



## UAE'S UPDATED COMMERCIAL AGENCY LAW: KEY CHANGES AND IMPLICATIONS FOR FOREIGN PRINCIPALS



**Jade Hamilton**

**Junior Associate**

T: +971 7 233 8927  
E: [jhamilton@slglaw.cc](mailto:jhamilton@slglaw.cc)  
[www.slglaw.cc](http://www.slglaw.cc)

In 2023, the UAE revised its Commercial Agency Law (Federal Law No. 3 of 2022) to attract foreign investment and support its vision of becoming a global business hub. This new law, which came into effect on June 15, 2023, replaced Federal Law No. 18 of 1981 and seeks to modernize the regulatory framework by ensuring a more balanced approach between foreign principals and local agents.

By law, foreign businesses or companies wishing to distribute or sell products in the UAE must use commercial agents, unless specific legal exceptions apply. Commercial agents, which had to be UAE citizens or wholly UAE-owned companies, facilitate market entry for foreign businesses by distributing or selling products on behalf of a principal. This arrangement aims to reduce costs, expand market reach, and leverage local expertise.

### **Challenges Under the Old Law**

The previous law heavily protected agents, often to the detriment of foreign principals. For instance, principals could not terminate or replace agents without going through a lengthy dispute process, as seen in Federal Supreme Court Cases 811 and 814 of 2017. These challenges hindered principal flexibility and caused legal uncertainty, even when agents failed to perform.

The updated law now offers a more balanced approach, improving the position of foreign principals by providing clearer guidelines and more flexibility in agency relationships.

### **Key Changes**

#### **1. Termination Rights**

The new law allows greater flexibility in terminating agency contracts. Termination is now possible under several circumstances, including contract expiry, mutual agreement, or court judgment. Previously, termination required a "fundamental reason" or mutual consent.

- Notice for non-renewal or termination must be given at least one year before expiration or halfway through the term, whichever is shorter.





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## 2. Succession

While the automatic transfer of agency to an agent's heirs is not directly addressed, the new law allows termination agreements to manage succession.

## 3. Arbitration

The law permits arbitration for dispute resolution, both within and outside the UAE. It also shortens decision-making timelines, improving efficiency.

## 4. Importation and Asset Transfer

With Ministry of Economy approval, principals no longer face import blocks during disputes. The law also requires assets under a commercial agency to be transferred to the principal or a new agent at fair value upon contract termination.

## 5. Administration

Registration and de-registration processes have been streamlined, with decisions now required within 10 working days (down from 15).



## What has stayed the same?

### 1. Agent Representation

Agents must still be 100% UAE nationals or now 51% UAE-owned public companies. However, international companies can now act as commercial agents in the UAE if no other registered agent exists and legal requirements are met.

### 2. Exclusivity and Compensation

Agents retain exclusivity within the agency's territory and rights to commission regarding parallel imports. Compensation for unilateral termination remains unchanged.

### 3. Agency Relationships and Registration

The law still broadly defines commercial agency relationships and requires registration. Unregistered arrangements are treated as regular commercial contracts.

## Transitional Provisions for Existing Agreements

The new law includes transitional provisions affecting existing commercial agency agreements:

- Two-Year Grace Period: Agencies registered before the new law's issuance are exempt from the updated termination rights for two years from the law's effective date.
- Ten-Year Grace Period: Agencies registered with the same agent for over ten years, or where the agent's investment exceeds AED 100 million, are exempt from the new termination provisions for ten years from the law's effective date.

Existing agreements registered before June 15, 2023, remain subject to the previous provisions (including termination, dispute resolution, and importation) for the duration of the grace periods.

## Conclusion

The new Commercial Agency Law enhances legal clarity and offers foreign principals more flexibility when entering the UAE market. The law incentivizes agents to perform better by requiring mutual consent for contract renewal and improving dispute resolution processes.

While the law improves the balance between agents and principals, further clarification is needed in certain areas. Foreign principals should leverage the updated provisions when revising or creating new contracts, while local agents must be aware of how the changes affect their rights. However, the impact of the delay in implementation and grace periods for existing agreements may limit the immediate effects of these changes.

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