

Doing Business in the State of Qatar

Choosing a Legal Structure



Introduction

Based in Doha in the State of Qatar, Hugh Fraser International Legal Consultancy LLC (HFI) was established and licensed in 2007 by the Qatar Financial Centre Authority to operate from the Qatar Financial Centre (QFC) as a provider of a full range of legal and commercial services in Qatar.

This guidance note provides a brief summary of the key legal and commercial issues involved in establishing a business in Qatar. In all cases, specific legal advice should be taken in the context of the particular circumstances.

In addition to the selection of the most appropriate legal structure, consideration of the necessary licensing rules and procedures must also be undertaken in respect of carrying on business, construction or modification of business premises and the hiring of expatriate and national personnel.

What options are available in terms of legal structure for doing business in Qatar?

The State of Qatar has made great strides in recent years with many impressive modernisation and development programmes under the wise leadership of H. H. Sheikh Hamad Bin Khalifa Al-Thani, the Emir of the State of Qatar.

The state of Qatar remains an oil-based economy, despite aims to diversify and develop various other sectors, with oil and gas accounting for over 90% of the country's total exports. With international market prices for oil remaining consistently high over the past three years, Qatar has enjoyed increased economic growth.

The State of Qatar is enjoying a climate of attracting foreign investment and has emerged as a world power in the energy and petrochemical industry. The State of Qatar owns the largest single un-associated gas field (The North Gas Field) in the world, giving it significant economic weight, in addition to other investment incentives. Qatar Petroleum (QP) owns the majority of the oil and gas fields in Qatar.

The legal system in the State of Qatar allows foreign investors to participate in joint ventures in various investment projects. Recently, the Qatar authority has



introduced much new legislation aimed specifically at making Qatar an ideal place to invest in and bringing the commercial environment to the same level as international standards.

The Income Tax Law encourages foreign capital to invest in economic enterprises in Qatar. For example, foreign investment capital is exempt from income tax for up to ten years from the date of operating the investment venture. In addition, imports of machinery and equipment needed to operate the venture are exempt from customs tariffs.

The options which are generally available for non-Qatari investors to do business in Qatar are as follows:

- Direct Sales using a Local Commercial Agent
- Direct Sales without using a Local Commercial Agent
- Establishing a Company with Limited Liability
- Joint Participation Ventures
- Partnership in Commendam Company
- Commandite Partnership by Shares Company
- Joint Stock Company or Qatari Shareholding Company
- Representative Offices
- Branch Offices
- Free Zone Companies
- Professional Service Companies



What is the best legal structure for my business in Qatar?

The choice of optimum legal structure can only be properly decided after a thorough review of all of the relevant legal and commercial issues. These issues may include the following questions:

- Does the nature of the business mean that a specific form of legal structure must be used in Qatar? (e.g. most professional services businesses cannot incorporate)
- Will the business require the approval of the Qatar federal ministry prior to a licence being issued?
- Do the business's customers or potential customers have any specific requirements? (note especially the requirements of the Qatar oil and gas industry)
- Will a marketing "shop window" suffice or will the business need full trading capacity?
- Will the business be wholly owned by the foreign owners or is partial ownership by Qatari nationals required or desirable?
- Is limited liability a key issue?
- Should the business and assets of the Qatar business be ring-fenced away from other foreign businesses and assets?
- What business operations will be undertaken in Qatar? E.g. import and re-export only? Trading within the State of Qatar?
- How much initial capital is required?
- Are there any taxation implications associated with the selection?
- Are there any specific issues as to the location of the business within Qatar e.g. staff travel/ accommodation, proximity to port facilities, proximity to airport, availability and cost of premises?
- Is the business likely to offer shares for public subscription?



What other issues should be considered?

Prior to embarking on the establishment of the Qatar business a number of other key commercial issues should be addressed, which will apply irrespective of the legal structure selected:

- Who will be the General Manager of the business?
- Who will be the Directors/Supervisory Board or Committee?
- What other personnel (expatriate and local) are needed?
- Should new Terms and Conditions of Business be drafted for Qatar and/or in other regional territories?
- Who will be the auditors of the business?
- What additional insurance cover is needed?
- What banking arrangements are needed?
- Should trade marks of brand names and logos be registered?
- How can the intellectual property of the business be protected?

Direct Sales using a Local Commercial Agent

A local commercial agent can be appointed to market products and services within the territory of Qatar with the local commercial agent receiving a commission. Care should be taken in the selection of the agent as several restrictions apply within the Commercial Agencies Law No.(8) of 2002. These include: termination of agency agreement; compensation; changing local agents, and establishing another legal entity separate from the local agent.

The advantages of this route are:

- The appointed local agent may play an important role in promoting sales and after-sales services
- The personal and operational capability of the local agent may assist with after-sales and delivery support
- Reducing the costs of establishing a separate legal entity in Qatar
- Eliminating the need for a local partner
- Eliminating the need for the foreign company to incorporate in Qatar

The main disadvantages of this route are as follows:

- The agent is usually given exclusivity for the relevant products and services in Qatar



- The foreign company (the Principal) may be obliged not to seek the services or assistance of more than one agent in Qatar for the activities of the same commercial business included in the Agency Agreement
- The agent may be entitled to receive commission for transactions concluded by the Principal himself or through others in Qatar, even if such transactions are not concluded as a result of the agent's efforts
- The Principal may be obliged to compensate the agent for damage incurred by dismissing him at an inappropriate time or without an acceptable excuse
- The business is carried out in the name of the local agent. This route will therefore reduce the foreign company's control over dealing with its own business in Qatar

Direct Sales without using a Local Commercial Agent

Depending on the nature of the products and services it may be possible for non-Qataris to sell directly to importers and traders in Qatar without the need for a local agent or other type of local presence in Qatar.

The disadvantages of this method of direct sales to Qatar are:

- Difficulties in securing repeat business or promotion of sales
- Difficulties in meeting after-sales and delivery obligations



Establishing a Company with Limited Liability

Another alternative method for foreign investors and companies to do business in Qatar is to establish a company with a Qatari partner who is required by law to own 51% of the capital.

A Qatari Limited Liability Company (WLL) is similar to a UK private Limited Company but has no issued shares and it differs in some legal requirements and procedures.

The advantages of this kind of legal entity are:

- No local agent is required
- The liabilities of its partners are limited

The disadvantages of a Qatari Limited Liability Company are:

- A maximum of 49% of the shares are held by non-Qatari partners
- A minimum share capital of the Qatari Limited Liability Company of QR 200,000 must be subscribed (approx. US\$55,200)
- 10% of each year's net profits must be kept within the company until the reserve stands at 50% of the share capital
- The WLL is not permitted to undertake insurance and banking businesses or to invest monies on behalf of third parties in general

Joint Participation Venture

A Joint Participation Venture (JPV) route is one of a number of types of 'partnership' structures permitted in Qatar. Qatari partners and non-Qatari investors may undertake specific projects under a JPV agreement.

The advantages of this relationship are that it does not establish a separate legal entity, and each party is normally responsible for its own liabilities.

The disadvantages of JPVs are:

- The partners are jointly and severally liable for all of the JPV's obligations from their private assets if they act in a manner that indicates the existence of a separate legal entity
- The Qatari partner must be authorised to carry out business in Qatar
- Difficulties in the issue of transferable shares
- Difficulties in the issue of financial instruments

Partnership in Commendam Company

Two types of the above route are:

1. Joint Partners. The disadvantage of this type of company is that its partners are jointly and severally responsible for all its obligations from their private assets.
2. Limited Partners. The advantage of this company is that its partners will not be liable for the company's liabilities, except to the extent of the amount of money paid, or the extent of what they bind themselves to pay to the company.

Commandite Partnership by Shares Company

This company is formed of one or more partners and stockholder partners, the number of whom may not be less than ten.

The disadvantage of a Commandite Partnership by Shares Company is that the maximum shares of non-Qatari partners are 49%.

A minimum share capital of a Qatari Commandite Partnership by Shares Company of QR200,000 must be subscribed (approx. US\$55,200).

Joint Stock Company or Qatari Shareholding Company

A Joint Stock Company (QSC) is similar to the UK plc. It is formed by a number of persons who contribute by way of negotiable shares. They are not liable for the company liability except to the nominal value of their shares.

Every QSC in Qatar must be of Qatari nationality and all shareholders must be Qatari, with the company head office required to be in Qatar. In other words, foreign participation is restricted in a QSC. However, it is permissible to include some non-Qatari partners in the following two circumstances:

1. If the shareholder-partners are nationals of an Arab country.
2. Should the need arise for investment of non-Qatari capital or foreign expertise, provided that a licence is obtained from the Ministry of Economy and Commerce.

In such cases, non-Qataris are allowed to own up to a quarter of the share capital of a QSC. The founders of a QSC must subscribe in shares by not less than 20% and not more than 45% of the company capital. The QSC must have at least five members and a minimum capital of QR10m (approx. US\$2.75m).

Other alternative ways of doing business in Qatar without establishing a company are:

Branch Office

The Branch Office is similar to the Representative Office and may be suitable if the foreign company seeks to perform a specific contract or business transaction in Qatar in public services or utilities. A specific licence is required from the Ministry of Economy and Commerce.

The disadvantages of this route are that the Branch Office is only entitled to perform a specific contract with the Qatar Government, and that it may be taxable unless it is granted a government exemption.

Free Zone Company

In its efforts to encourage trade and international business to play a part in the country, the Qatari Government has established a number of free trade zones in Qatar, offering 100% non-Qatari ownership and with no or low tax payable:

- The Qatar Science and Technology Park Free Trade Zone (QSTP)

The QSTP aims to enhance and support scientific, applied and technological research; it is also designed to manage all investment activities to serve the QSTP.

- The Qatar Financial Centre (QFC)

The QFC is a member of the International Financial Institutes, which is the driving force behind its activities. The QFC is designed to be a major international finance and business centre with the purpose of attracting worldwide companies and international financial institutes in the field of financial services, banking and insurance.

Non-Qatari investors may set up in these free zones as a local branch office or as a company with limited liability.



Professional Service Company

Qatari Law provides in special circumstances for the 100% foreign ownership of professional practices including doctors, dentists, lawyers, accountants and engineering consultants. These professional services must be rendered through an unincorporated legal structure which does not have limited liability (although we are aware of at least one exception to this rule being made). A professional licence and a local service agent/sponsor are required (although the local service agent/sponsor will not be required if a Qatar national is a partner in the practice with entitlement to not less than 15% of the profit share).

It should be noted that most professional service businesses require special regulatory consents from the relevant federal ministry before a licence may be issued.



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