

ISRAEL AND THE UAE: AN HISTORIC OPPORTUNITY

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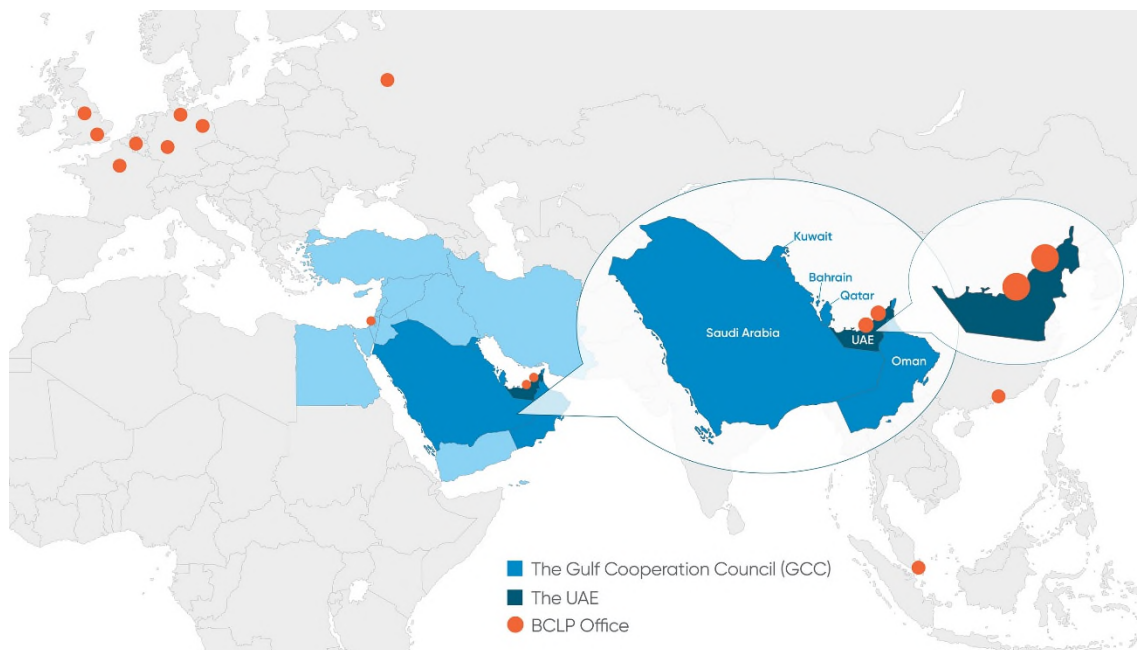
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On 28 August 2020, President His Highness Sheikh Khalifa, President of the United Arab Emirates (the UAE), issued Federal Decree Law Number 4 of 2020, abolishing a ban on business and trade dealings with Israel that had stood since 1972. In doing so, the UAE has become the first Gulf nation to normalise its relations with Israel and only the third Arab nation to do so, alongside Egypt and Jordan.

Law Number 4 follows the Abraham Accord announced only a few weeks ago and the speed with which relations have thawed has surprised and delighted businesspeople in both jurisdictions: Businesses in the UAE can now enter openly into direct commercial agreements with their Israeli counterparts, to import, exchange, possess and trade in Israeli products in the UAE and to trade in them.

The UAE: An Overview

The UAE is a federation comprised of seven Emirates: Abu Dhabi, Dubai, Sharjah, Ras Al Khaimah, Umm Al Quwain, Ajman and Fujairah. It is one of the six members of the Gulf Cooperation Council (the GCC), alongside Bahrain, Kuwait, Oman, Qatar and Saudi Arabia.



Although dwarfed by its neighbour, Saudi Arabia, the UAE is nevertheless considered an economic powerhouse in the Gulf region. Its diversification away from a hydro-carbon based economy was deliberate, well-structured and has been ongoing for decades.

By leveraging its strategic location between East and West and focussing on logistics (for example, the development of free zone ports and the growth of its two principal airlines, Etihad and Emirates) coupled with a progressive approach to foreign investment and the development of an extensive double taxation treaty regime, the UAE is now firmly established as a world-class hub for international commerce. Today, while boasting the world's 8th largest oil reserves, only 30% of the UAE's economic output derives from hydrocarbons, with the rest coming from sectors such as financial services, technology and innovation, real estate and construction, and defence.

The elevation of the UAE's global economic profile is perhaps most attributable to the creation of financial free zones that allow for 100% foreign ownership, with their own laws and courts based on English and common law, sitting alongside the "onshore" regime which has modernised in parallel in recent years. The Dubai International Financial Centre (the DIFC), established in 2004, is now seen as one of the world's leading financial centres, being ranked 12th in March 2020 by the Global Financial Centres Index, ahead of Frankfurt, Zurich, Paris, Chicago and Luxembourg.

As a result, international investment in the region has long gravitated towards the UAE, with multinationals looking at free zones such as the DIFC and the Abu Dhabi Global Market (the ADGM) as both an entry point and a hub for their Middle Eastern (and increasingly, continental-African) operations. There is also, especially in Dubai, a plenitude of specialist free zones catering for sectors from logistics, healthcare, media, technology and others aimed at attracting commodities trading and start-up entrepreneurship across a range of sectors.

The New Relationship: Which sectors will benefit?

In practical terms, the ability for Israeli companies to establish openly now a presence in the UAE and/or team up on a joint venture basis (whether contractual or corporate) with counterparts in the UAE represents a boon for both Israeli businesses looking to expand into the Gulf region and UAE entities seeking to grow their own trading networks.

Early estimates indicate that the normalisation of ties could soon see bilateral trade in excess of US\$6 billion.

In particular, the oil, tourism, medical equipment and pharma, and tech and innovation sectors are expected to flourish:



Oil

While its Leviathan and Tamar gas fields have afforded Israel a degree of increased energy security, the ability to purchase oil directly from a local and reliable partner will be welcomed.

For the UAE, it now has, almost uniquely, a new customer for its oil where Saudi Arabia isn't competing in the same market.



Tourism and Travel

Although Covid looks likely to continue having an adverse impact on tourism for the foreseeable future, both nations are well-positioned to take advantage of the warming of relations.

The UAE's hub-status between East and West is well-known, and the world-class reputation of its two principal airline carriers, Etihad and Emirates, is widely recognised. It seems inconceivable, therefore, that the UAE won't attract Israeli business transiting to elsewhere in the world.

At the very least, Israeli travellers should benefit from lower fares resulting from the increased competition for traditional providers.

As an indication of just how quickly events are now moving, El Al operated its first flight from Tel Aviv to Abu Dhabi at the end of August, with Etihad and Emirates expected to reciprocate from Abu Dhabi and Dubai in the near future.



Tech and Innovation

Israel's reputation as the 'start-up nation' is well-deserved. With approximately 80 companies listed on NASDAQ, Israeli tech companies rival their Chinese counterparts as having the second largest number of listings on that market after US companies.

For the UAE, its recent focus on innovation and its desire to attract tech companies is well documented. Various innovation funds have been established (for example, the DIFC's US\$100 million Fintech Fund), along with other initiatives, such as the creation of start-up ecosystems, including regulatory sandboxes, and incubation and accelerator hubs in the ADGM, the DIFC, and the Dubai Silicon Oasis free zone.

The opportunity for both countries to benefit from cross-border investment flows and broader technological cooperation, as well as the development of their respective knowledge-economies, will be welcomed. Tech and innovation relating to irrigation, desalination, agriculture, healthcare and cyber security are likely to be of particular interest.



Health and Pharma

The two countries have reportedly been cooperating in healthcare for some time. Even before the Abraham Accord, the UAE company, Group 42, signed a memorandum of understanding with Rafael Advanced Defense Systems and Israel Aerospace Industries for research collaboration on the treatment of Covid-19.

The speed with which announcements in this sphere have been made since the Abraham Accord has been remarkable. For example, the Abu Dhabi Stem Cells Centre has already announced an agreement with Israel's Pluristem Therapeutics for collaboration in research into regenerative medicine and APEX National Investment Company of the UAE has signed an agreement with Israel's Tera Group to conduct research on Covid-19.

With shared interests in certain research areas such as genetics and diabetes, such cooperation is expected to increase further.

The Bigger Prize: Entry to the Gulf markets?

The longer term hope is that other Gulf nations will follow the UAE's lead and move swiftly to regularise their relations with Israel.

Until then, the UAE's bold decision can provide Israeli companies with a crucial bridge to the wider Gulf region, including, in particular, the giant Saudi Arabian market.

For the first time in nearly 50 years, Israeli and UAE companies can directly transact. Properly structured arrangements, utilising corporate service provider nominees in the UAE's financial free zones, offer Israeli businesses a holding vehicle for the region - a route to market adopted

by multinationals from other jurisdictions for many years. Further, in bypassing the need to structure through traditional nominee jurisdictions (such as the UK, Cyprus and Singapore) and, instead, utilising UAE free zone holding vehicles for their GCC operations, Israeli companies may be able to realise significant tax benefits.

If this opportunity is grasped and the experience of multinationals from other jurisdictions is replicated, the Gulf region will become open not just to major Israeli global companies, but also to the country's small and medium-sized enterprises. As a result, Israeli exports to the region, via the UAE, will grow exponentially.

BCLP'S UAE-ISRAEL TEAM

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When you need a practical legal solution for your next business opportunity or challenge, please get in touch.

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