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Trade successfully with the UAE

Ten important principles

The pearl of the Middle East

The United Arab Emirates, more than any other country in the Middle East, conjures up images of desert oases ruled by patriarchal Sheiks. And that's exactly how the UAE came into being. In the 18th and 19th centuries the seven states that now make up the UAE – Abu Dhabi, Dubai, Ajman, Sharjah, Umm al-Qaiwain, al-Fujairah and Ras al-Khaimah – were oases settled by Bedhouin tribes whose chiefs over time became heads of state – emirs - and hence the title 'Emirates'.

Before the discovery of oil in the late 1950s, bringing immediate wealth to Abu Dhabi and Dubai, and eventually to all the Emirates, the region's main source of revenue had been pearl fishing. As the UAE's economy had been built on trade rather than industry, it's this expertise in shrewd trading that continues to be its strength, bolstered of course by the huge wealth accumulated through oil and gas. It's that wealth that provided a cushion in recent years against the worst effects of the global downturn.

This rich trading nation holds a host of opportunities for foreign exporters. It ranks 23rd in the World Bank's 'Ease of doing business' table and the business environment is vibrant and open. Foreign exporters nevertheless need to tread carefully when venturing into this intriguing market, not least because of the deep cultural and religious basis of every aspect of life there.

The following ten principles are designed to help your sales to customers in the UAE be successful.

"the business environment is vibrant and open"

1. Choose the right route into the market

There are essentially three ways to get into the UAE market: direct exporting, via an agent or agents in the Emirates or by establishing a physical presence in the market.

The first of these, while simple, may not be the best solution if you're looking to achieve high growth. Engaging a distributor, franchisee or licensee may be a better option, but the laws contain a high level of protection for local 'agents'. (In UAE law, the term 'agent' encompasses all of the above, as well as 'agent' in the usual sense). Agents may be able to register their agreements with the Ministry of Economy in certain circumstances and that places added obligations on principals. Rights conferred on the agent by registration include a right to receive compensation on termination (even where that occurs in accordance with the contract) and a right to block imports of the principal's products of which the agent is not the consignee. Most foreign principals appointing local agents take steps to avoid the application of this law.

Establishing a physical presence in the UAE can take several forms: usually by setting up one or more branch offices, or a limited liability company. A branch of a foreign company must have a sponsor - called a national agent - who must be a UAE national or a company wholly owned by UAE nationals. Similarly, a UAE company must be at least 51% owned by UAE nationals (although these rules are relaxed for the nationals of other Gulf Cooperation Council (GCC) countries, namely the Kingdom of Saudi Arabia, Qatar, Kuwait, Oman and Bahrain).

The UAE has also established various free zones, each of which applies its own company laws. Technically, these companies are 'off-shore' so there is no automatic right to trade in on-shore UAE. Foreign companies are permitted to establish branches or set up subsidiaries in a free zone without the need for local ownership or sponsorship.

Find out more about the UAE's many free zones at www.uaefreezones.com, especially as incentives and benefits can vary from zone to zone and some free zones are sector-specific.

2. Check that there's demand for your products and services…

… although this shouldn't be too much of a problem. Unless you're in the business of supplying crude oil, which the UAE already has in abundance, there's a very good chance that your products and services will be in demand in the UAE.

The UAE economy has gained momentum since 2011, and this has given a boost to many construction projects, its appetite for foreign goods and its tourism industry. The main imports are consumer goods, machinery and transportation equipment, chemicals and food. But the UAE is also committed to high quality education and health care, and is investing heavily in its infrastructure and information and communication technology (ICT), creating opportunities for many areas of foreign expertise and partnership.

3. Take time to understand the importance of Islam

The UAE's culture is rooted in Islamic tradition: Islam is the official religion of the UAE and pervades all aspects of life, both social and business. And, while there is a level of acceptance of other faiths and cultures – after all, the population of the UAE is made up largely of 'ex-pat' foreigners – it is essential to show respect for Islam and courtesy in the way that you act when visiting the Emirates and when conducting business dealings there.

Indeed, that word - 'respect' – neatly sums up the way that you will be expected to present yourself in negotiations. Dress modestly, but do not try to adopt the UAE's traditional clothing as this may be perceived as offensive. Emirati companies tend to be extremely hierarchical, so bear this in mind at meetings and greet the most senior person first. Always use the right hand to shake hands, to eat or to distribute documents.

Business in the UAE is usually conducted between Sunday and Thursday, with rest days on Friday and Saturday. The initial meeting will serve to build trust, so don't try to hurry negotiations. Arab coffee and pastries are a traditional accompaniment to meetings, and it would be rude not to accept. There are many more do's and don'ts to Islamic business culture, so taking time to familiarise yourself with them is essential. Chambers of Commerce for each of the Emirates can be helpful in this respect, as can an Emirati agent. Indeed, having an agent or other Emirati business acquaintance will be helpful in make the introductions to your potential customers or business partners.

4. Take care when advertising

This is in many ways connected to the previous principle. Advertising standards in the UAE place great emphasis on the need for respect for religious and political institutions, and for the cultural and social values prevalent in the UAE. For example, they prohibit any advertising of alcohol and tobacco, or the use of content that breaches public morals. Advertisements for medicines, pharmaceutical and food products all require the prior agreement of the relevant authority. Advertisements must use standard Arabic or the local Emirati dialect. Permits are required for most types of outdoor advertising, as well as for prize draws or promotions.

Despite its strict advertising laws, media advertising in the UAE is a thriving business. Indeed, one key aim of the UAE's advertising standards is to develop this sector as a vital economic development tool for the UAE.

"Advertisements must use standard Arabic or the local Emirati dialect."

5. Comply with Customs laws

The UAE is a member of the Gulf Cooperation Council (GCC), which has established the main structure of the UAE's import regulations. This in some ways simplifies the import of goods into any GCC country, because of the 'single port of entry' principle which states that imports into the UAE or any other GCC country are subject to customs duty only at the first GCC port of entry.

The GCC's Common External Tariff of 5% of the value of goods is levied on most imports, except for imports destined for the UAE's free trade zones. Alcohol and tobacco attract a higher rate, while some categories of goods, including certain agricultural products, printed material and pharmaceuticals are exempt. Goods imported for industrial or manufacturing purposes may also be granted exemptions.

The ports in Dubai and Abu Dhabi are the main ports of entry into the UAE. In general, customs clearance would require the foreign exporter to provide:

· An import goods declaration

· Delivery order

· Original bill of lading

· Invoice

· Certificate of origin

· Packing list with harmonised system (HS) code

Some goods are either restricted or prohibited entry, and the UAE Customs authorities rigorously enforce the rules concerning such products. For information concerning these products, and for full details of GCC customs regulations, contact the Chamber of Commerce of the Emirate with which you are dealing.

6. Follow the right path to resolve trade disputes

If a trade dispute arises between you and your UAE customer or distributor, seeking to resolve it through the courts can be time consuming and expensive. According to the World Bank's 'Doing Business 2014' report, contract enforcement through the UAE courts takes on average 524 days and costs 19.5% of the value of the claim: in this respect, the UAE stands at 100 in the ranking of 189 economies covered by the report.

Moreover, foreign exporters shouldn't assume that their standard contractual terms will be enforceable in the UAE and override local laws – this isn't necessarily the case.

It is common for foreign companies to have their disputes resolved through arbitration. The UAE has three arbitration centres: the Dubai International Arbitration Centre (DIAC), the Abu Dhabi Commercial Arbitration Centre and the DIFC (Dubai International Financial Centre) Arbitration Centre. In fact, the number of cases heard in the DIAC rose from just 15 in 2003 to 390 in 2012, resulting in part from the increase in foreign trade and investment.

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7. Protect your intellectual property

The UAE is a signatory of a number of treaties designed to protect intellectual property (IP) rights. These include the Paris Convention, the Berne Convention, the Rome Convention, the World Intellectual Property Organisation Copyright Treaty and several more covering patents, trademarks, literary and artistic works, performance and broadcast media.

Trademark registration is valid for 10 years and is renewable, but the UAE system requires a separate application to be filed for each class of goods and services, which can be expensive. In the case of literary works, for instance, copyright lasts for the lifetime of the author plus 50 years. Patents are valid for 20 years and registered designs for 10 years. The IP legislation contains harsh penalties for the infringement of any of these rights.

Therefore, to protect your IP ensure that you register your rights before entering the market and understand the routes open to you to enforce those rights if necessary. In some of the Emirates, rights holders can register their rights at Customs. In these circumstances, give Customs officials as much information as possible to help them differentiate between your products and counterfeits.

8. Check your customer's credit worthiness

Since the financial crisis companies in the UAE have been far more open to releasing financial information on their operations, although this can still be a challenge with some of the larger family-owned groups. Banks require this information and, as credit insurance becomes a better known product in the market, companies are becoming increasingly aware that it is in their interest to provide this information to suppliers who may be credit insured.

Local credit reporting companies will provide basic company details, date of establishment, number of employees, trade references and, importantly, in which regional markets the company operates. There can be issues if a company is heavily dependent on business in Iran or Iraq.

The key is to find the right partner and build a strong relationship, which may well require several visits to the UAE.

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9. Choose the right method of payment

The most common local payment instrument in the UAE is the post-dated cheque, as dishonouring a cheque is a criminal offence in the UAE and the defaulter can be sent to prison and have their passport confiscated. However this does not prevent 'runaways' - companies that disappear overnight leaving their suppliers with little recovery prospects – which have been prevalent recently.

Irrevocable Letters of Credit (ILCs) are used but are not that common. While the UAE's banking system is robust and therefore there are no issues in setting up ILCs, they can be uncompetitive if other suppliers are offering open account terms. If there are any concerns over a customer's ability to pay, a guarantee from a parent or associated company may be a simpler solution.

10. Protect your sales

In any market, even one as affluent as the UAE, when a sale is made on credit terms there is always a certain level of risk on non-payment and unpredictability. It is therefore advisable for the supplier to seek protection in the form of credit insurance to guard against those risks that due diligence alone cannot avoid.

Such risks include the unforeseen insolvency or protracted default of the buyer or external factors beyond either party's control, such as political decisions or natural disasters that prevent the successful conclusion of the sale. Credit insurance mitigates such risks, allowing the supplier to concentrate on future sales rather than past debt. It also provides the reassurance needed to offer competitive terms of payment, safe in the knowledge that sales are protected.

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A market with immense potential for overseas exporters

Atradius' UAE country manager Schuyler D'Souza explains why this is such a promising export market: "The UAE is the Middle East's most dynamic market. It's a strategic hub for foreign trade in the Middle East and the only Gulf nation with a well-defined free trade policy, encouraging imports for both domestic consumption and re-export. That is greatly aided by the UAE's well-developed ports and modern transport, communications and business infrastructure, and of course the high standard of living and tax free income of its residents."

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