

# Restarting the Portuguese markets

TUESDAY, 04 JANUARY 2011 15:05



**The sovereign debt default concerns that surrounded some European Union (EU) Member States at the start of 2010 have also characterised the year end. Talk of eurozone contagion following the EU and International Monetary Fund's (IMF) €145bn bailout of the Greek economy in April may have subsided over the summer but it is once again an area of concern. And with Portugal firmly in the spotlight the challenge now is to find ways to restart the Portuguese economy**

For Portugal's law firms the year ahead therefore presents one of relative uncertainty, lawyers report that matters continues to adversely affect international investor confidence in Portuguese opportunities, says Managing Partners at the leading firms. Public spending cuts mean a reduction in projects and Government-led work, while a depressed economy infers a continuing focus on simply helping companies to stay alive.

"Every day we are surprised by developments as there appears to be no clear rationale when or why things will improve or worsen. It is fair to say however that the poor performance of the Government to reduce public spending has not inspired the markets, the rating agencies or the level of confidence in the development of the economy," says Manuel Santos Vítor, Co-Managing Partner of Portugal's largest firm PLMJ.

Portuguese businesses are doing their best to overcome difficulties, especially by looking for opportunities outside Portugal, but lawyers are keen to emphasise that country's very real economic challenges should not be over-stated.

"Contagion suggestions should be taken very seriously but they should not be exaggerated. The current scenario shows that politicians are ill-equipped to deal with market reactions to their acts and declarations. Furthermore, negotiating the implementation of an EU-wide sovereign

restructuring and insolvency framework in the midst of a media and political frenzy has proven extremely difficult, while EU governments seem to create rules as they go along," says Diogo Leónidas Rocha, partner with Garrigues.

But there may be good news behind the bad. Uncertainty creates an increased demand for risk management, and greater scrutiny of proposed deals by lawyers, while there remains a constant flow of restructuring, insolvency and disputes work. Similarly, the Government's need to seek new sources of finance may lead to a new wave of privatisations and investors gambling on the market 'bottoming out'.

"The challenges that the Portuguese economy and the eurozone are facing will most certainly give room to structural changes. This will imply acquisitions and most certainly the restructuring of important company groups," says Frederico Pereira Coutinho, partner with Cuatrecasas, Gonçalves Pereira in Lisbon.

## Under scrutiny

Since the Greek bailout there has been almost constant pressure on many of the EU's smaller

Los abogados en Lisboa están de acuerdo en que los próximos años seguirán siendo difíciles para la economía Portuguesa y, por lo tanto, para sus despachos. El reto está en mantener los ingresos e incluso aumentarlos a pesar de la crisis. Para muchos, los objetivos son buscar nuevas oportunidades fuera del país, forjar o reafirmar sus conexiones internacionales e incluso encontrar nuevos mercados, especialmente en la parte lusa de África y en Brasil.

economies, but it was Ireland's €85bn joint EU and IMF bailout in November that has prompted renewed concern over Portugal's economic outlook.

Portugal's Prime Minister, José Sócrates, has questioned the validity of such fears and rallied against "speculative" movements leading to rising borrowing costs. The Government has already announced ambitious plans to reduce the current 7.4% deficit to 4.6% by 2011, including through the delay or cancellation of major public projects such as the new Lisbon airport and high speed rail links between Lisbon-Porto and Porto-Vigo, a 5% reduction in public sector pay and by increasing VAT to 23%.

"Although Portugal is indeed in a weak position it is not as vulnerable as Greece. I believe the rating agencies were too tough with us. It is too early to speak about green shoots but it is important that the right decisions are taken to restore market confidence and in order to reactivate the Portuguese economy," says Duarte Garin, Managing Partner of Uría Menéndez - Proença de Carvalho.

Others take a different view. "In my opinion the suggestions of a wider European economic contagion were not exaggerated, we are witnessing a rapid spread of investor mistrust to the peripheral EU economies, regardless of the structural differences that characterise them," says Jorge Santiago Neves, partner with Gómez-Acebo & Pombo in Lisbon.

### **A changing landscape**

The recurring issue affecting businesses in Portugal is access to capital, say lawyers. The current focus of domestic banks on maintaining, or expanding their liquidity, means that they are taking an increasingly conservative approach to lending. Also important however has been the impact of the Government's austerity package on companies with a predominantly domestic focus, especially those involved in public projects.

"With traditional financing being affected, buyers need to resort to creative alternatives, or envisage different structures, such as joint ventures, or even acquiring minority stakes, or swapping assets. Of course, in many cases buyers' ambitions are still simply restricted by the adverse financial climate," says Antonio de Mendonça Raimundo, Head of Corporate at Albuquerque & Associados.

Proposed changes affecting income tax rates and an increase in VAT will also have a huge impact on business, say others.

Such developments mean that law firms inevitably also have to react to changing types of activity and search out new opportunities. Firms that have previously had a strong focus on projects and administrative issues, for example, are already facing the prospect of a dramatic reduction in work (and revenues) although close ties to the Government may still however prove profitable.

"The measures taken by the Government to reduce the public deficit will obviously impact on major projects. Nevertheless, such measures also mean an opportunity for lawyers, especially in M&A, as Portuguese companies may become more vulnerable to acquisitions. Environment and renewable energy projects may also provide some of the much needed 'green shoots'," says Fernando Ferreiro Pinto, partner with leading public law-led firm Sérvulo.

### **International growth**

The major economic opportunities for many Portuguese businesses and law firms now however lie abroad, believe many Managing Partners.

"I am convinced that there are indeed clear signs of a positive evolution of the Portuguese economy, particularly in those business sectors where exports are developing strongly – wine, olive oil, textiles and shoe manufacturing – but also in distribution, tourism and energy," says Pedro Rebelo de Sousa, Managing Partner of Sociedade Rebelo de Sousa & Advogados (SRS Advogados), the former Lisbon office of Simmons & Simmons.

Others however question how significant an export-driven recovery may be. "The year began with

Portugal being downgraded by the international ratings agencies, unemployment remains high and the country's weak competitive position leaves little scope for businesses to export their way out of the economic gloom," says Claudia Santos Cruz, Managing Partner of the Lisbon office of Angola-based AVM Advogados.

For some, the answer may therefore be found in the ability of Portuguese companies to develop alternative lines of business in new or emerging markets. Significant for law firms also is their ability to cater to the local needs of foreign businesses as their own domestic markets recover.

"We believe the economy will ultimately improve in 2011 as a result of the Government's renewed discipline in public spending but also significant will be the recovery of other European economies, and the US, where green shoots appear to be much more visible. As a small open economy we will always depend heavily on the performance of others," says Santos Vítor at PLMJ.

Many law firms are already betting on the continuing international expansion of Portuguese businesses.

"A major trend we see is for more and more companies seeking to invest abroad. Many of those that did so in the last decade are now seeing that strategy paying off with reduced domestic exposure," says Nelson Raposo Bernardo, Managing Partner of Raposo Bernardo.

### **Opportunity knocks**

It is inevitably towards Angola, Mozambique and Brazil that many of Lisbon's law firms are looking, but also Cape Verde and Sao Tome & Principe, as well as China and Macau as a conduit for inbound and outbound Chinese investment to the lusophone countries.

Among the leading Lisbon firms already with a formal presence in Angola are Miranda through Fátima Freitas Advogados, FCB&A Advogados, which operates in association with Eduardo Vera Cruz Advogados, Abreu Advogados through FBL Advogados, PLMJ alongside GLA - Gabinete Legal Angola, and Franco Caiado Guerreiro & Associados.

"We see Portuguese and foreign clients increasingly interested in what Angola has to offer but it is not an easy place in which to do business. You need to demonstrate experience, and the major local players have also to accept that you are someone credible with which they are comfortable dealing," says João Franco Caiado Guerreiro.

A number of other firms are also developing their connections, including Sérvulo and Morais Leitão Galvão Teles Soares da Silva & Associados (MLGTS), while SRS Advogados this year announced an association with Luanda-based LCF-Legal Counsel Firm, as well as ties with Cape Verde's Amado & Medina and 22-lawyer Mozambique firm Sal & Caldeira.

To date it is Vieira de Almeida that has established one of the strongest Mozambique alliances, with Maputo-based Furtado Bihka Loforte Papat & Associados (FBLP), while PLMJ last year signed an accord with MGA in the city, and Nelson Raposo also operates locally. Cuatrecasas, Gonçalves Pereira has longstanding ties but is believed to be searching for a new local affiliate.

Some though caution that Africa is no panacea to firms' domestic troubles. "Many firms seem to have suddenly realised that Angola or Mozambique are on the map, as everyone around us appears to be taking on a desperate 'light at the end of the tunnel' approach," says António Vicente Marques, Managing Partner of AVM Advogados in Luanda.

Firms have to have a long-term strategy for Africa that ultimately capitalises on both inbound and outbound opportunities, say experts. Miranda notably has over 30 years' experience on the Continent, and recently expanded to Gabon, while AVM is a firm that is bucking the general trend expanding from Angola to Portugal, where it will soon open a new office in Porto, and will launch in Mozambique in early 2011.

Brazil too is a market of continuing emphasis for Portuguese businesses and thus law firms. But

while some may question the ability of Lisbon-based lawyers to add anything extra to clients' local needs, established ties continue to pay dividends for a number of firms.

MLGTS has an increasingly close association with Brazil's Mattos Filho Veiga Filho Marrey Jr e Quiroga, SRS Advogados has long-standing relations with Veirano Advogados, Vieira de Almeida is aligned to leading firm Pinheiro Neto, and PLMJ with TozziniFreire. Linklaters likewise now has a São Paulo presence, while Garrigues has this year cemented an association with 35-lawyer Rio de Janeiro firm Schmidt Valois Miranda Ferreira & Agel – Advogados (SVFMA), and applied to operate as a foreign law firm there.

But while the challenge for many firms is to capitalise on domestic clients' international growth, others in Lisbon are targeting inbound opportunities. Carlos Cruz Advogados has become the first Portuguese law firm to open in China, in Shanghai, while MLGTS has added Macau-based MdME to its Legal Circle of associated firms.

Others are taking a more selective, practice led approach intended to develop their domestic practices. "We are not intending to expand to the former Portuguese colonies but do wish to attract more Brazilian clients," say Maria de Lourdes Lopes Dias, partner at niche IP and life sciences firm Lopes Dias & Associados.

### **The bottom line**

The challenging economic situation has however added to the pressures being felt by clients towards their law firm advisers, say Managing Partners.

"Law firms must adapt to new client needs, which seem to be oriented towards fee structures based more on value of service than cost, but the complexity of an economy in crisis calls for complex legal issues. In these times, clients seek quality advice because normally they are in situations where there is no room for mistakes," says Pereira Coutinho at Cuatrecasas.

But firms are clearly feeling the pressure, with some cracks having appeared. The launch of Campos Ferreira Sá Carneiro (CFSC) last year was perhaps the most high profile product of firm departures, combining teams from PLMJ and Uría Menéndez.

The firm has already won a lead mandate in the ongoing battle by Brazilian companies for control of Portuguese cement producer Cimento, while its impressive offices in the centre of Lisbon are a statement of further intent, says partner Maria Castelos.

"We see the need to be in a high profile location, in the business district and close to our clients, but we do not see the need for a large structure for the type of work that we are targeting. We may add dedicated competition and public law capability but there is no desire to expand away from our core areas of expertise."

Recent months have also seen the departure of a team of seven lawyers from ABBC, led by leading IP partner Cesar Bessa Monteiro and corporate partner Carla Martins Branco, to join Pedro Pinto Reis & Associados, which now operates as Pedro Pinto Bessa Monteiro Reis Branco (pbbr). The departures have however not stopped ABBC's momentum having since signed a referral agreement with DLA Piper.

"There has been, and there will always be firms splitting. Tougher times make certain disagreements within partnerships more evident and facilitate break-ups," says Duarte Garin, Managing Partner of Uría Menéndez - Proença de Carvalho, the firm's name reflecting the integration of prominent boutique firm Proença de Carvalho & Associados.

Some suggest however that it is those firms that grew fastest during the boom years that will now experience the most obvious problems as competition increases and it becomes harder to maintain revenue and profit levels.

"Boutique firms have not been subject to the same degree of fee pressure in their main areas of

expertise since bespoke services are less prone to dumping strategies, which find more favour in a commoditised services environment – generally the ‘playground’ of the larger firms,” says Pedro Cardigos, principle of corporate and finance-led Cardigos & Associados.

Others emphasise that size continues to ensure a practice balance in the face of the corporate downturn, and that they are not exposed to the adverse effects of the collapse of a disproportionately large client.

“What continues to be important is to have a spread of capabilities that means if one area is less busy then others may make up for it. The focus remains on building an institution that is more than the sum of the lawyers we have, and the clients we currently serve,” says Miguel Teixeira de Abreu, Managing Partner at Abreu Advogados, one of Portugal’s largest firms.

### **Founding principles**

Firms will inevitably see changes over 2011 whether as a result of external or internal issues. The challenges for Managing Partners are therefore still how to react to current developments while keeping to their longer-term strategic goals.

Some of Lisbon’s largest firms may also have to manage the transition of power from the founders to a new generation of leaders. Vasco Vieira de Almeida is expected to retire from Vieira de Almeida over the coming year, while Miguel Teixeira de Abreu will step down as Managing Partner at Abreu Advogados at the end of 2010, to return to full-time practice.

Some suggest that the departure of some of the best known names in the legal market may however enable new stars to step out of the shadows, and in some instances help offset potentially lower revenues by spreading the equity further.

“Portuguese firms cannot have outside investment so with credit running scarce it seems that partners will have to learn to live with less, at least for the time being,” says João Espanha, Managing Partner of Espanha e Associados.

But a more difficult economic environment may yet bring new and expanded opportunities. “Law firms must adapt or die. Innovation and client care can make the difference between losing clients or not,” says José Alves Pereira of Alves Pereira & Teixeira de Sousa.

Some firms already report increasing demand for advice on the impact of regulatory and tax changes, while restructurings and falling company values means the likely continuation of divestments and acquisitions for those committed to the Portuguese market.

Likewise, the Government’s proposals to raise funds through the privatisation of state-businesses may also generate in-demand M&A mandates.

“We will have to continue to find new opportunities, new business, and be more aggressive. As everyone says: ‘do more for less’,” says Manuel Santos Vitor at PLMJ.

Firms have therefore to continue to adapt to whatever the economy presents them and their clients, who in the face of increasing business pressures are looking for ever more creative ways to manage their needs. The prospect of EU or IMF intervention may not be palatable but lawyers accept that what is ultimately required is confidence however it comes.

The challenge remains therefore to maintain fee and revenue levels in the face of tougher competition and to convince clients that for a top quality service they need to pay more at home and abroad.

“I’m a firm believer that during difficult times, clients appreciate more than ever value added and efficient legal assistance and whether or not they can trust you. That’s the kind of advice we must still aim to provide on a daily basis,” concludes Garin at Uría Menéndez - Proença de Carvalho.