

# LISBON REPORT 2008: HOLDING BACK THE TIDE

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**The Portuguese economy is proving no more immune to the global financial crisis than any other in Europe but its effects may not be as dramatic as elsewhere, say lawyers. The country's economy was hardly in overdrive and therefore a "hard landing" is not expected. Nonetheless law firms in Lisbon are preparing for all eventualities.**

The major economies of Europe may have been consumed by the global financial crisis but Portugal has yet to feel the full effect, say lawyers in Lisbon. The country's poor economic performance, relative to much of the European Union (EU), has meant that while there has clearly been an impact the effect has so far been relatively mild.

"Portugal will not likely experience a 'hard' economic landing as there was no great height to fall from," says Jorge Neves, partner at Barrocas Sarmiento Neves. "For a number of years we have been coping with the combined impact of increased competition from the new Central European EU states and a government battling a significant budget deficit, so a fall in annual economic growth from 0.2% to 0% will not prove dramatic."

The consensus among many Lisbon firms is therefore that while 2008 may not have been a vintage year it has not been catastrophic either.

The sentiment among both large and small firms is however that those that are best able to adapt to the changing situation will face the fewest difficulties. "The Portuguese economy is reflecting the global financial crisis and, in principle, it will impact on Lisbon's law firms. Crisis times are usually interesting for law firms, although bad for the economy in general," says Maria de Lourdes Lopes Dias at Lopes Dias & Associados.

## Still doing deals

Transactions are however still taking place but on a reduced level, say lawyers. The recent €1.2bn acquisition by the Iberwind private equity consortium of Babcock & Brown's (B&B) Portuguese wind energy subsidiary Enersis is perhaps a one-off, but indicative of how global trends are beginning to shape domestic developments.

The deal encompassed over 25% of Portugal's entire wind farm capacity and was the country's largest ever private equity transaction. But it comes as Australia-based B&B seeks to raise much-needed capital by selling off its entire European energy portfolio.

Nonetheless, the deal has provided a welcome and significant flow of work to a number of the capital's law firms, including Vieira de Almeida (VdA) which advised Iberwind (Linklaters provided English law advice). Clifford Chance and PLMJ acted locally for B&B, while Morais Leitão Galvão Teles Soares da Silva (MLGTS) advised the banks financing the transaction, including Banco Bilbao Vizcaya Argentaria (BBVA), Banco Espírito Santo de Investimento, Caixa Geral de Depósitos and Millennium BCP.

But as with the rest of Europe's financial systems, Portugal's too is suffering the effects of the credit crunch and meltdown of the international capital markets, with inter-bank lending also collapsed. Nonetheless the financial system remains relatively healthy, insist lawyers. Many of the leading banks were fortunate to have launched successful rights issues early in the year, which has helped to cushion them from the most acute liquidity issues.

In line with countries elsewhere, the Government has sought to help both consumer and financial confidence in the system, including by making up to €20bn initially available in the form of debt and loan guarantees, says Pedro Ferreira Malaquias of Uría Menéndez in Lisbon (see page 51, The measures underwriting Portugal's banks).

Leading banks BPI, BCP Millennium, Santander Totta and Banco Espírito Santo have all announced an intention to use the scheme to cover their immediate to medium-term financing needs. But while BCP Millennium, Portugal's largest bank, may have suffered concerns surrounding its management, and private bank Banco Português de Negócios (BPN) has collapsed with €700m losses as a result of international dealings, there is though no evidence to suggest that the system is fundamentally broken, believe many.

"The acute problems facing some of Portugal's banks has more to do with old-fashioned fraud than any systemic problems," says one senior Lisbon partner.

Even so, such events are helping to create transactional activity. State-owned Caixa Geral de Depósitos has taken over the running of BPN and is looking to sell off its life insurance division, while a number of struggling private banks are also reportedly for sale.

## Projects

Law firms also look positively towards a potential flow of projects work. Portugal's recently revised Public Contracts Code has dramatically simplified the public procurement process and takes into account modern practices such as private finance initiatives and public-private partnerships, says João Amaral e Almeida, partner at Sérvulo & Associados and one of the authors of the reform.

Recently concluded projects include the €500m Tunel do Marão project near Oporto, on which Linklaters and MLGTS advised, while in development is the 270km Douro Litoral Toll Road PPP on which Uría Menéndez, VdA and Jardim Sampaio Caldas & Associados are all active. All have been part-funded in part by the European Investment Bank, which continues to invest locally.

In order to help stimulate the economy many delayed major infrastructure projects are now likely to get the go ahead, suggest some. "2009 is an election year and inevitably some major public investment will be launched, which will act as a safety buoy for many of Portugal's magic circle firms," says Joao Espanha of Espanha e Associados.

In the planning stage is a €8.5bn investment in new high speed rail lines connecting Lisbon with Pombal, and the Spanish border, and another between Braga and Valença. Also agreed is a new €4.9bn Lisbon airport, as well as significant upgrades to the national power and telecoms transmission networks.

"The Government has sought to bundle many of the largest projects into sections to help spread the workload but also to reduce reliance on any one set of operators. For law firms this means an increase in consortium and finance work and inevitably that more will be involved," says Nuno Galvão Teles at MLGTS.

## **Nervous**

Despite such potential, Lisbon's law firms are not overwhelmingly optimistic about the year ahead.

"Lisbon law firms were already affected by the pre-existing crisis, which was more evident with local clients, they are now affected by the global crisis and consequently the international clients," says Gonçalo da Cunha at F Castelo Branco & Associados (FCB).

The slowdown in international trade is already being felt by Portuguese industry, notably in the automotive, real estate and textiles sectors, placing further pressure on domestic suppliers and those already coping with reduced consumer and government spending. Companies are now having to consider collective dismissals, lay-offs and to adapt working practices in response, says Benjamim Mendes at ABBC.

"Portugal's small open economy will not escape from the financial and now economic crisis. The effects are starting to be felt and 2009 is certainly going to be a tough year in Portugal, Europe and the world," believes Manuel Santos Vitor, deputy managing partner at PLMJ.

Firms are seeing an upturn in demand for labour, debt recovery and litigation advice, says Luis Cunha Ribeiro, managing partner at 50-lawyer Estudio Juridic Ejaso, but a significant drop-off in many other areas.

"Core practices such as corporate and M&A, banking and finance and capital markets are suffering whereas regulatory, restructuring and employment are where we have seen a significant increase of work," agrees Francisco Sa Carneiro at Uría Menéndez in Lisbon.

It may still be too early to fully assess the impact of the crisis in Portugal but some firms are already planning ahead. "We are investing in international contacts and 'best friends' relations," says Pedro Pinto, at employment firm Pedro Pinto, Reis & Associados which is a member of the Ius Laborious international alliance.

## **New arrivals**

Economically significant will of course be Portugal's response to the downturn in the US and across Europe, but of more immediate importance will be the situation in Spain, say many. As Portugal's largest trading partner, and a source of vital inward investment in recent years, a prolonged

downturn in Spain's economic fortunes will inevitably be felt strongly.

With a downturn in cross-border investment, competitors question the strategic wisdom of the expected arrival in Lisbon of Spain's fourth largest firm, Gómez-Acebo & Pombo. It is rumoured to have already lined up a core team of lawyers but continues to search for specific practice teams. Its merger talks with 50-lawyer Barrocas Sarmiento Neves ended in mid-October.

Some in Lisbon suggest that with an increasing reliance on government work, and slowdown in international investment, clients will inevitably turn more towards domestic Portuguese law firms. Such a development would obviously be to the detriment of the Spanish firms' offices but also of the only two Anglo-Saxon firms in Portugal, Linklaters and Simmons & Simmons. But the outlook looks challenging for all and in Lisbon's fractious legal market it may not take much for cracks to begin to appear.

"I can't imagine how such a small market will be attractive to foreign law firms. We still believe that there are too many and too big law firms for such a small market – that was a fact in the past and now it will become more obvious," says Joao Espanha at Espanha.

Others disagree that there are too few quality firms, and point to the high demand for legal services that will be required in the bidding and building process of the new airport and roads and railway concessions.

For firms wrestling with changing management styles, or trying to overcome succession issues, the high profile departure of a team from PLMJ to establish 20-lawyer AAA Advogados in late 2007 may provide a model for law firm splits if internal tensions rise, say some.

"We have moved from a very large structure to one that is considerably smaller and believe to have created a flexibility that helps us to better adapt to any changes, than those that are too large or too focused in a limited area of practice," says AAA partner Dulce Franco.

Even if there are now fewer major transactions in the market, there are some interesting deals and companies and entrepreneurs continue to face legal issues, she adds. "We sense a constant demand for legal assistance, and for firms to ride out a potential downturn it is important that they are able to offer, at a high level of quality, a broad service of practice spread to avoid lurching between deals."

## **A national approach**

Lisbon's status as Portugal's major business and finance centre may help to cushion it from the more dramatic effects of an economic downturn, but many of its law firms are however already looking for opportunities beyond the capital.

Building on a trend begun by MLGTS, of expansion into Madeira and Portugal's second city Porto, a number of firms have now sought to accelerate their emphasis on establishing a national platform. Notable has been the announcement by 200 lawyer PLMJ, the country's largest firm, of joint ventures in Guimarães in the north of Portugal, and in the Azores, reflecting its existing operation in Coimbra, and enhancing its own offices in Porto, and Madeira.

Abreu Advogados has also now announced the merger of its small Madeira office with the island's largest firm, SMS Law Firm. The 155 lawyer firm has added to its team in Porto and its managing partner Miguel Teixeira de Abreu has stated an interest in opening elsewhere in Portugal.



Many lawyers see the strategic sense of expanding into Portugal's major business centres but

nonetheless question the need to establish a full national footprint. "It is important to be present in Lisbon, Porto and Madeira. The Azores is becoming attractive but no other regions demand a presence," says Joao Vieira de Almeida, managing partner at VdA.

Alongside VdA, Gonçalves Pereira Castelo Branco – Cuatrecasas (GPCB, FCB, Garrigues and Uría Menéndez all also have a presence in Porto. Simmons & Simmons has recently closed its office but maintains an association with local firm Andreia Lima Carneiro & Associados.

But among those operating outside of Lisbon, some nonetheless note the limitations of a regional practice. "Portugal is a small country and the large transactions can effectively be dealt with through the Lisbon office. But there is a substantial number of important companies and businesses in the north of Portugal which demand a local presence. For Garrigues, the need for a Porto presence is reinforced due to the potential synergies with our offices of Vigo and Coruña in the north of Spain," says partner Diogo Leonidas Rocha.

But such moves infer a change of emphasis away from the capital's high profile and high value work and clients, suggest others. "Given the profile of our clients and the relative importance of Lisbon in the Portuguese economy, Sérvulo has never felt the demand to set up regional offices," says managing partner Rui Medeiros.

In any event, Portugal's compact size means that it is still possible to offer national coverage from Lisbon alone, believe others. "This is a small country and lawyers can practise nationwide", says Augusto de Athayde at commercial and insurance focused Almeida & Athayde.

The sentiment is shared also by Jose Alves Pereira at 20-lawyer Alves Pereira Teixeira de Sousa & Associados. "Portugal's centres of decision-making are almost all concentrated in Lisbon."

Pedro Cardigos at Cardigos & Associados agrees. "The Portuguese legal landscape is very 'monochromatic' having in Lisbon its main hub. Even Porto is a very different reality, which lacks sophistication and depth when compared with Lisbon. The remaining combined regions are very local practices with local areas of work," he says.

"Expansion in Portugal is limited to Porto and for institutional reasons only, very few cases would be profitable using Lisbon indicators – billable hour rates, salaries and client needs."

## **Lusophone world**

As well as expanding nationally, Lisbon's law firms are also however looking internationally, where they see an opportunity to capitalise on an increasing flow of high profile client work. Almost all the firms surveyed report an upturn in emphasis on international work.

Both PLMJ and Raposo Bernardo & Associados have established dedicated East European desks to follow clients across the region, echoing moves by Madrid-based Garrigues and Uría Menéndez. But it is towards the lusophone world, Portugal's former colonies, however that most emphasis is being placed by most firms.

The East Timor office of Coelho Ribeiro e Associados, says Rui Botica, has grown at an annual rate of 50% in recent years. "The office is growing by the day and we also now plan on expanding our presence in Mozambique by the start of next year."

Raposo Bernardo, the only major Portuguese firm with a Madrid presence, also has offices in five lusophone countries. "We are one of the best examples of Portuguese law firms that have taken advantage of the binds between Portugal and its former colonies – Angola, Cape Verde, Mozambique, São Tomé e Príncipe and Guinea-Bissau," says managing partner Nelson Raposo Bernardo. "About 15% of our lawyers have nationality of the former colonies, and we develop about 20% of our work from these offices."

The increasing economic importance of Brazil has seen many firms look to reinforce their ties there, including most recently Miranda which announced the addition of Rio de Janeiro's Bichara Barata Costa & Rocha Advogados (BBCR) to its nine country international Alliance. Nonetheless the firm remains best known for the strength of its Angola practice.

The civil war-ravaged country has recorded double digit growth in recent years, underpinned by abundant gold, diamond and oil reserves, and seen a flood of inward investment as it looks to rebuild its infrastructure. The capital, Luanda, has inevitably seen a steady flow in international and Portuguese businesses, and Portuguese lawyers keen to establish local ties.

The difficulty for firms looking to capitalise on opportunities is however a lack of solid and willing local referral partners, says Rui Amendoeira, managing partner of Miranda, which operates through Fátima Freitas Advogados in Luanda, Cabinda and Lobito.

The situation is complicated by a restriction on non-Angolans qualifying for the Bar. Nonetheless firms including PLMJ, Abreu Advogados and GPCB all have local joint ventures while many other firms have extensive regional experience.

Barrocas Sarmiento Neves, says Jorge Neves is active in the country representing international investors, but is also acting for Angolan investors internationally, as well as for clients in South Africa and in Libya, where the firm has a lawyer on secondment, and has been engaged on the extension to Tripoli airport.

## **African gateway**

Such is the level of international interest in commodity-rich Africa that many lawyers suggest that Lisbon is increasingly regarded as a conduit for legal work, and particularly for investment into and out of Southern Africa.

Many leading international energy and mining companies are already active in Angola, and where Portugal's banks have also had notable success, albeit many have recently had to sell out their subsidiaries.

September saw Banco BPI sell its 49.9% stake in Banco de Fomento Angola, the country's largest private bank to Unitel, Angola's leading mobile phone operator, for \$475m. Such sales may have been made under local duress, suggest some, but they have however helped to reinforce the Portuguese banks' Tier one capital ratios.

In any event, the flow of investment is no longer one way in the lusophone world, say lawyers. Sonangal, Angola's state-owned oil company, is increasingly active internationally and Angolan investors are known to have built up stakes in BCP Millennium and reportedly also in Portugal's largest energy company EdP.

Lisbon clearly has a role to play as an African gateway say many in Lisbon. "The Portuguese speaking African countries have legal systems very similar to Portugal and this greatly facilitates investment and business in general from a Portuguese platform," says Antonio Mendonça Raimundo at Albuquerque & Associados.

Others, including Joao Vieira de Almeida, note however that it remains early days and that the African markets have yet to fully mature. Some however question the relative attraction of Portugal, and Europe, to African investors or the likelihood of an upturn of investment.

"Most current foreign Angolan investment has been made through Sonangal. But Europe is expensive, a long way to come, and relatively unknown for them. Why come here when there are much more attractive options on the doorstep, in neighbouring South Africa, Mozambique or Congo," questions Amendoeira.

His firm has therefore begun to expand beyond the lusophone comfort zone, to Equatorial Guinea – oil and gas rich but also a former Spanish colony – and is now considering its options in other African countries, he says.

## **All the options**

The Portuguese economy may not therefore have experienced a sharp decline in economic performance but its Lisbon-based law firms are clearly taking no chances. “On the verge of a recession law firms will have to accommodate accordingly,” says GPCB managing partner Manuel Castelo Branco.

Many lawyers believe that the coming year will prove challenging and that all options have to be explored. Firms that fail to prepare must prepare to fail. Despite the possibility of major projects and infrastructure works on the horizon, efforts have to be made to ensure that firms maintain a consistent workflow and retain cohesion.

For some this means a wider national profile, and for others greater emphasis on international opportunities – notably to and from Africa. But as the pressures increase firms may also look for comfort in mergers, say others.

“So far the impact of the global crisis on the Portuguese economy has been relatively mild, compared to other countries in Europe. However, the crisis is so unpredictable that one can only make projections for the remainder of the day – tomorrow all our forecasts can be outpaced – but I think that 2009 will see the same movement towards consolidation in the legal market,” says Miguel Teixeira de Abreu at Abreu Advogados.

The emphasis is therefore on responding to changing client concerns, finding new opportunities, new niches, differentiating, and investing in training. “There are lots of important things to be done so that we become more valuable to our clients,” believes Santos Vitor.

In times of trouble the fundamentals apply, believe some: know your clients. “Now is the time to forge the best allegiances with your clients, or better, with the individuals that are well placed and taking the ‘heat’ of these troubled times – you may lose institutional clients, but the individuals that rely on you during these tough periods will not forget,” says Pedro Cardigos.

On a macroeconomic scale the ability of Portugal to manage a relatively shallow downturn, and for its law firms to overcome what many hope will be short term difficulties, may leave it better placed to capitalise on an eventual economic upturn across the Iberian peninsula.

“Portugal is facing issues, but these are nowhere near the level being experienced elsewhere in Europe and particularly in Spain. A Spanish economic ‘invasion’ may have been a worry for some but that is clearly less of an issue now,” says Galvão Teles. “Whoever recovers first, Portugal or Spain, will though have the advantage and we may still yet see a reversal of the trend of recent years.”