GLOBAL REPORT 2010: TAKING ON THE WORLD

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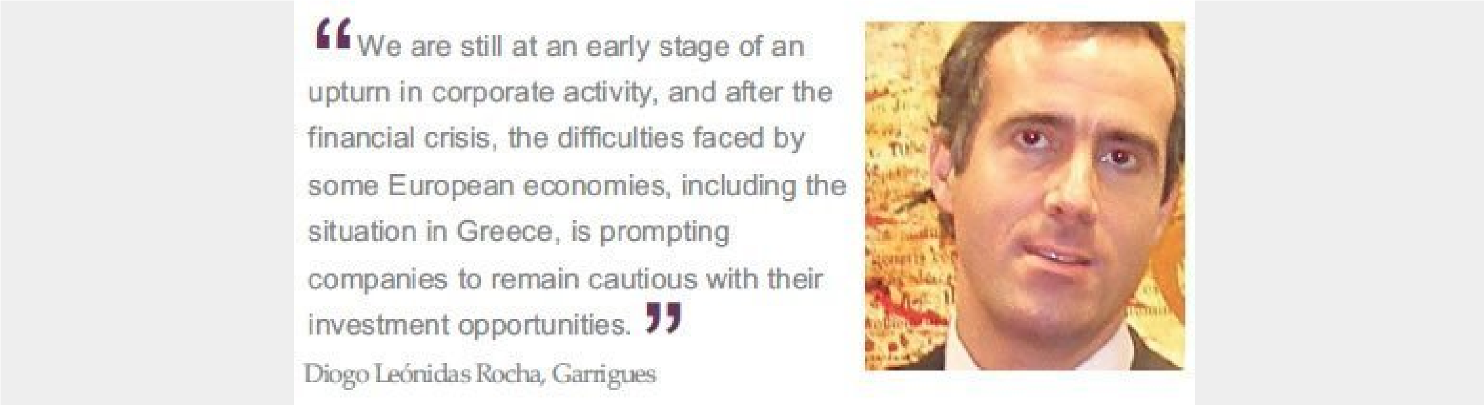

Category: Uncategorized

The downturn affecting Spain and Portugal is not the only driver of the current international expansion of Iberia’s major business, but it is certainly encouraging them to look more carefully at foreign markets, say Spanish and Portuguese lawyers.

"The perception among many businesses is that the same economic pressures affecting Spain and Portugal are all too evident elsewhere in Europe. International growth alone is therefore not a certain cure, but many clients are now looking everywhere and anywhere for new opportunities," says Javier Villasante, Head of International at Cuatrecasas Gonçalves Pereira.

Latin America inevitably remains a preferred market for both Spanish and Portuguese business, particularly given the economic growth in countries such as Mexico, Chile, Colombia and inevitably Brazil, say lawyers, but many are also open to opportunities across Africa – especially Angola and Mozambique – the Middle East and the US.

Companies that have undergone significant financial and organisational restructuring are now better prepared to take on new international challenges, while for others the prospect of international growth is no longer as frightening, say some. “Businesses readily accept that they will find opportunities abroad, and it is now much easier to circulate people, merchandise and capital: the globalisation culture is clearly contributing to companies’ desire to invest in foreign markets,” says Nelson Raposo Bernardo, Managing Partner of Lisbon-based Raposo Bernardo.

Spanish and Portuguese companies are already finding receptive markets for their specific specialist expertise. In the infrastructure sector, many are seeing significant success in markets as diverse as Poland, the US, Brazil and Panama.

“Infrastructure is the sector which has the most opportunities and where much of the money is already. Brazil, with the FIFA World Cup in 2014 and the Olympics in 2016 is the country where we are going to see a huge development in this regard," predicts Manuel Martín, Managing Partner of Gómez-Acebo & Pombo (GA&P).

Likewise in the energy sector, Iberian companies such as EdP, Galp, Repsol, and Iberdrola continue to expand – the latter building a mega combined-cycle project in Venezuela, as well as looking to grow further in the UK and US, where demand for new renewable energy schemes, say lawyers, is prompting interest from all the leading Iberian players including Gamesa and Abengoa.

But it is the banking sector that is perhaps the most visible example of the global spread of Spanish businesses – and at the forefront is Santander, which in recent months has expanded in Mexico, Germany and grow further in the UK. Others, including BBVA, Banco Popular and Sabadell have all now expanded to the US.

"The domestic economic downturn is pushing many companies to seek opportunities overseas, in Latin America, the US and elsewhere. The reason is that the domestic market is either too crowded or simply not there any more," says Fernando Vives, co- Managing Partner of Garrigues, continental Europe's largest law firm.

It is not only however the largest companies growing internationally, lawyers insist. "We now see medium and even small companies looking, in some cases desperately, for new business opportunities outside of Spain. Some companies believe they may find new opportunities elsewhere, while others believe they must do because they have none here," says Julio Veloso, corporate partner with Broseta in Madrid.

Ambitions

The current economic situation is therefore having both a positive and negative impact on companies' ambitions, say lawyers – encouraging some to expand further, while limiting the options of others. "Understandably, some companies are being more cautious with their investments, but in general lines, very few have changed their medium-long term strategy due to the current economic situation," says Jaime Folguera, partner with Uría Menéndez.

> "What is evident is that transactions are more complex than before. There will be fewer deals but that demand a higher level of legal input."
>
> Juan Miguel Goenechea, Uría Menéndez

Companies with cash to invest, or at least access to credit, will find ways to embark upon new ventures. "Ambitions are not limited, they are being controlled, by financing, by weak consumer spending and by prudence," says Martín at GA&P.

Others are struggling to adapt to the reduction in domestic demand and continue to restructure their operations to reflect a continuing difficult business environment.

"On the one hand companies feel they have to look for new markets and maintain a certain level of investment, on the other they see credit constraints, consumption decreases, tax increases, and a general climate of distrust and this is the reason why investment is not more consistent," says Raposo Bernardo, whose firm now has nine offices across Europe and Africa and has plans for a Turkey office underway.

Inevitably not all business sectors are sharing the pain of the downturn. "With regard to the TMT sectors, which are our core area of expertise, the current situation has not been a decisive factor in limiting their business ambitions. The impact of the crisis has actually been relatively mild due to the anti-cyclical nature of many companies' activities," says Álvaro Écija, co-Managing Partner at Ecija

Old friends

It is towards Latin America that many Iberian companies continue to focus, say lawyers. Brazil and Mexico are now top of many target lists, the aim being to reach new consumer and capital markets – Santander's partial €5.4bn flotation of Santander Brasil last year was the largest IPO in the world.

The region's banking sector is considered to be relatively immune to the wider impact of the financial crisis having learnt the lessons of previous regional crises and where the expanding economies are opening up new financial services markets.

Access to local Brazilian legal capability is inevitably high up on law firms' strategic wish lists. Notable has been the decision of Garrigues to reinforce its presence after the 2009 departure of its local Affinitas Alliance member Barbosa Müssnich & Aragão, reportedly over divergent opinions as to the level of integration member firms should embrace.

The break-away prompted an "accelerated change in strategy," says Vives. Garrigues has now announced that it is to open its own office in Brazil and form an association with local 30-lawyer Rio de Janeiro-based Schmidt Valois Miranda Ferreira & Agel – Advogados.

"It is always important to have good friends in key regions, but in Brazil the time came for us to open our own shop after integrating a small top quality firm. We now have the best platform for solid growth," he adds.

Brazil is an area of focus for Cuatrecasas too, says Villasante. "We are though there, as elsewhere in Latin America, adopting a different mindset to the other Iberian firms. Our strategy is to find a place in the largest transactions, which requires more than a local outpost. We are looking to build true partnerships with leading firms that may actually originate deals."

The firm is not looking to create exclusive alliances. Pressure from the local Brazilian Bar in any event means that the tide has turned against more formal tie-ups, he insists.

New favourites

Speak to any Portuguese lawyer and the conversation will rapidly turn to the opportunities they see these days in Angola or Mozambique. The two former colonies have overcome decades of civil war to emerge as major investment focuses of Portuguese businesses, particularly now, as market competition increases in their former investment backyard, Brazil. Angola is arguably now Africa's most dynamic economy and seeing significant infrastructure and services investment funded by the country's oil and diamond wealth. It now accounts for almost 10% of all Portuguese exports. As in Brazil, growing business interest means that many of Lisbon's law firms are also contemplating their options here.

Among the best-established firms in Angola is Miranda Correia Amendoeira & Associados, which operates locally as Fátima Freitas Advogados. The firm has leveraged-off of its success in the oil and gas sector to build a network of offices across twelve countries – in Africa, Asia, Brazil and the US. In recent months the firm has announced a new tie-up, with Gabon's SCP Ntoutoume & Mezher Mouloungui. Agostinho Miranda, the firm's founding partner, notes however a goldrush mentality among some Portuguese law firms to establish Angolan operations – albeit only Angolan citizens can join the Angolan Bar and practice as lawyers locally.

> "You can adapt your work areas as long as you can ensure that you give the same level of service your clients expect. But many of the things we are now doing we were not doing before the crisis, and what is also significant is that we see the same banks in these new areas – it is clear that this is all very new for them too."
>
> Pedro Pérez-Llorca, Pérez-Llorca

"We are not in a position to say that firms are doing anything wrong in looking to expand internationally. I would only say that perhaps they are coming to the game late. There are difficulties associated with international growth, as we have found in the past."

Portuguese lawyers nonetheless continue to promote their cultural and linguistic ties with Angola, and Lisbon firms' abilities to facilitate investment flows both from and via Portugal. Firms including Abreu Advogados, Cuatrecasas, F Castelo Branco, MLGTS and PLMJ are already now active in the market.

"I personally think these moves to Africa are natural – especially for Portuguese companies. They are not a consequence of the coldness of Europe's economies but simply the end of decades of civil wars and volatile political environments," says Fernando Ferreiro Pinto of Sérvulo, which is also building its ties locally.

Pedro Guimaraes of F Castelo Branco & Associados, agrees. " We have seen particular interest in Angola where our office has had to expand as a result of the increased demand."

The Portuguese government is now helping to incentivise domestic businesses to expand internationally, says Frederico Pereira Coutinho at Cuatrecasas in Lisbon. "Portuguese companies are especially keen to explore Angolan and Brazilian markets. This has been supported by Government policies though many find that they do not have adequate dimension and structure (in management, know how and financial support) to make such a step – for many medium-sized companies this is often their first international move."

> "We have a continuous interest in South America, where we have been active for many years through our clients and contact local firms. But regionally, Brazil is at present the country which shows more opportunities."
>
> Iñaki Gabilondo, Managing Partner Madrid, Freshfields Bruckhaus Deringer

Despite the economic opportunities, Angola or Mozambique are not however necessarily easy places in which to do business, say lawyers. State involvement in most enterprises is inevitable, investment laws remain unclear, and corruption is an evident issue. But law firms continue to arrive. Pedro Rebelo de Sousa

(SRS) Abogados earlier this year announced an association with LCF in Angola, as well as Sal & Caldeira in Mozambique and Amado & Medina in Cape Verde – such a model, intended to replicate the success of the firm's long relationship with Brazil's Veirano Advogados. Likewise Vieira de Almeida (VdA) has this past year formalised its ties with Mozambique's Furtado Bhikha Loforte Popat & Associados (FBLP).

But the business flow is not merely one way – investment is now coming out of Portugal's former colonies. "Brazil and Angola seem to have inverted the 500 year-old cycle and it is their turn to discover Portugal, with a number of multi-billion euro investments in the cement, banking and energy industries," says Fernando Resina da Silva, partner with VdA in Lisbon.

Good, better, best friends

The challenge for Iberia's law firms is therefore how to add value as their clients go abroad. Some Iberian firms are expanding their own international capabilities to better assist clients, while others seem content to concentrate on established international strengths.

Garrigues may have started again in Brazil, but its Affinitas network already covers eight of the region's legal markets. Likewise, Uría Menéndez, Cuatrecasas and GA&P all have established (sometimes exclusive) referral connections as do the leading Portuguese firms – among which the emphasis has traditionally been on Brazil: Vieira de Almeida has links to Pinheiro Neto; Morais Leitão Galvão Teles Soares da Silva & Associados with Mattos Filho Veiga Filho Marrey Jr e Quiroga; and PLMJ with TozziniFreire.

"It is well known that PLMJ decided long ago to enhance its presence in other jurisdictions and we remain focused in this strategy," says Manuel Santos Vitor, Deputy Managing Partner at PLMJ. The firm has though expanded beyond its Brazilian and African lusophone focus to encompass Central and Eastern Europe with the creation of dedicated 'international' desks. Barcelona and Madrid-based Monereo Meyer Marinel-lo Abogados (mmmm) is also looking to Central Europe, but predominantly through its long-established German connections. While another consistently focused firm is Madrid's Gomez De Mercado Abogados, which has maintained long ties with Equatorial Guinea, one of the very few former African Spanish colonies.

What is significant however, say many lawyers, is that referral relationships actually have become much looser as a result of the global downturn – in challenging times it helps to have as many friends as possible.

"The vast majority of our 'international' work is sourced from other independent firms or those naturally reluctant to steer their business to the global – generally, UK – players already present in Spain," says Cliff Hendel, partner with Madrid's Araoz & Rueda. "Many firms are looking for a more 'domestic' alternative although we are more 'polygamous' than ever."

Femando Torrente

For smaller firms the decision whether to stay independent or join an established network is not an easy one, admit some.

“Even if we want to reach the medium firm label we have to try to have as many contacts as possible, as the risk of belonging to an alliance that does not work, and cutting off established relationships could prove fatal,” says Carlos Valls, Managing Partner of Barcelona-based Iuris Valls Abogados.

Others agree that a balance has to be reached. “The best way to get business is to bring it to others. In the corporate and professional services worlds, one needs to generate the optimum equilibrium between acquaintances and real friends with real capabilities,” says Diego Vargas Yábar, Madrid Managing Partner of Maniega & Soler.

Other firms have been happy to lose their established ties. Lisbon’s Rebelo de Sousa Advogados has regained its independence from Simmons & Simmons – “We remain a member of the firm’s referral network, but since independence we have seen a marked increase in interest from other international firms’” says partner William Smithson.

The result is that Linklaters is now the only remaining global UK firm in Portugal.

Even some of Iberia’s largest firms are now more openly playing the field. “After a number of years where firms were keen to create alliances, networks, best friends and the like, the mood has changed somewhat and people just try to refer and be referred work to and from the best people, without any specific tag or label,” says Vives at Garrigues.

Like their clients therefore, Spanish and Portuguese law firms recognise that international success is not the product of a one-size-fits-all formula. Spanish and Portuguese law may provide a stepping stone into other “familiar” markets but local variations, regulations and restrictions need always to be anticipated.

Any international growth therefore has to be more than reactionary – it has to be sustainable. “I believe an international strategy must rely on more than one option. Ours depends on a blend of the needs of the local market and those of the firm as a whole – we are not moved by the economic climate,” says Martin at GA&P.