

# Client Alert

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## Masdar City Free Zone, Abu Dhabi's Center for Renewable Energy and Clean Technology, is Open for Business

Masdar City Free Zone in Abu Dhabi has recently begun accepting applications from companies operating in the renewable energy and clean technology sectors. It is now possible to incorporate companies, register branches of foreign and local companies, and carry on business in Masdar City Free Zone. This is good news for international companies focused on these growing sectors in the Middle East.

The purpose of free zones is to encourage foreign direct investment into the UAE. Companies operating in free zones are not required to have UAE nationals as owners, which contrasts with most companies operating in the UAE outside of the free zones. Free zones are authorised to enact their own laws and regulations in specific areas, which in some cases override federal and Emirate law on the subject matter.

"The opening of Masdar City Free Zone provides international businesses focused on clean technology and renewable energy with easy access to what promises to be the leading business centre of its kind in the Middle East."

### What is Masdar City?

Masdar City will be the world's first carbon-neutral, zero-waste city and is located in Abu Dhabi, the capital of the United Arab Emirates. Masdar City aims to be a Silicon Valley for clean, green and alternative energy, a city where current and future technologies will be funded, researched, developed, tested and implemented.

### What is a Free Zone?

The UAE federal constitution, the federal laws relating to free zones and the powers reserved by the individual Emirates of the UAE permit each Emirate to set up "free zones" for general or industry-specific activities.

### Key Requirements to Incorporate a Company in Masdar City Free Zone

The key requirements to incorporate a company in Masdar City Free Zone are:

- the company must operate in the renewable energy or clean technology sectors or be a service provider to companies operating in such sectors or persons living in Masdar City Free Zone;
- minimum share capital of AED 150,000 and annual licence fee of AED 20,000;
- the company must lease office space in Masdar City Free Zone (and the number of employee visas available depends on the amount of office space leased); and

- the company must have adopted corporate policies addressing sustainability, the environment and social corporate responsibility.

### **Key Advantages of Incorporating a Company in Masdar City Free Zone versus Abu Dhabi**

The key advantages of incorporating a company in Masdar City Free Zone compared to incorporating a company in Abu Dhabi are:

- 100 percent foreign ownership is permitted compared to 49 percent foreign ownership for a limited liability company incorporated in Abu Dhabi;
- geographical proximity to entities operating in the same or related sectors; and
- likely to be quicker to incorporate than a limited liability company incorporated in Abu Dhabi.

### **Key Disadvantage of Incorporating a Company in Masdar City Free Zone versus Abu Dhabi**

The key disadvantage of incorporating a company in Masdar City Free Zone compared to incorporating a company in Abu Dhabi is companies are only permitted to conduct business within Masdar City Free Zone and are limited to performing solely those activities specified in their licence(s).

### **Observations**

The main shortcoming of incorporating a company in any of the UAE's free zones is that the law precludes such companies operating outside the free zone and within the UAE without some form of UAE national participation, whether in the form of UAE national commercial agents or distributors or UAE national majority shareholders. In practise, some Emirates tolerate free zone companies carrying on certain types of business outside their free zones and within the UAE, although

the extent of the tolerance remains unclear, and technically such companies are operating in breach of the law. This shortcoming affects companies incorporated in Masdar City Free Zone. Masdar City Free Zone companies wishing to do business outside Masdar City Free Zone and within the UAE will require UAE national participation and further licences in order to do so lawfully.

Despite this shortcoming identified above, the opening of Masdar City Free Zone provides international businesses focused on clean technology and renewable energy with easy access to what promises to be the leading business centre of its kind in the Middle East. The Middle East, and particularly the UAE, is investing heavily in clean technology, developing renewable power generation, funding research and development, and incorporating sustainable technologies into construction and industry. With the naming of Abu Dhabi as the headquarters of the International Renewable Energy Agency (IRENA), Abu Dhabi promises to be an international hub for these sectors in the near future.

Further information on Masdar City Free Zone may be found at [www.masdar.ae](http://www.masdar.ae).

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