

# Terminating a Consultancy Agreement: United Arab Emirates: Overview

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A Practice Note providing an overview of the key considerations and legal issues a foreign entity should consider when terminating a consultancy agreement in the United Arab Emirates.

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Foreign entities may decide to enter into consultancy arrangements with consultants in the United Arab Emirates (UAE). Important legal implications arise when it is necessary to terminate a consultancy agreement. This Note provides an overview of the key aspects of terminating a consultancy arrangement in the UAE. It considers:

- The main considerations and legal issues when terminating a consultancy agreement.
- The requirement for notice to be given when terminating a consultancy agreement.
- Issues that arise when imposing a new confidentiality obligation on the consultant in the letter terminating a consultancy agreement.
- The data protection and right to privacy implications that arise on termination of a consultancy agreement.
- The execution formalities for the letter terminating a consultancy agreement.

See also [Standard Document, Letter terminating a consultancy agreement: International](#).

## Terminating a Consultancy Agreement: Issues

### Main Considerations

In the UAE, a consultancy agreement is concluded between two parties (a client and a consultant) that are each:

- Independent from the other.
- Licensed to conduct business activities.

A party that wishes to render services as a consultant to another party must:

- Establish a stand-alone consultancy business.
- Obtain the licenses required for that business.

Some scope has been introduced for the conduct of activities pursuant to a freelancer visa, but this new visa category does not change the independent contractor nature of the consultancy agreement.

Therefore, this Note will discuss the termination of a contractual arrangement between a consultant and the consultant's client, each of which is a licensed business entity.

In the UAE, contractual arrangements are governed by:

- Federal Law No. (5) of 1985 on the Civil Transactions Law of the United Arab Emirates (Civil Code).
- Federal Law No. (18) of 1993 Issuing the Commercial Transactions Law.

Subject to legal restrictions (such as capacity or lawfulness), parties in the UAE are typically free to agree and contract on the limits of their contractual relationships.

There are three different ways to terminate a contract in the UAE:

- **Mutual consent.** Most contracts contain a termination clause stating the conditions where parties can terminate the contract. These include:
  - the occurrence of a certain event; or
  - at the will of a party.

A contract should explicitly state that parties can terminate it on their own terms without a court order. The Civil Code permits a unilateral termination if the contract expressly provides for it.

- **Litigation.** Parties to a contract can ask a court or arbitration institute to assist them when terminating a contract. Termination for breach requires a court order unless there is an agreement or valid termination right.
- **By operation of the law.** There are multiple ways in which an agreement could be terminated by operation of law. For a consultancy agreement, this would most likely arise because of a *force majeure* event. Under the UAE Civil Code, parties can automatically terminate an obligation when an unforeseeable event beyond the affected party's control renders performance of the obligation impossible. (Article 920, Civil Code.)

## Legal Issues

On termination of the consultancy agreement, two issues that could potentially arise are:

- If the agreement in question was registered under the UAE Commercial Agencies Law, then termination would be effective only when the agreement is de-registered under that law (Article 8, Federal Law No. (18) of 1981 concerning Organizing Trade Agencies). However, in most cases, a consultancy agreement would not be registered under this law.
- The Civil Code provides that termination of a contract requires a court order unless the contract provides otherwise (Article 267, Civil Code). Because of this, the contract should clearly state:
  - the grounds on which termination may be effected;

- whether parties can terminate the agreement at will;
- notice requirements; and
- that it may be terminated without resort to court.

## Notice

There are no legal requirements regarding the length or form of the notice. However, parties must comply with the provisions of the contract itself. A notice of termination that does not comply with the requirements set out in the contract could constitute a breach of contract. This would give the other party grounds to bring a claim for damages.

Parties should consider the following when drafting a termination notice:

- Whether there are any notice periods stipulated in the contract.
- Whether there are notice clauses that stipulate how, where, and to whom a termination notice must be sent.
- How the notice should refer to the contract and the termination clause in the contract.
- Whether time periods are calculated properly. It is safer to give too much notice than too little, since the extra time is generally a slight benefit to the other party, or at least does no harm.

## Confidentiality

### Issues That May Arise When Imposing a Confidentiality Obligation

A client company cannot impose a new confidentiality obligation in the termination letter. Therefore, a client company should ensure that the original contract includes a confidentiality clause.

It is difficult to enforce confidentiality and non-compete clauses in agreements in the UAE except in the Dubai International Financial Centre (the DIFC) and Abu Dhabi Global Market (ADGM), which are financial free zones that have their own court systems. These clauses can however be used to deter misuse of confidential information.

Enforcement is difficult since courts do not generally grant remedies of *injunction* or *specific performance* and require parties to prove any damages to claim monetary compensation.

### Confidentiality Obligation: Risk That Consultant Is Deemed an Employee

It is unlikely that a consultant will be deemed an employee just because a confidentiality obligation was added in the termination agreement. Generally, an employment relationship is created only if there is an employment contract registered with the *Ministry of Human Resources and Emiratisation (MOHRE)*. The MOHRE does not re-characterize consultancy contracts as employment contracts. Even in the unlikely event that a consultant was categorized as an employee, it would not give the consultant any special protections under the UAE Labor Law.

## Data Protection

The ADGM data protection regulations are outlined in the Data Protection Regulations 2021 (DPR 2021). The DIFC data protection regulations are outlined in Data Protection Law, DIFC Law No. 5 of 2020.

Other than the ADGM and the DIFC, the UAE does not have specific laws on data protection.

However, there are certain federal laws which touch on the issue of data protection and associated rights to privacy:

- It is a criminal offence to disclose or use "secrets" without consent (Article 379, Federal Law (3) of 1987 Promulgating the Penal Code).
- It is a separate offence to disclose personal or confidential information by electronic means (Articles 21 and 22, UAE Federal Decree-Law (5) of 2012 on Combating Cyber Crimes).
- A person that causes "harm" to another is generally liable (Articles 282 and 283, Civil Code). If the person directly caused the harm, they are liable even if they did not intend to cause harm. The Plaintiff does not need to establish a duty of care.

## Execution and Other Formalities

### Written Form Requirements

Verbal contracts are enforceable under UAE law. However, it is recommended that parties formalize the agreed terms of any arrangement in writing. This helps avoid any potential conflicts regarding the express terms or even the existence of the contract.

The client company can add the following wording towards the end of the termination notice before the parties' signatures:

"The foregoing is without prejudice to our rights and remedies, all of which are hereby expressly reserved."

### Language Requirements

There are no formal language requirements. A termination notice can be written and communicated in English.

### Execution Formalities

There are no specific formalities required for a letter terminating a consultancy agreement to be valid and enforceable.

### Approval, Registration, and Other Formalities

Except for provisions that may be in the consultancy agreement itself, there are no specific approval, registration, or other formalities applicable to a consultancy agreement or a notice of termination under a consultancy agreement.

## General

The legal system of the UAE is evolving rapidly, and the authorities seek to continuously implement improvements. For example, Federal law on data protection is expected to be enacted soon.

The ADGM and the DIFC courts are common law courts, but the other courts in the UAE are all civil law courts.

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