PORTUGAL

Legal Business
June 2012

GOING PRIVATE

Photograph SHUTTERSTOCK

Despite its worst recession in decades, Portugal's recent privatisation programme has sparked renewed investment interest. *LB* asks whether selling off the country's prized assets can cure the woes of its legal market

JULIAN MATTEUCCI

With Portugal's GDP expected to fall by 4.5% in 2012 and a series of hikes on VAT, corporate and individual income tax included in the 2012 Portuguese state budget, the country's economy hardly appears inviting. Following its 2011 €78bn bailout (the Troika Memorandum) by the European Commission, the European Central Bank and the International Monetary Fund, Portugal has been forced to introduce a comprehensive privatisation programme that includes the energy and airports sectors, as well as the insurance and media industries.

Crucially, interest in the country's crown jewels has been strong. 'As the country implements the bailout plan, companies are being privatised and foreign investors are flocking in,' says João Vieira de Almeida, managing partner at Vieira de Almeida & Associados (VdA).

A headline privatisation involving a competitive bid for one of the most important companies in Portugal was the December 2011 €2.7bn sale of almost ▶

all of the state's shares in Energias de Portugal (EDP), which is owned by Parpública – a state-run management holding company of the Portuguese Republic – to China Three Gorges Corporation (China Three), a developer of hydropower projects. EDP is active in the field of electricity generation, supply and distribution, and the supply and distribution of gas. China Three – which trumped competitive bids from Germany's E.ON, Brazil's Eletrobrás and Companhia Energética de Minas Gerais (Cemig), all of which presented and negotiated a strategic project for EDP – acquired a 21.35% stake in EDP, representing the largest-ever Chinese investment in Europe. Skadden, Arps, Slate, Meagher & Flom corporate partner Gregory Miao, who divides his time among the US firm's Shanghai, Beijing and Hong Kong offices, led the team advising China Three. Portuguese firm Serra Lopes, Cortes Martins & Associados was local counsel to China Three, led by partner Luís Miguel Cortes Martins.

As a regular adviser to the government, Morais Leitão, Galvão Teles, Soares da Silva & Associados (MLGTS) has picked up the lion's share of roles throughout the privatisations, with partners Nuno Galvão Teles and Rui de Oliveira Neves leading the representation of Parpública and EDP. 'We have been active in energy for over 15 years so we were the obvious choice as counsel for the government's privatisations,' says de Oliveira Neves.

Naturally the privatisations also produced work for firms acting for unsuccessful bidders or for clients that showed interest in the early stages. PLMJ partner Jorge de Brito Pereira led the advice to Eletrobrás, Linklaters' Lisbon partner Jorge Bleck acted for E.ON, and Cuatrecasas, Gonçalves Pereira's Lisbon co-managing partner, Diogo Perestrelo, represented Cemig. Campos Ferreira, Sá Carneiro & Associados' (CS Associados) partners Francisco Sá Carneiro and Bernardo Abreu Mota, and VdA's partners João Vieira de Almeida, Pedro Cassiano Santos and Vanda Cascão advised another European utility company that ultimately decided against submitting an offer.

Next in line was the second privatisation phase of the national power grid, Redes Energéticas Nacionais (REN). In February 2012, the government sold a 40% stake in REN for an aggregate price of almost €600m, with China's State

NO VACANCY

In most legal markets around the world, the downturn has prompted the offloading of transactional lawyers. Portugal is no different. But where Portuguese law firms differ from their Anglo-Saxon counterparts is their reluctance to admit to such measures. 'So far, firms have been generally reluctant to announce redundancies but they are looking at themselves internally and implementing changes in their structures, both at partner and associate levels,' says Martim Morgado, a partner at Campos Ferreira, Sá Carneiro & Associados. 'How effective these measures will be is yet to be seen.'

Unlike Linklaters, which publicly announced the departures of a number of lawyers from its Lisbon office in 2010, transparent communication of redundancies and selective layoffs of lawyers does not exist in Portugal, according to Raposo Bernardo's managing partner, Nelson Raposo Bernardo. Redundancies do happen though. 'Just compare the number of fee-earners in each law firm year-in, year-out, to understand the attrition levels,' says Rui Amendoeira, managing partner at Miranda Correia Amendoeira & Associados.

Unsurprisingly, hiring policies have become even more rigid. 'We have to be conservative towards staffing levels right now,' says Diogo Leónidas Rocha, a partner at Iberian firm Garrigues. 'If somebody leaves, we do not necessarily replace them. We are also being more aggressive than ever about taking on only the best lawyers.'

Interestingly, some large firms are receiving more CVs now than at any time in the past. This is because there are more lawyers out of work who are available to join the big firms, which are often seen as safer harbours. There is also dissatisfaction among associates at some firms, who have been passed over for partnership and whose remuneration levels have been flat – if not reduced – for at least the last three years.

‘As the country implements the bailout plan, companies are being privatised and foreign investors are flocking in.’
João Vieira de Almeida, VdA

Grid International Development (SGID) acquiring a 25% share and the Oman Oil Company (OOC) purchasing a 15% stake. MLGTS’ Teles and de Oliveira Neves again acted for Parpública, and PLMJ’s Pereira advised REN. Linklaters’ Bleck and Diogo Plantier Santos represented SGID, while Iberian firm Gómez-Acebo & Pombo – which opened in Lisbon in 2010 – led the advice to OOC through partners Fermín Garbayo Renouard and Luisa Carrilho da Graça.

These privatisations were particularly complex because of the various goals that the government wanted to achieve and the parallel negotiations with several bidders. In particular, MLGTS’ Teles and de Oliveira Neves had to ensure that they achieved a level playing field between the bidders so that they could put forward the best offers. ‘The legal structuring of the project and the negotiations proved to be very demanding exercises,’ says de Oliveira Neves.

Teles and de Oliveira Neves also had to take a strategic view on behalf of these state-owned companies. The

STILL THEY COME

Despite Portugal's woes, certain international law firms still regard the country as an important place to establish operations. In October 2011, full-service Portuguese firm Rui Pena, Arnaut & Associados (RPA) signed up to the CMS network, with the local outfit now known as CMS Rui Pena & Arnaut (CMS-RPA).

From RPA's perspective, António Payan Martins, a partner at CMS-RPA, says that the tie-up is the result of a strategic move that aims to offer its international clients based in Portugal an integrated solution for internationalisation in Europe and in other geographies. 'We also felt that, as an independent Portuguese law firm, we needed to have more depth and reach, as well as more Iberian and European drive.' Furthermore, the union marked an opportunity for the Lisbon office to act as an access point to Portuguese-speaking Africa for European companies. 'CMS was the ideal partner for this strategy. The integration within CMS' legal organisation has been smooth, as well as a tremendous success,' he says.

UK-based Kennedys, best known for litigation and dispute resolution, likewise descended on Portugal in 2011 when it merged with local firm Almeida & Athayde, with whom it was associated for the previous six years. It was not a decision taken lightly. Almeida & Athayde and Kennedys held a great number of talks before coming to an agreement. 'But Kennedys is one of the best firms in the UK,' says partner Paulo Cruz Almeida. 'It has been both an honour and a challenge to team up with them.'

It is early days but from Almeida's perspective, the merger will help the Portuguese office to tap into markets that are new to it – such as the UK – and new types of clients. As for emerging markets such as Angola – expected to grow by 9% this year – and Brazil, it is expected that the Lisbon office's knowledge of such countries will add value to Kennedys.

So far, expectations of the merger have been met. Although transactional work is slow, Kennedys has been especially busy with debt collection work for banks and litigation matters.

Almeida envisages the firm to keep growing in Portugal. Nonetheless, Kennedys is not seeking to become the largest legal practice in the country. 'We wish to stay fairly low profile,' he says. 'Our priority is to keep clients satisfied through high-quality legal services.'

The response to the new entrants has been warm. Pedro Pais de Almeida, a partner at Abreu Advogados, welcomes the newcomers: 'In terms of transparency, I believe that it is important for independent law firms, like ours, that the international affiliations of Portuguese firms are publicised and well known in the market.'

As to whether more foreign legal practices are likely to follow suit, some believe that CMS and Kennedys' arrivals were opportunistic moves, rather than a trend of international law firms set to invade the Portuguese legal market. 'Most international law firms interested in this country establish alliances or best friends networks and the only non-Iberian international legal practice that actually runs a local law office is Linklaters,' says Rui Amendoeira, managing

privatisations were not just about getting cash in, but also concerned the future of the companies once the government became a residual shareholder, and which bidders best suited the companies' prospects. Additionally, these were the first privatisations that the government had conducted under a new legal framework so their success was important in leading the way for the remainder of the privatisation programme.

At the end of March 2012, another state sale was sealed when the European Commission gave its blessing to Portugal's €40m disposal of debt-ridden nationalised bank Banco Português de Negócios (BPN) to the Portuguese subsidiary of Angolan bank BIC. MLGTS, led by Teles and de Oliveira Neves, was again selected by Parpública. Cuatrecasas' partners Maria João Ricou, Duarte Abecasis and Maria da Glória Leitão advised Caixa Geral de Depósitos (CGD) as selling shareholder. PLMJ partners de Brito Pereira and Magda Viçoso represented BIC.

'Although labour reform in Portugal was long needed the workforce's mentality may take longer to change.'

Inês Reis, pbbr

Because of the quality and strategic nature of the assets involved, the appetite of foreign investors has been particularly keen, especially from economies that are in growth mode or are culturally similar to Portugal. PLMJ's de Brito Pereira believes that inbound investment from China is growing and that this will be a trend for the forthcoming years.

With low or stagnant growth for several Portuguese law firms, and with practices competing for prime work by cutting their fees, the privatisation programme could not have been better timed. But Portugal's top lawyers are also realistic about the limited opportunities presented by the programme. They know that once the state's most prized partner at Miranda Correia Amendoeira & Associados.

Although Portuguese firms tied to exclusive legal networks/international firms will benefit from the international experience, Abreu Advogados' de Almeida also believes that, ultimately, the Portuguese legal market will not be overly affected by either CMS' or Kennedys' presence. 'The number of players is still the same,' he says.

Portugal's Azevedo Neves, Benjamim Mendes, Carvalho & Associados (ABBC) entered into an exclusive agreement with DLA Piper at the start of 2011. Orson Alcocer, a Madrid-based partner at DLA, suggests that ABBC is one of the most dynamic firms in the Portuguese legal market, and shares DLA's commitment to providing the highest quality business advice and service to clients. 'Over the last 15 months, the association has proved to be very successful, both in relation to Portugal and to other Portuguese-speaking countries,' he says.

assets have been sold off, the law firms with enhanced survival prospects will be those that have not only invested properly in alternative service areas such as litigation, insolvency, restructuring, employment law and taxation, but that have also carved out a winning international strategy (see 'Getting away', page 78).

REALITY BITES

With several law firms invited to participate in the privatisation beauty parades, a great deal of legal work has been up for grabs. Diogo Leónidas Rocha, a Lisbon-based partner at Garrigues, believes that it is important to be on the privatisation deals as they boost the credentials of firms. But he also says that the work in itself is not especially challenging from a legal perspective. 'When the privatised company is already listed, it is simply a matter of buying the shares of another company. Ultimately, Garrigues is more interested in investing long-term in its existing client relationships, rather than one-off deals.'

The pace of the privatisations has disappointed some legal advisers. 'A few law firms will be kept busy for a while but only a small part of the privatisation programme has been implemented with speed,' says Rui Amendoeira, managing partner at Miranda Correia Amendoeira & Associados (Miranda).

It is also important to distinguish between the foreign investors attracted by the privatisation programme in the hope of buying good companies and those who do not wish to invest in Portugal's real economy due to the current uncertainty plaguing market confidence. The state sell-offs aside, Pedro Pais de Almeida, a partner at Abreu Advogados, says that more foreign investors have recently closed down their businesses in Portugal – and are leaving the country – than new investors have started up new enterprises. For example, Japan's Nissan announced the suspension of its lithium ion battery factory project in December last year, which would have injected €156m into the national economy. There have also been cases where large Portuguese holding companies have redomiciled their holding companies to Luxembourg or other jurisdictions in order to reduce their tax burdens.

Consensus is that the privatisation programme has proved interesting for stimulating outside investment. 'Foreign investors held back for a while,' says Duarte Garin, a Lisbon-based partner at Iberian firm Uría Menéndez – Proença de Carvalho (Uría Menéndez). He believes that investors were waiting to see what the first signals would be once the current austerity programme was set in motion. 'The signs are positive in so far as most of the harsh measures were implemented without any social unrest,' Garin says. 'It is evident that Portugal is prepared to do what it takes to extract itself from the situation into which it has fallen.'

Many contend that Portuguese assets currently represent a buying opportunity. João Caiado Guerreiro, a partner at Caiado Guerreiro, is seeing certain clients acquire real estate, as well as a variety of solid companies and other assets. 'In particular, we are seeing a new kind of investor coming from emerging markets such as Brazil, Angola, South Africa and Asia (especially China), and they are asking: "Can we really buy such assets at these prices in an EU country?"' he says.

SIDE STEP

Despite the economic crisis and the conservative nature of Portugal's legal market, some firms have recently invested in lateral hires. In June 2011, Manuel Magalhães joined Sérvulo & Associados as a senior partner from Cuatrecasas, Gonçalves Pereira's Lisbon office, becoming – together with Paulo Câmara – co-head of Sérvulo's financial and governance department and bringing with him a team of five associates.

The arrival of Magalhães' team has significantly heightened Sérvulo's international practice, as well as its banking and finance work. 'Almost a year after this last move, I can say that Sérvulo's finance team offers clients a unique synergy in transactional and regulatory work, covering all finance and corporate governance areas, in particular banking, capital markets and insurance,' says Lino Torgal, an executive partner with Sérvulo.

From Cuatrecasas' perspective, Lisbon co-managing partner Diogo Perestrelo tells *LB* that the departures had no relevant impact. 'Co-managing partner Maria João Ricou had a strong finance group and was easily able to lead the firm's banking practice,' he says.

Occasional spin-offs have also occurred. In 2011, five-partner firm Pares Advogados was launched by corporate partners Luís de Gouveia Fernandes, João de Freitas e Costa and Rita Maltez, who all left Abreu Advogados. Abreu additionally lost competition partners Miguel Mendes Pereira to Vieira de Almeida & Associados, and Rui Pereira de Melo, who founded RPM Advogados.

'The departure of the five partners did not affect last year's activity in any way,' says Abreu's managing partner Miguel Castro Pereira. 'On the contrary, it resulted in an increase in the revenue earned per partner.'

Additionally, 2012 saw the establishment of MC&A, which was founded by Vítor Marques da Cruz after he left F. Castelo Branco & Associados.

'We have to be conservative towards staffing levels right now. If somebody leaves, we do not necessarily replace them.' Diogo Leónidas Rocha, Garrigues

UNDER ATTACK

For some law firms a recent series of high-profile takeover bids has been more interesting than the privatisation programme. At the end of March, Portuguese company Brisa – Auto-estradas de Portugal, one of the largest private motorway operators in Europe, announced a €700m offer for its shares by Tagus Holdings, a tender offer vehicle led by Portugal's José de Mello and Arcus European Infrastructure Fund, which together already hold 53.81% of Brisa. Led by partner Maria Castelos, CS Associados is advising Arcus, and Linklaters partner António Soares is representing Tagus. Sérvulo & Associados is Brisa's sole legal adviser, led by corporate partner Fernando Ferreira Pinto and finance partner Paulo Câmara; José de

Mello has been advised by VdA partner Pedro Cassiano Santos; and MLGTS partner Luís Branco advised the bank syndicate that is financing the tender offer.

Some Portuguese companies have come under attack from overseas because Portuguese shareholders have struggled with punishing debt and have liquidity issues. Consequently, it is easier to buy up their shares. 'It is an excellent time to bid for good Portuguese companies, whose prices are low,' says Lino Torgal, an executive partner at Sérvulo.

Portugal's largest cement producer Cimpor is a recent, high-profile example. It is currently on the receiving end of its third takeover attempt in recent times. In late March, Brazil's second-largest construction group, Camargo Corrêa made a €2.48bn offer for the remaining 68.1% it does not own in Cimpor. CGD said it would sell its 9.6% holding in Cimpor to Camargo if Votorantim, Brazil's largest cement producer and owner of 21.2% of Cimpor, agreed to end a shareholders' agreement under which Votorantim has a right of first refusal to buy CGD's stake.

'Cimpor is definitely one of the most attractive, listed Portuguese companies and this is one of Portugal's most relevant capital markets deals of the last few years,' says Uría Menéndez's Garin.

PLMJ banking and finance and capital markets partner Viçoso is representing Cimpor. Uría Menéndez is acting for Camargo, led by partner Daniel Proença de Carvalho. CS Associados, which advised Votorantim in the acquisition of its qualified shareholding in Cimpor from Lafarge in 2010 and the shareholders' agreement with CGD, has since continued to advise the company. Its partners Fernando Campos Ferreira and Martim Morgado now lead the team advising on the ongoing bid for Cimpor.

TRADITIONAL TRANSACTIONS

Away from the world of privatisations and takeover attempts, conventional M&A activity remains slow. Nonetheless, impressive deals are occurring. In November 2011, VdA's partner Cassiano Santos led the team advising Deutsche Bank (Portugal) in a cross-border merger with Deutsche Bank (Hungary) when Deutsche Bank converted these two subsidiaries into branch offices as part of a pilot transaction. The deal involved the transfer of €1.6bn total assets from Deutsche Bank Portugal incorporated into Deutsche Bank Germany. VdA also advised on the Portuguese regulatory banking, capital markets and insurance law aspects of the deal. Corporate partner Daniela Favoccia of German firm

Hengeler Mueller represented Deutsche Bank Germany, while Allen & Overy's Budapest office acted for Deutsche Bank (Hungary).

Abreu Advogados has also picked up high-profile mandates. Led by Miguel de Avillez Pereira, the firm is advising Brazilian company Embraer, one of the world's leading aircraft manufacturers, in an investment into manufacturing aeronautical parts and structures. The deal concerns the building of two factories for the manufacturing of aeronautical parts and structures. This is ongoing and represents the largest investment ever made in Portugal's aeronautical sector.

Likewise, Cuatrecasas has been very active. In February 2012, capital markets partner André Luiz Gomes acted for Banif – Banco de Investimento and Banif-Banco de Investimento (Brasil) in the Banif Financial Group's sale of a majority shareholding in brokerage house Banif Corretora de Valores e Câmbio (Brazil) to CGD, through a capital increase and the sale of shares. In March, led by Perestrelo, Cuatrecasas advised CGD and the Ministry of Finance in the reorganising of Galp Energia (Galp)'s shareholder structure. This was necessary because Eni wished to sell its remaining 5% stake in Galp to Amorim Energia, but such sale was prohibited by the shareholders' agreement. AAA Advogados partner Gabriela Rodrigues Martins acted for Amorim.

CHANGE FOR THE BETTER

Portugal's bailout is also likely to prove an indirect source of legal work. The government has pledged to pass several reforms in areas such as labour, tax, civil procedure and insolvency practice. These are likely to give rise to legal needs and to make up for the general dearth of M&A activity.

'It is important for independent law firms that the international affiliations of Portuguese firms are publicised and well known in the market.'

Pedro Pais de Almeida, Abreu Advogados

Labour law reform is a current hot potato, imposed on Portugal as a consequence of the EU financial bailout. Portugal has been compelled to amend its employment rules to render them more flexible and to lower its employment costs in a bid to increase the country's competitiveness.

The meat of the reform is currently in draft form, with the government expected to approve it later this year. However, some changes related to contract periods, redundancy compensation, unemployment protection rules, and early retirement conditions have already been introduced.

'Although labour reform in Portugal was long needed the workforce's mentality may take longer to change,' says Inês Reis, a founding member and head of Pedro Pinto, Bessa Monteiro, Reis, Branco, Alexandre Jardim & Associados' (pbbr) employment team. 'Therefore, any amendments to the law must be accompanied by a persistent and clear message.' For example, the anticipated reform will alter certain aspects that were previously considered untouchable, such as the 40-hour working week.

pbbr has been investing in its labour and employment practice for some time. The work currently being generated for its team includes raising clients' awareness of these changes and showing how they can benefit clients' businesses, but also helping them implement changes in the smoothest way possible.

Since March this year, the new Arbitration Law has been in force. Created to simplify domestic and international arbitrations, the legislation intends to market Portugal as an international arbitration venue, particularly in relation to cases involving companies with ties to Portuguese-speaking countries such as Brazil, Angola and Mozambique.

Unsurprisingly, dispute resolution practices are currently busy. CS Associados set itself the challenge of launching a new litigation practice just one year ago, but its team has already been involved in complex arbitration and insolvency cases. Generally all of them involve the issues currently affecting Portugal's economy, such as the lack of liquidity and public cuts.

Abreu Advogados identified the opportunity for dispute resolution mandates back in 2008. It invested in a mass litigation department that carries out debt collection and insolvency proceedings for financial institutions, insurance companies and car leasing companies. Managing partner Miguel Castro Pereira says that the firm's most significant recent piece of litigation is its ongoing assistance to LDK Solar – the world's largest producer of solar wafers – in a multijurisdictional international arbitration against Itarion Solar over an alleged breach of an $800m contract. Abreu's Pereira, together with partners Guilherme Santos Silva and Duarte de Athayde, are leading LDK's case. Latham & Watkins' Paris-based Rachel Thorn and Bär & Karrer's Geneva-based Saverio Lembo are also involved.

New restructuring-related legislation is also on the cards. The current insolvency/restructuring law favours insolvencies over restructurings in order to protect creditors. However, the reforms will expand the restructuring options available and are designed to avoid insolvency where possible.

Even without some reforms fully live, restructuring and distressed sales ▶

▶ mandates have increased. Traditional private equity funds appear to have suspended activity, but fund restructuring work is buoyant. In response to increased work levels, Garrigues created a Portuguese insolvency and restructuring team as part of its worldwide insolvency and restructuring practice.

Recent examples of significant restructuring/insolvency mandates have included Abreu Advogados' advice, led by Pereira, to Portuguese private co-operative financial group, Caixa de Crédito Agrícola Mútuo de Alcobaça, on the financial restructuring and insolvency of several civil construction companies. And in November 2011 MLGTS partner Segismundo Pinto Basto led the representation of Portugal-based aviation group Omni and its shareholders in a €70m corporate restructuring of the group's presence in Portugal (and Brazil) that separated the group's fixed-wing and helicopter businesses. The restructuring also prepared the group for the arrival of pan-European private equity firm Stirling Square Capital Partners as financing partner to its helicopter business. Stirling, which invested €40m into Omni Helicopters International in December 2011, was represented by VdA's João Vieira de Almeida in the structuring and implementation of the investment alongside VdA's best friend in Brazil, Pinheiro Neto Advogados.

ENJOY IT WHILE YOU CAN

In the short-term, Portugal's top legal advisers will have further privatisation mandates to look forward to. On the horizon is the privatisation of the national airport authority, Aeroportos de Portugal (ANA); national airline Transportes Aéreos Portugueses (TAP); state-owned postal operator, Correios de Portugal (CTT); one of Rádio e Televisão de Portugal (RTP)'s television channels; water operator Aguas de Portugal; and rail freight company CP Carga.

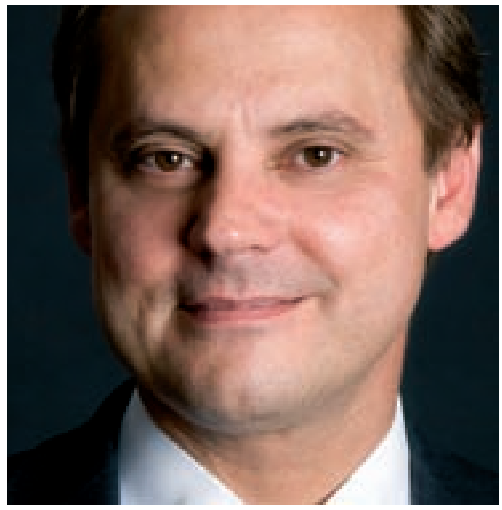
Caixa Seguros, the insurance company owned by state-controlled bank CGD, is also set to be part of Portugal's privatisation programme. Plus, the government is poised to sell its remaining 7% in Portuguese oil and gas company Galp Energia, which sold its Brazilian assets to Chinese oil giant, China Petroleum & Chemical Corporation (Sinopec), for $5.2bn in November 2011. MLGTS' Teles and de Oliveira Neves have again been selected to advise Parpública.

But once the privatisation programme is concluded, one of the great challenges for law firms will be to find alternatives to the traditional way that legal services are provided, notably by reorganising and resizing teams in practice areas that no longer bring the workflow.

CASH-STRAPPED

A constant challenge for Portuguese law firms has been how to operate in an economy with liquidity issues. Naturally, billing policies have had to change significantly. In the past, Miranda automatically raised all billing rates at the start of each January. For the last few years, the firm has only introduced modest fee hikes every two years.

'Clients are obviously very sensitive to fees, especially in the current market conditions,' says CS Associados' Martim



'It is evident that Portugal is prepared to do what it takes to extract itself from the situation into which it has fallen.'

Duarte Garin,
Uría Menéndez

Morgado. Yet Morgado's experience tells him that clients are willing to make the investment in fees if they believe that the value is there. One of the firm's principles is to stay close to the client. This also means keeping a keen eye on billing matters.

Clients have also become creative in their demands. These days they ask for all sorts of fee structures, from flat to capped. Fortunately, this happens less with longstanding clients, than with clients instructing firms on one-off projects with a fixed duration.

Some believe that law firms should be flexible, but only up to a certain point – that it is preferable to lose a bid rather than endure a large loss on a deal, or to feel compelled to put a younger or less specialised legal team on a specific assignment, thereby risking the quality of the legal service. 'My view is that it takes time to build up a good reputation and only a second to jeopardise it,' says Pedro Pais de Almeida, a partner at Abreu Advogados.

Some Portuguese law firms have focused considerably on the diversification of their practices. Aside from non-cyclical service lines such as labour law, certain niche areas that demand high levels of expertise merit investment. pbbr's Reis says that energy, IP/TMT and life sciences have consistently been developing, and are areas where the markets' interest and demand have grown.

Other market commentators believe that in difficult times it is crucial to achieve the correct partner-associate ratio. 'We have a ratio of 1/10 between partners and associates, which is excellent for a market like Portugal,' says Nelson Raposo Bernardo, the managing partner at Raposo Bernardo. 'The firms that are suffering from the crisis are those which have a large number of partners in relation to the number of associates, those who have a concentration of more than 50% of their turnover in less than 20 clients, and those who are just starting to get involved in activities outside Portugal.'

Sérvulo's Torgal is optimistic about what lies ahead: 'The government announced that there are already signs of recovery. One can probably expect the return of confidence by the beginning of next year.'

Nor does Miranda's Amendoeira feel like complaining. 'We've continued to enjoy modest growth in terms of new clients, fee-earners and revenue,' he says. 'Miranda has not suffered any major trepidation, and it has been greatly assisted by the success of its overseas strategy. We feel confident that we have adapted well to the new realities.' **LB**

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GETTING AWAY

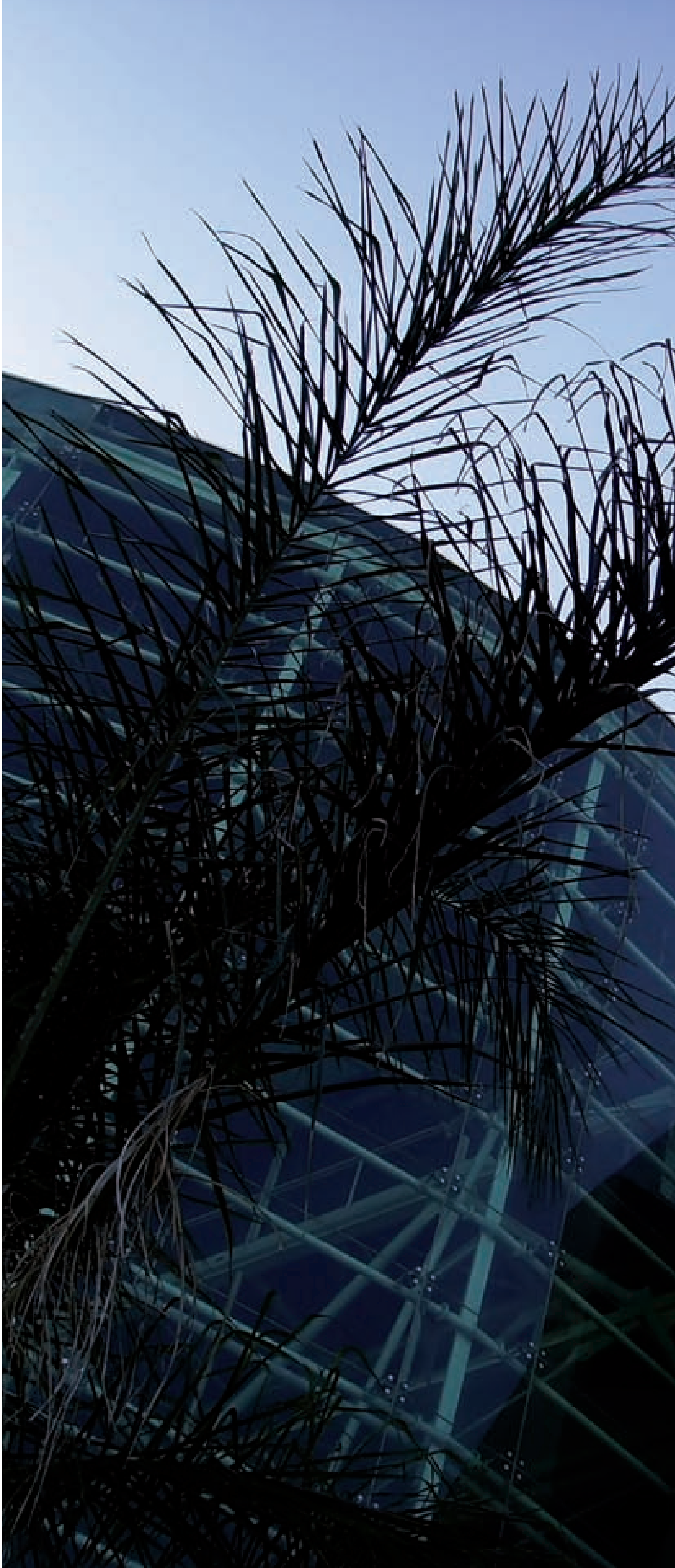
In response to a struggling domestic market, Portugal's leading law firms are increasingly seeking opportunities in former Portuguese colonies. *LB* assesses the different international strategies being employed by the country's top legal practices

JULIAN MATTEUCCI

Aside from a spate of short-term privatisation work (see 'Going private', page 66), Portugal's transactional lawyers continue to bemoan the demise of their national M&A pipelines. In order to bolster growth, the country's major law firms are venturing to Portuguese-speaking jurisdictions where the legal systems are similar and investment is flowing.

Certain countries of Lusophone Africa, such as Angola, have been an obvious investment draw for Portugal's major corporations and their legal advisers for some years. But with an economy forecast to grow by 7.5% this year, Mozambique is sparking great interest, primarily because of its recent natural gas discovery. In the medium term, the country is expected to become a serious player in this sector. It is also on the brink of a coal boom.

Meanwhile, Macau is proving to be an increasingly important link for Chinese investors into Portugal and Portuguese-speaking countries. This former Portuguese colony is also becoming a hub for companies from Portuguese-speaking countries

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that are interested in mainland China's domestic market.

For example, around 60% of Abreu Advogados' turnover derives from international clients. Since 2005, about 40% of Raposo Bernardo's turnover has been generated outside Portugal. Caiado Guerreiro's international practice also represents a significant portion of the firm's revenue. It boasts a large project management practice that advises clients on significant projects in Africa. 'Year on year, our international practice is becoming even more important for the firm,' says partner João Caiado Guerreiro.

With more and more of Portugal's law firms looking to grow overseas practices, it is crucial that their strategies are executed with care. Such expansion may also trigger financial investments and expenses that some law firms are currently unable or unwilling to withstand. Furthermore, with increased competition and routine fee undercutting, both the established players and new contenders need to ensure that they maintain the same service levels that clients would expect from the Lisbon headquarters.

CLIENT LEADS

Unsurprisingly, the law firms go where clients first fear to tread. Portuguese companies were once happy just exporting overseas, believes Domingos Cruz, a partner at CCA Advogados, but those same companies are now planning to be more present in foreign markets, and to canvas new clients abroad more actively. 'There has been a significant move on the part of Portuguese companies to expand internationally over the last two years,' says Miranda Correia Amendoeira & Associados' (Miranda) managing partner Rui Amendoeira. 'Every large Portuguese company has an international plan!'

According to partner Pedro Pais de Almeida, Abreu identified a triangle of economic interests connecting Portugal, Brazil and Angola some years ago. Consequently, it launched its international expansion plan for Portuguese-speaking countries in 2000. Duarte Garin, a partner at Iberian firm Uría Menéndez – Proença de Carvalho (Uría Menéndez), says that Uría Menéndez's international strategy was also designed and set up several years ago. 'We realised how important it was to have either a direct presence or very close ties with leading firms in other countries.'

PLMJ is also an established international player. The firm has built up a solid network

'Year on year, our international practice is becoming even more important for the firm.'

João Caiado Guerreiro, Caiado Guerreiro

of partnerships in Portuguese-speaking countries through the PLMJ International Legal Network (ILN), and in the main Portuguese investment target markets. 'This network provides cross-border legal services with cost-effectiveness, knowledge of local markets, know-how, and a high level of specialisation,' says partner Jorge de Brito Pereira.

Others have tested foreign waters in response to the crisis. Lino Torgal, an executive partner at Sérvulo & Associados, says that his firm implemented a strategy that aimed not only to diversify its lines of service, but also to establish an international practice, mainly in Brazil, Angola and China, which it considers to be the three most promising markets in terms of Portuguese investment.

INTO AFRICA

Africa – especially Angola and Mozambique – remains the most profitable market according to Nelson Raposo Bernardo, managing partner at Raposo Bernardo, as it is where Portuguese law firms can undertake activity of a certain size. 'The African market is where the involvement of Portuguese law firms is more significant and where the fees can ultimately reflect their leading positions in these markets,' he says.

Mozambique, in particular, has Portuguese law firms flocking in. In 2011, PLMJ invited Maputo-based firm Gabinete Legal Moçambique (GLM) to join ILN, while Abreu Advogados established an exclusive association in Mozambique with Ferreira Rocha & Associados. As for Morais Leitão, Galvão Teles, Soares da Silva & Associados (MLGTS), it enjoys an association with Mozambique firm SCAN – Advogados e Consultores, which is part of the MLGTS Legal Circle of associated firms. According to CCA Advogados' Cruz, his firm hopes to open an office in Mozambique in 2012, starting with an association and progressing to an office.

'Mozambique is now a fashionable destination for foreign investment and Portuguese investors are ahead of the game,' says Abreu's de Almeida, who is one of the heads of the firm's Mozambique desk.

Standout deals involving Portuguese law firms in Mozambique include the 2011 Banco Espírito Santo (BES) €7.1bn acquisition, through its subsidiary BES Africa, of 25.1% of Mozambique's Moza Banco from transatlantic venture capital firm Geocapital. This was the first time that a Portuguese law firm led an M&A acquisition project for a Portuguese bank

investing into a local Mozambique bank that also involved the acquisition of existing shares and share capital. Led by Pedro Cassiano Santos, BES Africa was advised by Vieira de Almeida &

'In some jurisdictions, we are more closely integrated than others.'

Rui de Oliveira Neves, Morais Leitão, Galvão Teles, Soares da Silva

Associados (VdA), with the support of its then Maputo partner Furtado, Bhikha, Loforte, Popat & Associados. Linklaters' Lisbon-based partner António Soares advised Geocapital.

Angola has offered terrific opportunities to Portuguese firms for some time, whether for banking work such as leasing; or roads, hospitals, housing programmes and general infrastructure. Major Portuguese investors include the Sonae Group, a leading distribution group in Portugal, which recently announced it would be opening in Angola. MLGTS acts for Banco Comercial Português (BCP), Banco Português de Investimento (BPI) and Energias de Portugal (EDP), as well as international players like Vale and Rio Grande, on Angola matters.

Examples of law firm tie-ups in Angola include Gabinete Legal Angola's membership of PLMJ's ILN; Sérvulo's 2012 partnership with general practice law firm António Penelas & Associados, a firm that advises on transportation, real estate and IT matters; and Abreu Advogados' exclusive association in Angola with FBL Advogados. MLGTS has a strategic alliance with Angolan law office

▶ ALC - Angola Legal Circle Advogados (ALC Advogados).

GOING EAST

As an investment gateway for Portuguese-speaking businesses into China, and a bridge for Chinese investments into Portuguese-speaking countries, Macau has prompted Portuguese law firms to establish their own links to China. Macau practice DSL Lawyers joined PLMJ's ILN in 2009, MLGTS has a formal alliance with Macau-based MdME, and in 2012 Abreu Advogados agreed an exclusive association with Macau-based C&C Macau Lawyers.

In addition, PLMJ has headed straight for mainland China. It formed a partnership with Dacheng Law Offices, China's biggest law firm. Likewise, in response to the growth seen in this part of the world, Sérvulo established an agreement in April 2012 with Shanghai-based firm Cenlaw & Partners. Cenlaw's focus includes managing international investments into the construction and real estate sectors, as well as complementary areas of law such as finance, capital markets, corporate, employment, IP, litigation and arbitration. China is also proving lucrative for CCA Advogados, which has had a presence in Shanghai since 2010, and the country has played an important role in Uría Menéndez's international strategy. It set up an office in Beijing at the beginning of 2010, which often acts as a bridge between Asia, Iberia and Latin America.

But not all lawyers are getting overexcited about China. Nelson Raposo Bernardo believes that apart from the recent large-scale Energias de Portugal (EDP) and Redes Energéticas Nacionais (REN) privatisations in Portugal that involve Chinese players, the Chinese market for Portuguese law firms is still virtually non-existent.

LATIN LINKS

Like Angola, Latin America has been a favourite destination for Portuguese law firms for some time, particularly Brazil. In 2004, PLMJ entered into partnership with Brazil's TozziniFreire Advogados, which continues today, and Iberian firm Cuatrecasas, Gonçalves Pereira opened its São Paulo office in 2001. 'It acts not only as an entrance door for clients willing to start operating in Brazil,' says Lisbon co-managing partner Diogo Perestrelo, 'but also as a bridge for Brazilian companies willing to invest in Portugal and in other Portuguese-speaking countries.'

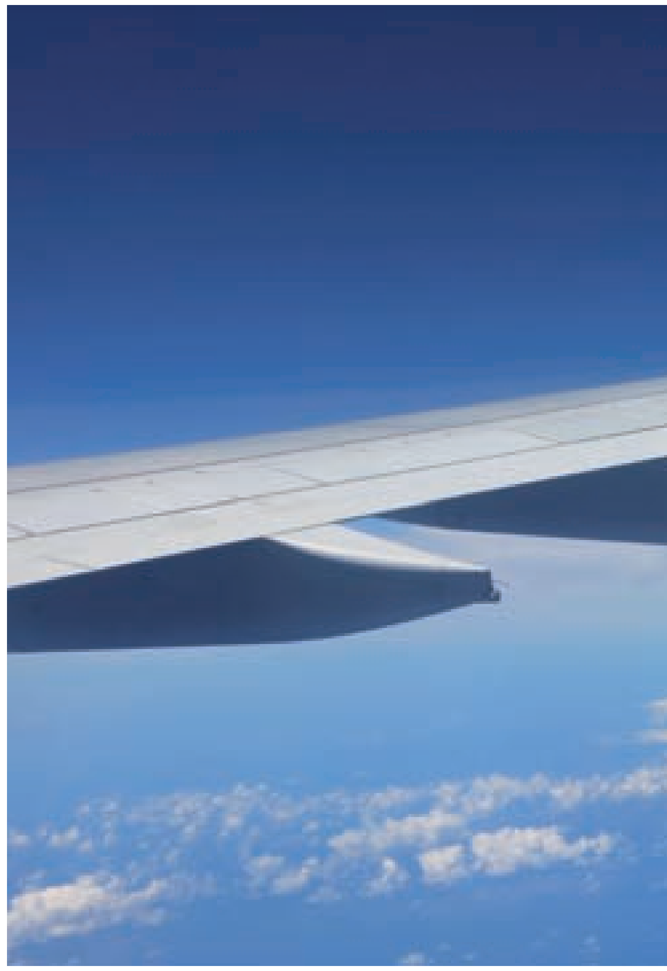
CCA Advogados has also invested a great deal of effort in Brazil, opening a new office in São Paulo in 2011. And late last year, Sérvulo consolidated its existing relationship with Brazilian law firm Manesco, Ramires, Perez, Azevedo Marques. Sérvulo's Torgal regards the partnership as a great opportunity for both firms to develop their practices within the two jurisdictions.

'The African market is where the involvement of Portuguese law firms is more significant.'

Nelson Raposo Bernardo, Raposo Bernardo

But for the moment, the traffic is unlikely to be exactly two-way. Diogo Leónidas Rocha, a partner at Iberian firm Garrigues, says that from a Portuguese perspective, Garrigues' representative office in São Paulo helps the firm serve its Brazilian clients doing business in Portugal, rather than Portuguese clients investing into Brazil.

Brazil can also be a tough market. 'Portuguese law firms do not have access either to large-scale operations or to premium customers,' says Nelson Raposo Bernardo. 'Brazilian law firms are highly developed, and Portuguese legal practices face a highly competitive and large market in which they can play minor roles, but no more than that.'



Also there are important restrictions on the amount of work that foreign firms can do in Brazil, thanks to onerous Bar rules (see 'Latin Moves', *LB*224, page 56).

DIFFERENT STROKES

Staking so much on their international practices, it is only natural that each law firm prepared to tackle the foreign markets will vary in its approach.

Different markets require different solutions, believes MLGTS partner, Rui de Oliveira Neves. 'In some jurisdictions, we are more closely integrated than others,' he says. For example, in Brazil, the firm enjoys a partnership relationship with Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, but there is no level of integration.

Miranda also employs different models for each overseas office. Some are more fully integrated than others, such as Houston, Cape Verde, São Tomé and Príncipe and Timor-Leste. In some cases the firm's local partners are also partners of the Lisbon office – Mozambique for example – while

other offices are run more along the lines of an association. This is the case with Angola, as well as with Gabon and the Republic of Congo, where the firm opened in 2010 and 2011 respectively.

It is not always necessary for the internationalised law firm to open new offices or establish itself directly in other countries, according to Martim Morgado, a partner at Campos Ferreira, Sá Carneiro & Associados (CS Associados). Part of CS Associados' overseas strategy is to remain independent in Portugal, and develop best friends relationships – both with international firms and practices in other jurisdictions – so that it may either cross-refer clients or work together with other firms on multijurisdictional projects.

Garrigues does not see the need to open offices in every single jurisdiction that forms part of its international practice. 'We don't have offices in Angola or Mozambique but the laws there are easy for us because of the historical ties,' says Rocha. Garrigues brings in local counsel when it needs to, and when the firm does decide to open offices, such as in Brazil and China, it is because clients have driven the openings.

WINNING STRATEGY

Venturing into emerging markets does not always run smoothly. 'Internationalisation, particularly in Africa and Latin America, is a big challenge,' says Caiado Guerreiro's João Caiado Guerreiro. 'Many things that you take for granted in Europe, such as electricity and tap water are not always there. Knowing the law is not sufficient.'

According to Guerreiro, lawyers have to understand the people and culture: 'Africa's large energy projects are very interesting, and clients will accept high fee levels, but only if they feel secure, and we keep them out of trouble – which of course we do!'

Explaining the success of Miranda's strategy, Amendoeira says: 'We've been overseas for a long time. We know the law, the institutions, the people, and how to do business in these jurisdictions. Plus we can communicate in English, French, Spanish and Portuguese. That's why our clients keep coming back to us.'

Working with the people in those jurisdictions, rather than exporting the work back to Portugal is paramount to MLGTS' strategy. 'We develop top local lawyers, training them up to European standards and ensuring that they best suit the type of work generated,' says de Oliveira Neves.

Time will tell if expansion into other countries, either through a direct presence or through alliances and networks of a different nature, will be the panacea needed to cure Portuguese law firms' domestic difficulties long term. João Vieira de Almeida, managing partner at Vieira de Almeida & Associados says: 'Foreign jurisdictions are the big hope and this is true for all industries, not just the legal market.' **LB**

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