

Dubai Free Zone Establishments May Now Obtain Licences to Do Business In “Onshore” Dubai

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On March 3rd, 2025, His Highness Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum, in his capacity as Chairman of the Executive Council of the Emirate of Dubai (“**Dubai**”), issued Executive Council Resolution No. (11) of 2025, on the regulation of Dubai-based free zone establishments (“**FZEs**”) operating, or wishing to operate, within “on-shore” Dubai, creating a pathway for such establishments to conduct business outside their free zones (the “**Resolution**”).¹

Historically, FZEs have been mostly prohibited from performing business transactions outside the borders of their respective free zones, in what is commonly referred to as “onshore” Dubai. The Resolution provides a long-awaited framework whereby FZEs may obtain licences or permits to conduct specified business activities in “onshore” Dubai.

This alert memorandum provides a high-level overview of the Resolution. It does not purport to be an exhaustive summary of the Resolution or the laws and regulations applicable to FZEs.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

ABU DHABI

Mike Taylor
+971 2 412 1706
miketaylor@cgsh.com

Rawad Abou Jaoude
+971 2 412 1721
raboujaoude@cgsh.com

Olisa Maduegbuna
+971 2 412 1717
omaduegbuna@cgsh.com

Omar Almansoori
+971 2 412 1748
oalmansoori@cgsh.com

¹ The Resolution was published in the Official Gazette of the Government of Dubai No. 707 dated March 21, 2025 and entered into force on the same day.



I. Background

The United Arab Emirates (“UAE”) is unique in that each of its seven Emirates operates one or more free trade zones. Free zones are “ring-fenced” special economic areas which operate with certain benefits and pursuant to their own, regulations and legal regimes concerning the establishment and operation of commercial enterprises within such areas.

Establishments in free zones are usually permitted to do business with one another or with non-UAE based businesses.

Dubai, which has established itself as a global business hub, has over 20 of these free zones – examples include the Dubai International Financial Centre (the “DIFC”)², the Dubai Multi Commodities Centre, the Dubai Design District and the Jebel Ali Free Zone Authority.

Dubai’s free zones are often subject to their own legal and regulatory regimes that function independently from the legal and regulatory regime applicable in the regular non-free zone parts of Dubai (referred to as “onshore Dubai”).

FZEs were traditionally prohibited from having a physical or legal presence in onshore Dubai and from conducting business transactions with counterparties resident in onshore Dubai.

However, there has always been significant ambiguity as to whether certain incidental business activities conducted by FZEs outside their free zone were considered to be conducted lawfully within the free zone or unlawfully in onshore Dubai, given the complex interplay between the rules applicable within such free zones, those applicable on a local Emirate level, and the federal laws of the UAE.

The Resolution establishes a long-awaited framework through which FZEs can, going forward, obtain licences or permits to conduct certain business activities within onshore Dubai.

² The Dubai International Financial Centre is the main financial free zone of Dubai, which has an independent legal system modeled on English common law and courts and a

II. Scope

The Resolution is applicable to FZEs seeking to operate outside their free zone of incorporation, with the exception of financial institutions licensed to operate within the DIFC (although non-financial DIFC-based institutions are not expressly excluded from the scope of the Resolution).

III. Categories of Licences and Permits

Subject to fulfilling certain requirements (which are set out below in more detail), the Resolution permits FZEs to seek a licence or a permit (as appropriate) to operate outside their free zone of incorporation. The Resolution grants the Dubai Department of Economy & Tourism (the “DET”) the authority to grant FZEs three categories of licences and permits:

- **Licence to operate an onshore Dubai branch of an FZE.** This is valid for one year and requires the FZE to establish a physical presence in onshore Dubai.
- **Licence to operate an onshore Dubai branch of an FZE with its headquarters in the free zone.** This is valid for one year but does not require a physical presence in onshore Dubai; and
- **Permit for an FZE to undertake certain activities in onshore Dubai.** This is valid for six months and is restricted to certain activities included on a list to be issued by the DET pursuant to the Resolution.

It is important to note that the abovementioned licences and permits only allow FZEs to operate in onshore Dubai. FZEs wishing to operate in any Emirate other than Dubai must obtain all necessary licences and comply with applicable laws and regulations in such Emirate, which in some cases may mean establishing an entity in that other Emirate. It remains to be seen if the other Emirates (e.g. Abu

financial services regulator, overseeing financial services activities.

Dhabi) will implement a licencing framework similar to the Resolution.

IV. Requirements and Further Considerations

The Resolution sets out further requirements, guidelines and restrictions for the newly introduced framework.

Economic Activities: As mentioned above, unfortunately, the Resolution does not list the economic activities that may be carried out by FZEs under its framework. Instead, the Resolution requires the DET to issue a list of such activities within six months from the effective date of the Resolution (i.e., by September 20, 2025), in coordination with the relevant free zone licencing authorities. The Resolution also permits the DET to impose additional conditions in connection with issuing licences to FZEs.

Legislative and Regulatory Framework: FZEs seeking licences or permits under the Resolution must comply with all applicable laws and regulations in force in onshore Dubai, including administrative measures, supervision and inspection procedures (and penalties) specified in the relevant federal and local laws. FZEs must also seek any applicable regulatory approvals required to undertake their activities in onshore Dubai.

Employees: the Resolution permits FZEs operating under the framework established by the Resolution to utilize free zone registered employees to carry out their activities in onshore Dubai. This effectively means that FZEs are not required to re-register their free zone sponsored employees outside the relevant free zone, and employees may continue to benefit from specific free zone rules applicable to their employment relationship.

Separate Financial Records: FZEs operating under the Resolution's framework must maintain distinct financial records for their operations undertaken in onshore Dubai, separate from the financial records for their operations within the free zone. This distinction is particularly important given the different tax

treatment of income under Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the “**Corporate Tax Law**”), depending on whether the income is earned from a qualifying free zone activity or an onshore UAE activity. While it is expected that FZEs operating under the framework of the Resolution will be required to comply with the Corporate Tax Law, the Resolution does not explicitly define the scope of application of such law. Given the long-term tax exemptions granted to FZEs within their free zones, we expect that the application of the Corporate Tax Law would be limited to FZEs' operations in onshore Dubai, however, this should be confirmed with the relevant tax authorities.

Regularization / Implementation Timeline: FZEs currently operating outside their respective free zones but within onshore Dubai are required to regularize their status in accordance with the regulatory framework set out by the Resolution within one year from its effective date. This deadline may be extended for an additional year at the discretion of the DET.

V. Key Takeaways

The Resolution addresses a long-standing ambiguity under Dubai law regarding the legal characterization of FZEs — specifically, whether such FZEs should be treated as UAE domestic entities (and thus ineligible to register onshore branches) or as foreign entities (and therefore eligible to do so). By clarifying this issue, the Resolution offers a more streamlined path for FZEs to expand into onshore Dubai without further uncertainty over their onshore legal status or treatment. It will also be interesting to see how the many DIFC-registered FZEs that are not engaged in financial services — i.e. “non-regulated entities” — will leverage and benefit from the opportunities presented by the Resolution.

Additionally, it will be interesting to observe whether eligible FZEs — particularly those engaged in trade — will be able to access the benefits of UAE trade agreements, customs privileges, and tariff exemptions that have traditionally been reserved for onshore UAE companies and not extended to free zone establishments.

More broadly, Dubai continues to cement its reputation as a global business hub, offering a strategic location, advanced infrastructure, and a forward-looking regulatory landscape. The Resolution represents a significant step toward advancing the broader goals of the Dubai Economic Agenda (D33) which aims to double the size of Dubai's economy over the next decade and solidify Dubai's standing among the world's top business cities. By establishing a more transparent and accessible route for FZEs to expand in onshore Dubai, the Resolution is expected to encourage more enterprises to be registered in free zones, with the assurance that future mainland expansion is both viable and supported by policy.

Moving forward, and in addition to being mindful of the abovementioned deadline for regularization of their status, FZEs, businesses and investors should monitor announcements by the DET for the forthcoming list of permitted economic activities and the related licencing procedures, and as a result may reassess their UAE operating and holding structures in light of the increased flexibility offered by the provisions of the Resolution.

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