



Drafting and Interpretation of Commercial Contracts

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Overview

Commercial contracts in the United Arab Emirates (UAE) are among the most important legal instruments governing commercial relationships and determining the allocation of rights, obligations, and risks between contracting parties. In light of a modern commercial environment characterised by rapid economic development and increasingly complex commercial transactions, precise legal drafting has become an essential necessity not only for evidencing agreements, but also for minimising disputes, enhancing commercial stability, and protecting commercial interests.

This Practice Note addresses the importance of drafting and interpreting commercial contracts in the UAE from both a legal and practical perspective. It also reviews the essential elements of professional contract drafting, including the preliminary framework of the contract, core obligations, regulatory provisions, and execution requirements. Furthermore, it addresses the importance of precise drafting as a means of risk management and achieving contractual certainty.

It also examines the interpretation of commercial contracts in light of the established legal principles in the UAE, including the principle of good faith, the common intention of the parties, and the principle that “the contract is the law of the contracting parties”. This approach reflects the methodology adopted by courts and arbitral tribunals in the State when interpreting contractual provisions and addressing cases of ambiguity in commercial agreements.

Definitions

- *Commercial contract*: An agreement concluded between two or more parties, whether natural or juridical persons, within the framework of a commercial activity such as sale, supply, distribution, provision of services, or partnerships, with the aim of achieving an economic return.
- *Contractual obligations*: The binding legal duties and responsibilities that each party undertakes pursuant to the contract.
- *Good faith*: The legislator considered that good faith constitutes a legal principle established under the provisions of the law, pursuant to which parties are required to perform and interpret contractual obligations honestly, fairly, and in accordance with standards of integrity and fair dealing. Article 221(1) of Federal Decree-Law No. 25/2025 Issuing the Civil Transactions Law provides that contracts must be performed in accordance with their contents and in a manner consistent with the requirements of good faith.
- *Governing law*: The legal system or jurisdiction governing the interpretation and execution of the contract.
- *Penalty clause*: A specified amount or obligation agreed upon in advance, which becomes payable in the event that one of the parties breaches its contractual obligations.
- *Preamble*: The preliminary and essential information contained in the contract, which sets out the basic details of the contracting parties, including names, addresses, place and date of contracting, as well as the subject matter of the contract and the objectives and intentions of the parties.
- *Allocation of rights and obligations*: The contractual allocation of responsibilities, obligations, and commercial rights among the contracting parties.
- *Arbitration*: A system through which disputes between contracting parties are considered outside the courts, whereby the dispute is resolved before an arbitral tribunal instead of national courts.
- *Confidentiality obligations*: Contractual obligations requiring the parties to protect confidential information and refrain from disclosing it without authorisation.
- *Legal capacity*: The legal authority or status that enables a person or representative to enter into and sign a legally binding contract.

Practical Guidance

Drafting commercial contracts as a means of protecting the rights of contracting parties

Legal drafting is considered one of the most important stages from the commencement of preparing the contract until the fulfilment of the obligations agreed upon by the contracting parties. The drafting and contractual provisions must be clear, as ambiguity or deficiencies in drafting may lead to legal disputes and expose the parties to financial risks and litigation costs that could otherwise have been avoided.

Preliminary framework of the contract

Proper contract drafting begins with establishing a clear contractual framework. From a practical perspective, the contract should include the following:

- A title accurately reflecting the legal nature of the contract, such as a sale agreement, investment agreement, or otherwise.
- Proper identification of the contracting parties and their legal capacities.
- Place and date of execution.
- A preliminary clause clarifying the subject matter of the contract and the common intention of the parties.

- Clear definitions of key terms to avoid ambiguity in interpretation.

Contractual obligations

Contractual obligations constitute the fundamental basis upon which the contractual relationship is established, and contracts must include clear and detailed regulation of the following:

- The obligations of each party in a precise and enforceable manner.
- Mechanisms for execution and delivery.
- Financial consideration and methods and dates of payment.
- Penalty clauses and agreed compensation in the event of breach.
- Allocation of rights, obligations, and responsibilities between the parties.

Regulatory provisions

Commercial contracts should also include provisions regulating the continuity, governance, and management of the contractual relationship between the contracting parties, including:

- Contract duration and mechanisms for renewal or termination.
- Clauses specifying rights, obligations, and compensation.
- Confidentiality and non-disclosure obligations.
- Determination of the governing law and dispute resolution mechanism, whether through litigation or arbitration.

Contract execution framework

For the contract to be complete from both a material and legal perspective, the following must be ensured:

- Signature of the parties or their legally authorised representatives.
- Verification of legal capacity and signing authority.

Importance of precise legal drafting

Precise drafting contributes to achieving stability and security in commercial dealings through the following:

- Reducing the likelihood of disputes arising between contracting parties.
- Facilitating the execution of contractual obligations.
- Enhancing the enforceability of the contract before courts and arbitral tribunals.
- Strengthening confidence in commercial transactions and supporting the stability of the investment environment.

A properly drafted contract is not merely an agreement between parties; rather, it creates a clear material and legal framework that protects the interests of merchants and businesspersons in cases of differing interpretations or conflicting commercial interests.

Interpretation of commercial contracts in light of legal principles

The general rule in contract interpretation is to give effect to the clear wording and facts reflected in the contractual terms. If the contractual provisions are clear and explicit, they may not be departed from by way of interpretation. In this regard, Article 119 of Federal Decree-Law No. 25/2025 provides that:

- If the wording of the contract is clear, it may not be departed from through interpretation in order to ascertain the intention of the contracting parties.
- However, where there is scope for interpretation of the contract, the common intention of the contracting parties must be sought without adhering to the literal meaning of the words, whilst guided by the nature of the transaction and the trust and confidence that should exist between the contracting parties in accordance with prevailing commercial custom.

In cases of ambiguity or conflict, courts or arbitral tribunals may interpret contractual provisions based on established legal texts and principles.

Principle of good faith

The principle of good faith governs contracting parties from the stage of drafting the contract through to the implementation of its provisions. Parties must perform their contractual obligations honestly, fairly, and in accordance with standards of integrity and fair dealing.

Common intention of the parties

It is insufficient to rely solely on the literal meaning of contractual wording; rather, the contractual provisions must also reflect the true and common intention of the parties at the time of concluding the contract.

Principle that “the contract is the law of the contracting parties”

Contracting parties are bound by the terms set out in the contract, and the contract may not be amended or terminated except by agreement of the parties or pursuant to the law. Where the wording of the contract is clear, there is no room for interpretation contrary to its apparent meaning.

The judgments of the higher courts in the UAE have further confirmed that the interpretation of contracts must aim to achieve contractual justice by verifying the extent to which the parties adhered to the principle of good faith and whether the execution of the contract was tainted by fraud or misrepresentation.

Conclusion

Precise drafting and proper interpretation of commercial contracts constitute two fundamental pillars for achieving legal protection and contractual stability within the commercial environment of the UAE. A clear and balanced contract significantly reduces the likelihood of disputes and facilitates the effective performance of contractual obligations.

In light of rapid economic developments, properly drafted contracts remain among the most important means of protecting commercial interests, ensuring the continuity of commercial relationships, and enhancing trust between contracting parties, thereby positively reflecting upon the overall investment climate.

Accordingly, engaging legal specialists and law firms to draft well-structured and carefully organised commercial contracts is no less important than the commercial aspects themselves, particularly for merchants and businesspersons seeking to protect their commercial interests.

Related Content

Legislation

- Federal Decree-Law No. 25/2025 Issuing the Civil Transactions Law

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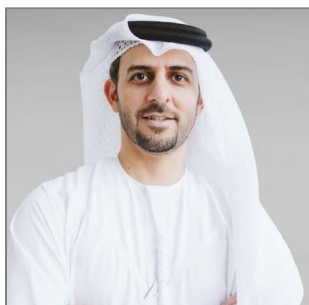
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Biography

Emad Elhabbak is a Senior Legal Advisor at SAT & CO with more than 25 years of legal experience in the UAE, advising and representing clients in civil, commercial, and maritime matters. He previously practiced at one of the UAE's leading local law firms, where he gained extensive litigation and advisory expertise.

His practice includes full-cycle litigation management, including case assessment, legal strategy development, drafting pleadings and memoranda, oral submissions, and enforcement proceedings. Emad is also experienced in drafting and reviewing commercial and maritime contracts, with a strong focus on regulatory compliance and protection of commercial interests.

In addition to litigation and contractual work, Emad advises corporate leadership through legal opinions, policy support, and strategic guidance. He is also skilled in negotiation, arbitration, and alternative dispute resolution, delivering practical and effective legal solutions tailored to client needs.



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Biography

Abubaker Karmustaji is a Co-Founding Partner and the Head of the Dispute Resolution Practice at SAT & Co, a leading law firm based in the United Arab Emirates.

An accomplished Emirati advocate, he has full rights of audience before all courts in the UAE and is authorised to act as a Private Notary.

Abubaker has built a strong reputation in the legal community for his depth of knowledge, sharp analytical skills, and strategic approach. He has a wealth of experience handling complex disputes across sectors including international shipping, oil & gas, property management, and financial transactions.

Abubaker is particularly adept at managing cases involving both civil and criminal litigation, often with significant cross-border elements. His clients value his methodical and results-driven approach, as well as his unwavering dedication to protecting their rights and interests.