



UAE’s New Civil Code: key implications for international trade and dispute resolution

[Choice-of-law rules; reaffirmed role of good faith in contractual negotiation, interpretation and performance; remedies and potential implications for the construction sector.](#)

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I. Introduction

On 30 December 2025, the United Arab Emirates (“**UAE**”) issued Federal Decree-Law No. 25/2025 (“**New Civil Code**”), which replaced Federal Law No. 5 of 1985 as subsequently amended in 1987 and 2020 (“**Former Civil Code**”), thereby providing a new and comprehensive regulation of civil law in the country. Following the recent enactment of the Code of Civil Procedure (2022) and the Competition Act (2023), the New Civil Code marks the latest step in the UAE’s broader strategy to confirm its position as a leading hub for international trade and investment through the modernisation of its legal system. The New Civil Code will come into effect on 1 June 2026.

As stated, the New Civil Code is a comprehensive legislative recodification of UAE civil law and, accordingly, it overhauls many rules. The following are particularly relevant to international trade and dispute resolution: (i) the amendments to the choice-of-law rules; (ii) the reaffirmed role of good faith in contract negotiation, interpretation, and performance; and (iii) the new provisions on civil law remedies.

II. Choice-of-law rules

The most important change to the UAE’s private international law is the preeminence now afforded to party autonomy in the selection of the law applicable to contractual obligations.

Article 19(1) of the New Civil Code provides that contractual obligations shall first of all be governed “in form and substance, by the law expressly agreed upon by the parties” and that, only absent an agreement, the applicable law will be that “of the State where the parties have a common domicile”. If neither criterion is met, Article 19(1) stipulates that the law of the country where the “principal obligation of the contract” is performed applies.

The new legislative framework is a significant departure from that provided for under the Former Civil Code, which envisaged that contracts were governed by “the law of the State in which the contracting parties are both resident if they are resident in the same state, but if they are resident in different states the law of the State in which the contract was concluded shall apply unless they agree, or it is apparent from the circumstances that the intention was, that another law should apply” (Article 19(1) of the Former Civil Code). In other words, party autonomy was envisaged as a mere alternative, applicable only if the parties were not “resident in the same State”; if they were, the law of that country applied. This led to the universal application of UAE law whenever the contracting parties were both resident in the UAE.

This reform is therefore a welcome development because it enables contracting parties to choose the most suitable law to govern their contractual relationships. Likewise, the repeal of the place of conclusion of the contract as a criterion to establish the applicable law – which is generally considered to be outdated and was heavily criticised – is a positive change.

Nevertheless, the reform has also certain drawbacks and criticalities.

First, the reference in Article 19 to the place where the ‘principal obligation’ is performed as an alternative criterion that applies only if the parties did not expressly choose the applicable law is problematic. Bilateral contracts involve by definition two or more obligations, and each may be considered ‘principal’ (e.g., the obligations to deliver the goods and pay the purchase price in a sale contract). As a result, the newly introduced criterion could lead to different laws being found applicable. By comparison, the test typically relied on under the EU Rome I Regulation hinges on the notion of ‘characteristic obligation’, which determines that the applicable law is that of the country where the party bound to perform the obligation habitually resides (to follow the abovementioned example, in a sale contract, the obligation to deliver the goods is considered ‘characteristic’).

In practice, the principal-obligation criterion will likely result in the frequent application of UAE law, at least in bilateral contracts that involve a UAE-based party. As one of those ‘principal obligations’ will most likely be performed in the UAE, there will likely be few instances in which a foreign law will eventually apply. Two factors may lead to this conclusion: (i) the limited scope of the common-domicile rule under Article 19(1), which, as noted, has preeminence over the principal-obligation rule; and (ii) the little consideration traditionally afforded to foreign law by UAE courts, which, even in the presence of an express choice by the parties, tend to treat it as a question of fact, not law.¹ It follows that, despite the positive changes, there will likely still be considerable barriers to the application of foreign law by UAE courts.

¹ UAE courts consider foreign law as a question of fact, rather than law, and place a high burden of proof, in terms of establishing its contents on the party that wishes to rely on it. In several instances, the Supreme Court disregarded the law chosen by the parties on the ground that it had not been sufficiently ascertained (see, e.g., Dubai Supreme Court of Appeal Decision No. 720 of 13 August 2025).

Second, Article 19 does not provide any express guidance on a number of significant issues, such as whether the law chosen by the parties should have any connection with the parties or the contract, whether it is possible to apply non-State rules (e.g., soft law instruments such as the UNIDROIT Principles), or the admissibility of *dépeçage* (i.e., the possibility of applying multiple governing laws to different aspects of the same contractual relationship).

Finally, although Article 19 will likely impact UAE court proceedings, its effects on the choice of substantive law in international arbitrations seated in the UAE – which are governed by Federal Law No. 6/2018 as subsequently amended (“**Arbitration Law**”) – will probably be more limited. As to the law applicable to the merits, Article 38 of the Arbitration Law provides that, absent an agreement between the parties, the tribunal “shall apply the substantive rules of the law it deems most closely connected to the dispute”. In other words, arbitrators determine the applicable law under Article 38 of the Arbitration Law, without being bound by the mechanism provided for by Article 19 of the New Civil Code.

III. The reaffirmed role of good faith

Even before the reform, the UAE was no stranger to the principle of good faith, notably in connection with contractual performance. Nevertheless, the New Civil Code expands and crystallises its role, in that it elevates good faith to a guiding principle for pre-contractual negotiations and contractual interpretation and performance.

Good faith in pre-contractual negotiations

One of the most significant features of the New Civil Code is the introduction of specific duties grounded in good faith during contractual negotiations, as set out in Articles 121 and 122.

Article 121 of the New Civil Code codifies the relevance of good faith across all stages of contract negotiation – including proposal, conduct, and termination – providing that a party negotiating in bad faith “shall be liable for compensation for the actual damage sustained by the other party” (**Article 121(3)**). In particular, **Article 121(4)** stipulates that voluntary failure to provide a ‘material statement’ as to any matter that could affect the validity of the contract being negotiated amounts to a breach of the general duty enshrined in paragraph 1. Claims for damages resulting from the breach of that duty do not include ‘expected interests’ or ‘lost opportunities’, unless the parties otherwise agree (**Article 121(3)**).

Most notably, **Article 122(1)** sets out a statutory duty for both parties to disclose ‘material and decisive information’, i.e., “[information that] has a direct and necessary connection to the content of the contract or the status of the parties”. Clauses that limit or exclude this disclosure duty are void, and breach of this duty may result in the contract being annulled.

Good faith in contractual interpretation and performance

Contract interpretation and performance were also significantly changed in the same spirit.

As to contractual interpretation, **Article 119** sets out the basic rule that if the contractual terms are clear, the parties should give effect to them, without the need to refer to any subsidiary principles. In the case of ambiguity, the same provision gives relevance to the contract's commercial context to assess the parties' 'common intention', directing decisionmakers to consider the 'nature of the transaction' and 'honesty and trust'. The most significant changes concern the interpretation criteria under **Article 120** of the New Civil Code: contracts must now be interpreted in a manner that ensures 'justice and good faith' (**Article 120(11)**) and is favourable to the debtor or, in any case, 'the weaker party' (**Article 120(13)**).

As to contractual performance, **Article 221(1)** enshrines the principle whereby a contract "must be performed in accordance with its contents and in a manner consistent with the requirements of good faith". Furthermore, Article 221(2) provides that performance must not be limited to a contract's 'express terms' but should also include any duties mandated by the 'law, custom and nature of the obligation'. Although these provisions were also in the Former Civil Code, they reinforce the idea that good faith is a key principle governing all stages of contractual negotiation and performance. If read together with the new rules on remedies (addressed below), the amended framework is likely to have relevant consequences for international disputes involving UAE law.

IV. Remedies: potential implications for the construction sector

Finally, the New Civil Code has also modified the framework for the remedies available to courts and arbitral tribunals, with potential implications for all disputes, and particularly those arising in the construction sector.

The first major change is a more rigorous delineation of the abuse-of-rights doctrine, which, despite being already present in the Former Civil Code, is now fleshed out in greater detail. **Article 106(1)** sets out the position that liability shall be incurred by anyone who exercises a right 'unlawfully', while **Article 106(2)** analytically identifies the circumstances in which a right is deemed to have been exercised in such a manner, i.e., in the case of: (i) 'malicious intent'; (ii) the right holder's interest being 'contrary to the provisions of the law, public order, or public morals'; (iii) interests 'disproportionate to the harm inflicted'; or (iv) exercise of a right which "exceeds custom and usage".

The provisions on liquidated damages are in that same spirit of equity and proportionality. More specifically, **Article 340(2)** stipulates that courts may reduce the agreed sum if they consider it 'exaggerated' or if the underlying obligation has been 'partially performed'; in addition, courts may reduce liquidated damages or stop recovery if the creditor's fault contributed to, or absorbed, the loss.

Conversely, the creditor may now seek more than the agreed sum in the case of the debtor's 'fraud or gross fault' (**Article 340(4)**); any attempt to derogate from this provision is void (**Article 340(5)**). These rules supersede those in the Former Civil Code, which included a broad provision whereby courts could reduce liquidated damages "so as to make the compensation equal to the damage" (Article 390 of the Former Civil Code).

In a similar vein, **Article 224** of the New Civil Code addresses the contractual imbalance resulting from exceptional, general circumstances unforeseeable at contracting that have resulted "in the performance of the contractual obligation becoming onerous for the debtor such that it threatens them with heavy loss". Whereas the Former Civil Code granted courts the power to bring excessively burdensome obligations within 'reasonable limits', courts may now also "order the rescission of the contract" altogether.

As anticipated, the above rules could directly impact both the drafting of contracts involving UAE law and any related disputes. This might be particularly evident in the construction sector, considering how frequently liquidated damages clauses and exceptional circumstances are invoked in this context. Together with the reaffirmed role of good faith, these provisions create a framework in which the parties' interests will be carefully balanced by courts and arbitral tribunals when interpreting contractually agreed remedies.

With regard to remedies in relation to construction contracts, the New Civil Code sets out a more rigorous and effective framework compared to the Former Civil Code.

Article 816(3), for example, provides that the contractor must 'immediately' notify the employer of any defects in the materials provided or any other circumstance that could affect the works' proper execution; failure to do so renders the contractor "liable for all consequences arising from his negligence". Such provision introduces a mandatory time bar requirement that was absent from the Former Civil Code. **Article 818(2)** streamlines the termination of the contract by employers because of a breach by the contractor. In the Former Civil Code, the employer was entitled to terminate the contract as a consequence of the contractor's failure to remedy its default by the prescribed deadline, but only after successfully bringing a claim before a court. In the New Civil Code, this requirement no longer exists: the employer is now afforded the right to terminate the contract with immediate effect if the contractor is unable to timely remedy its default.

V. Conclusion

The New Civil Code positively addresses the Former Civil Code's shortcomings, with tangible progress in relation to choice-of-law rules, good faith in contract negotiation, interpretation, and performance, and proportionality-driven remedies. As to remedies, the most significant provisions concern the powers attributed to courts and arbitral tribunals to modify the parties' bargain by reducing (or increasing) liquidated damages or amending the content of an obligation on proportionality and good-faith grounds. Parties to construction contracts may also be interested in the amended framework governing time bars and contract termination. Overall, the New Civil Code constitutes a further step towards aligning the UAE framework with the most modernized civil law jurisdictions worldwide, which may further boost investment and trade in the country.



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