If the venture proves successful, it can then be converted into a corporate JV to benefit from the liability protections and other advantages of a formal legal entity.

This phased approach ensures that businesses are not locked into a rigid structure prematurely and can scale operations with confidence as the venture progresses. By leveraging the corporate JV structure effectively, parties can balance risk, flexibility, and growth potential in the dynamic UAE market.

8. Are there any legal considerations which apply to the financing of the joint venture or the contribution of assets to it?

In the UAE, the financing of a JV and the contribution of assets to it are not governed by a specific standalone legal framework or dedicated legislation. Instead, these aspects are shaped by the legal form chosen for the JV and the agreements executed between the parties. The absence of a unified regulation highlights the importance of tailoring financing arrangements and asset contributions to the legal and structural framework of the JV.

For equity-based JVs, contributions are typically formalized through the entity's capital structure, as outlined in its constitutional documents. Shareholders may provide funding in the form of equity contributions, shareholder loans, or guarantees. The type of contribution and the terms governing it must comply with the requirements of the legal entity, whether it is an LLC, Private Joint Stock Company, or another corporate vehicle.

Contractual JVs, on the other hand, rely heavily on the terms set out in the JVA. Asset contributions in this context are not tied to a separate legal entity but are instead governed by the contractual obligations of the parties. The agreement should address critical aspects such as ownership, valuation, and the rights of the parties concerning the contributed assets.

9. What protections under local law apply to minority shareholders and what additional or enhanced minority protection mechanisms are typically agreed between the joint venture parties?

In the UAE, minority shareholders are afforded a range of statutory protections, which aims to balance power within JVs and provide safeguards against potential abuses by majority shareholders. These legal provisions lay the foundation for protecting the rights of minority shareholders, though in many cases, parties to a joint venture opt to implement additional protections through contractual agreements.

One of the key statutory protections in LLCs is the right of first refusal or pre-emption rights which can be enshrined in the articles of association and is sometimes embedded in LLCs model articles. This ensures that if a shareholder wishes to transfer their shares, the existing shareholders are given the opportunity to purchase those shares before they are offered to external parties. This right is designed to prevent unwanted dilution of ownership and maintain control within the group of existing stakeholders.

In addition to pre-emption rights, voting rights are another cornerstone of minority shareholder protection under UAE law. Shareholders are entitled to vote in proportion to their ownership stake, and this voting right cannot be unduly altered or undermined. The integrity of the voting process is essential for ensuring that minority shareholders can meaningfully participate in key corporate decisions, particularly those that impact the direction or future of the joint venture. Any attempt to manipulate the voting process to disenfranchise minority shareholders is prohibited under UAE companies law.

Furthermore, the minority is protected against abuse of majority power. Minority shareholders are entitled to challenge before courts any decisions made by majority shareholders in case of abuse of majority in relation to decisions that unfairly disadvantage them or favor the majority to their detriment. The law implies a prohibition on all actions that could unjustly prejudge or undermine the interests of minority shareholders, ensuring that the majority cannot act in a way that disproportionately benefits their own interests while harming those with smaller stakes.

Last but not least, the companies law restricts imposing any additional obligations on shareholders without their approval which provides a layer of protection to minority shareholders.

10. What are the duties of directors of an equity joint venture, including in relation to conflicts of interest?

In the UAE, directors of equity joint ventures are not only key to strategic decision-making but also play a pivotal role in ensuring ethical governance and the overall success of the business. Under the law, directors are required to disclose any potential conflicts of interest concerning transactions brought before the board. This disclosure must be documented in the meeting minutes to ensure transparency, and directors are prohibited from voting on matters where they have a personal interest, thereby protecting the integrity of the decision-making process. These requirements are part of a broader framework of fiduciary duties that directors must uphold, including the duty of care, duty of loyalty, and duty of good faith. These duties ensure that directors act with diligence, integrity, and in the best interests of the company and its shareholders.

Directors must avoid situations where their personal interests conflict with those of the company, which is crucial for maintaining trust and a fair business environment. Any personal interests that do arise must be waived and explicitly authorized by the board to prevent abuse of power and ensure a transparent governance framework. This duty of care also extends to making well-informed decisions, guided by the company's long-term goals and objectives, while the duty of loyalty mandates that directors prioritize the interests of the venture over their own. By adhering to these core principles, directors help build a solid foundation for the JV, minimizing risks, fostering a culture of ethical business practices, and positioning the company for sustainable success.

11. What is the typical structure of a joint venture's management body/board?

The structure of a JV's management body or board in the UAE is not codified by law unless the JV is established as a legal entity. For equity-based joint ventures, the management structure depends on the type of legal entity chosen. In these cases, the governing rules of the specific legal entity dictate how the management body is formed, often with a board of directors overseeing the operations.

12. Does local law imply any fiduciary duties or duties of good faith between the parties to a joint venture?

In the UAE, fiduciary duties are not inherently imposed on JV partners by local law. In these cases, fiduciary duties are primarily between the directors and shareholders of the company. The presence and scope of such duties depend on the specific provisions set forth in the JVA. Therefore, it is essential for parties to explicitly define any fiduciary obligations within their contractual arrangements to ensure clarity and enforceability. Similarly, the duty of good faith is not automatically implied in JV relationships under UAE law. While certain legal systems may impose an implied duty of good faith in contractual relationships, this is not the case in the UAE.

13. Do any restrictions, such as foreign direct investment rules, apply to foreign joint venture parties?

Restrictions on foreign direct investment (FDI) in JVs vary significantly depending on the sector, with certain industries imposing stringent limitations to safeguard national interests. For instance, sectors such as banking, and telecommunications, precluding 100% foreign ownership or participation.

Foreign parties entering JVs must undertake a comprehensive evaluation of the sector-specific regulatory framework governing their intended business activities. This includes understanding ownership caps, operational restrictions, and licensing requirements unique to the jurisdiction and industry in question.

14. What competition law considerations apply to the set up and operation of a joint venture?

When establishing or operating a joint venture (JV) in the UAE, it is important to assess whether the venture pro-competition or breaches anti-competition principles. The UAE Competition Law explicitly prohibits agreements or practices that distort, restrict, or lessen competition, including the abuse of a dominant position in a relevant market or a significant portion thereof.

If a party or the parties of the JV hold a dominant market position, the JV must avoid certain practices that are considered anti-competitive. For instance, imposing prices or resale conditions for goods or services, selling goods or services at prices below their actual cost to obstruct competitors from entering the market, or exposing competitors to losses that hinder their ability to continue operating are all prohibited. Such practices undermine the competitive landscape and may result in significant penalties.

The UAE Competition Law governs both vertical and horizontal relationships to ensure that they do not negatively impact market competition. If a JV formed with the intent to undermine competition—such as engaging in price dumping or market exclusion—could be classified as a cartel.

Moreover, the establishment of a JV, regardless of its structure, could sometimes serve as preliminary evidence of a cartel if it results in collective price manipulation or monopolistic practices. In such cases, the JV may face substantial penalties, including fines amounting to 10% of the total annual sales of the JV or up to AED 5,000,000 (Five Million Dirhams).

15. Are there requirements to disclose the ultimate beneficial ownership of a joint venture entity?

Under UAE jurisdiction, the disclosure of the Ultimate Beneficial Ownership (UBO) of an entity is a mandatory requirement, as stipulated by Cabinet Resolution No. 109 of 2023, which regulates the Real Beneficiary Procedures. This regulation applies to all UAE mainland entities as well as entities operating in economic free zones, regardless of their type. It mandates the maintenance of a UBO register and the submission of this information to the relevant licensing authorities. A UBO is defined as an individual who owns or controls at least 25% of the company's shares or voting rights, or who exercises control over the entity's management, whether directly or indirectly.

The same disclosure requirements apply to entities established in financial free zones, such as the Abu Dhabi Global Market (ADGM) and the Dubai International Financial Centre (DIFC). According to Annex A of the Beneficial Ownership and Control Regulations issued by ADGM in 2022, all ADGM companies must identify the UBO(s) when registering a legal entity in ADGM. These companies are also required to maintain a register of beneficial owners and take reasonable steps to ensure that the recorded information is true, accurate, complete, and up-to-date. Similarly, under the UBO guidelines in DIFC, all entities registered in the DIFC must identify the natural persons who own or control the entity, establish and maintain a private UBO register, and notify the registrar of their UBOs in DIFC, including any changes thereto.

16. What issues relating to the ownership and licensing of intellectual property rights generally apply to the set up and termination of a joint venture?

In the context of joint ventures (JVs), the management of intellectual property (IP) is paramount. It is essential to address the intellectual property that each party brings to the table prior to the formation of the JV, referred to as "Background IP". A separate licensing agreement or a licensing clause within the JV agreement should be established to ensure that any Background IP necessary for the JV's operations is licensed in adherence with the transfer pricing rules. This precaution is crucial for mitigating potential tax liabilities and allowing the JV to effectively utilize the requisite Background IP without infringing on proprietary rights.

As the JV progresses, it is likely to generate new intellectual property ("Foreground IP"). Ownership of the Foreground IP will be vested in the JV, but it must be governed by an agreement that stipulates the terms for its disposition in the event of JV termination or liquidation, whichever the case. Clear guidelines must be established to ensure that ownership is distributed as agreed between the JV partners.

A critical consideration in this framework is the use of existing brand names or trademarks from the JV parties in developing the Foreground IP. If the JV intends to incorporate elements of either party's brand into its new trademark, it is imperative that the resulting trademark is interdependent from the original trademark of the parties. This necessitates well-defined terms governing the usage and registration of such trademarks. The objective is to create an IP portfolio that is both distinct to the JV and reflective of the parties' existing brand identities, while maintaining a level of independence that safeguards the interests of all stakeholders involved.

17. What legal considerations apply when

transferring employees into a joint venture?

In the United Arab Emirates, there is no legal framework for the direct transfer of employees from one entity to another. Consequently, the process typically involves terminating existing employment contracts and subsequently hiring employees under new contracts within the JV.

Employees currently working for the parties involved in the JV must have their employment contracts terminated in accordance with UAE Labour Law. This includes adhering to the required notice periods and ensuring that all end-of-service benefits are settled. Following termination, the JV will then issue new employment contracts to the employees it wishes to retain. These contracts must comply with the provisions of UAE Labour Law, including terms related to probation periods, remuneration, and working conditions.

One critical aspect to consider is the outstanding liabilities associated with the previous employment contracts. The parties involved in the JV must determine whether the JV will assume any of these liabilities, which may include unpaid salaries, gratuities, or other benefits owed to the employees prior to their transition to the JV. It is essential that both the termination process and the new employment contracts align with the UAE Labour Law.

18. Do any additional requirements apply to joint ventures when a joint venture party is a publicly listed company?

When a JV's party is a publicly listed company, there are no specific additional requirements that apply solely to the JV itself. However, the parties should adhere to the existing rules and regulations applicable to publicly listed companies in the UAE. This includes compliance with relevant securities laws, disclosure requirements, and corporate governance standards that govern publicly traded entities.

19. What are the key tax considerations for both the joint venture parties and the joint venture vehicle itself?

When examining the key tax considerations for both the joint venture parties and the joint venture vehicle Transfer pricing is a crucial consideration when dealing with related parties in a joint venture. Transactions between the parties should be conducted on an arm's length basis, which means that the terms should reflect those that would be agreed upon by unrelated parties. It is advisable for the JV parties to consult with a tax advisor and conduct a transfer pricing assessment to ensure compliance and avoid any adverse consequences arising from the JV.

Also, evaluating the tax efficiency of JV is essential, as this can significantly impact the overall financial performance. Aside from federal tax implications, no other specific considerations apply specifically to the JV in this context.

20. Are there any legal restrictions on the distribution of profits by a joint venture entity?

There are no specific additional requirements for profit distribution in a joint venture; it will adhere to the general corporate law provisions applicable in the UAE. The distribution of profits will depend on the jurisdiction of incorporation and the governing laws of the joint venture.

21. How are deadlocks in decision making usually dealt with in a joint venture agreement?

Deadlocks in decision-making within a joint venture agreement largely depend on the structure of ownership, whether it is a fifty-fifty arrangement or a majority-minority setup.

In a 50/50 joint venture, resolving a deadlock typically requires one party to either purchase the shares of the other party, liquidate the joint venture, or seek judicial intervention.

In a majority-minority structure, the approach to deadlocks hinges on the concept of blocking votes. It is essential to determine whether the minority party possesses sufficient voting power to block decisions or if specific reserved matters are in place that require unanimous consent. Generally, deadlocks are addressed through the same mechanisms outlined for 50/50 arrangements, namely, buyouts, liquidation, or court proceedings.

Alternative dispute resolution methods, such as mediation and reconciliation, may also be pursued if agreed by the parties to facilitate a resolution amicably.

22. What exit or termination provisions are typically included in a joint venture agreement?

Exit or termination provisions in a JV agreement vary significantly depending on whether the JV is structured as a contractual arrangement or as a separate legal entity.

In the case of a JV formed as an entity, the exit provisions often resemble those found in a shareholders' agreement. For instance, the agreement may be terminated when a party ceases to be a shareholder in the JV or when the JV itself is liquidated or declared insolvent. Conversely, if the JV is contractual, the exit provisions will be contingent upon the fulfillment of a specific purpose of the JV outlined in the agreement or the expiration of a defined timeframe. Once the purpose has been achieved or the duration has elapsed, the contract can be terminated. In this scenario, it is crucial to address the distribution of the assets of the JV and how they will be allocated among the parties. A thorough determination of asset distribution is essential to avoid disputes and ensure a fair resolution.

23. What restrictions under local law apply when joint venture parties agree to restrictive covenants eg non-compete or non-solicitation obligations?

The Commercial and Civil Transactions Law, along with other relevant commercial laws, plays a critical role in regulating non-compete and non-solicitation clauses within joint venture agreements. For such clauses to be deemed valid, they must be limited to a legitimate purpose, restricted in duration, and clearly defined by a specific territory. The foregoing should be to the extent of protecting the legitimate business interest and do not unfairly restrict competition. To enhance the enforceability of these provisions, it can be beneficial to include compensation for adhering to the non-compete or non-solicitation conditions.

24. What dispute resolution mechanisms usually apply to joint ventures and are there any legal restrictions on the parties' choice of governing law or choice of dispute resolution mechanism?

Dispute resolution mechanisms in joint ventures are typically determined by the agreement between the parties involved. They have several options, including resorting to local courts, the Abu Dhabi Global Market (ADGM) and Dubai International Financial Centre (DIFC) courts, arbitration, or even foreign courts, provided those courts accept the dispute based on its rules.

The choice of law and dispute resolution framework imposes no specific restrictions, as per the UAE Civil Transactions Law. This flexibility allows the parties to tailor their dispute resolution mechanisms to best suit their needs and preferences. Careful consideration of these mechanisms within the joint venture agreement is crucial, as it can significantly impact the efficiency and effectiveness of resolving any potential disputes that may arise.

25. What are the key market trends affecting joint ventures in your jurisdiction and how do you see these changing over the next year?

The key market trend in the UAE indicates that investors are increasingly exploring partnerships through contractual joint ventures (JVs) as a preliminary step. This approach allows them to test the market before committing to more formal structures such as incorporated companies or JV agreements. Additionally, alternative mechanisms like revenue-sharing agreements are being utilized, enabling parties to engage in commercial dealings without the complexities of formal incorporation. This strategy helps partnerships reach a proof-of-concept threshold before fully establishing a joint venture.

As the UAE's market continues to evolve and diversify, particularly given its multicultural environment, we can expect a rise in joint ventures across various sectors over the next year. This trend is likely to attract more investors looking to capitalize on the opportunities available in the region. The increasing interest in JVs will facilitate collaboration among businesses and strengthen the economic landscape, further enhancing the UAE's appeal as a hub for investment and innovation.

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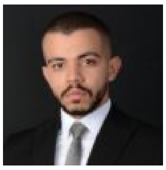
Ahmed Hatem **Associate**	ahmed.hatem@matoukbassiouny.com	
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