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Tom Phillips, special reports editor

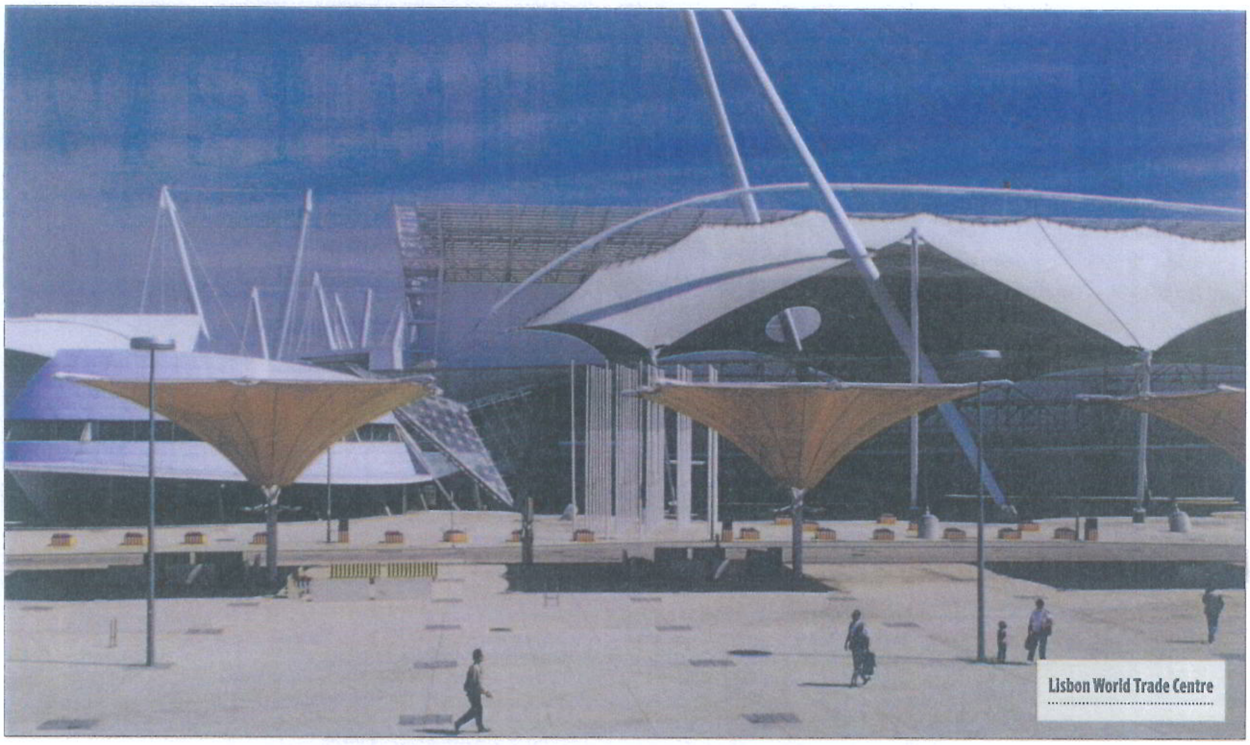
Iberian lawyers are hoping that having worked in a relatively flat market pre-economic downturn will mean a slower and less painful crash in 2009.

In fact, as the first of these reports from Portugal highlights, lawyers in Spain's neighbouring country believe that the market recovery may leave them in a better position than before.

Elections, due to be held in 2009, should mean greater public spending from Portugal's politicians, who will be keen to impress, while overseas work from Latin America and Africa may also have an affect.

The second article focuses on the law firms themselves. Spanish and Portuguese firms have already showed signs of expansion and there is more on the horizon. The ever-important relationship between the largest firms and the region's banks is also discussed, with an outline of which firms worked on what deals, hinting at how banking and finance practices may survive the shifting financial markets.

Stormy weathering



Lisbon World Trade Centre

With a relatively shallow downturn in prospect, the ability of Portugal's law firms to ride out what many hope will be short-term difficulties could leave them well-positioned for when the good times return.

By Scott Appleton

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. Nevertheless, law firms in the capital, Lisbon, are preparing for all eventualities.

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

The consensus among many Lisbon firms is therefore that, while 2008 may not have been a vintage year, neither has it been catastrophic.

"Portugal will not likely experience a hard economic landing, as there was no great height to fall from," says Jorge Neves, a partner at Barrocas Sarmento Neves. "For a number of years we've 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 per cent to 0 per cent will not prove dramatic."

However, the sentiment among both large and small firms is that those which 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," says Maria de Lourdes Lopes Dias, managing partner at Lopes Dias & Associados. "Crisis times are usually interesting for law firms, although bad for the economy in general."

Global trends

Transactions are still taking place but on a reduced level, say lawyers. The recent €1.2bn (£1.07bn) acquisition by the Iberwind private equity consortium of Babcock & Brown's (B&B) Portuguese wind energy subsidiary Enersis is perhaps a one-off, but is nevertheless indicative of how global trends are beginning to shape domestic developments.

The deal encompassed over 25 per cent of Portugal's entire wind farm capacity and was the country's largest-ever private equity transaction. But it comes as Australia-based

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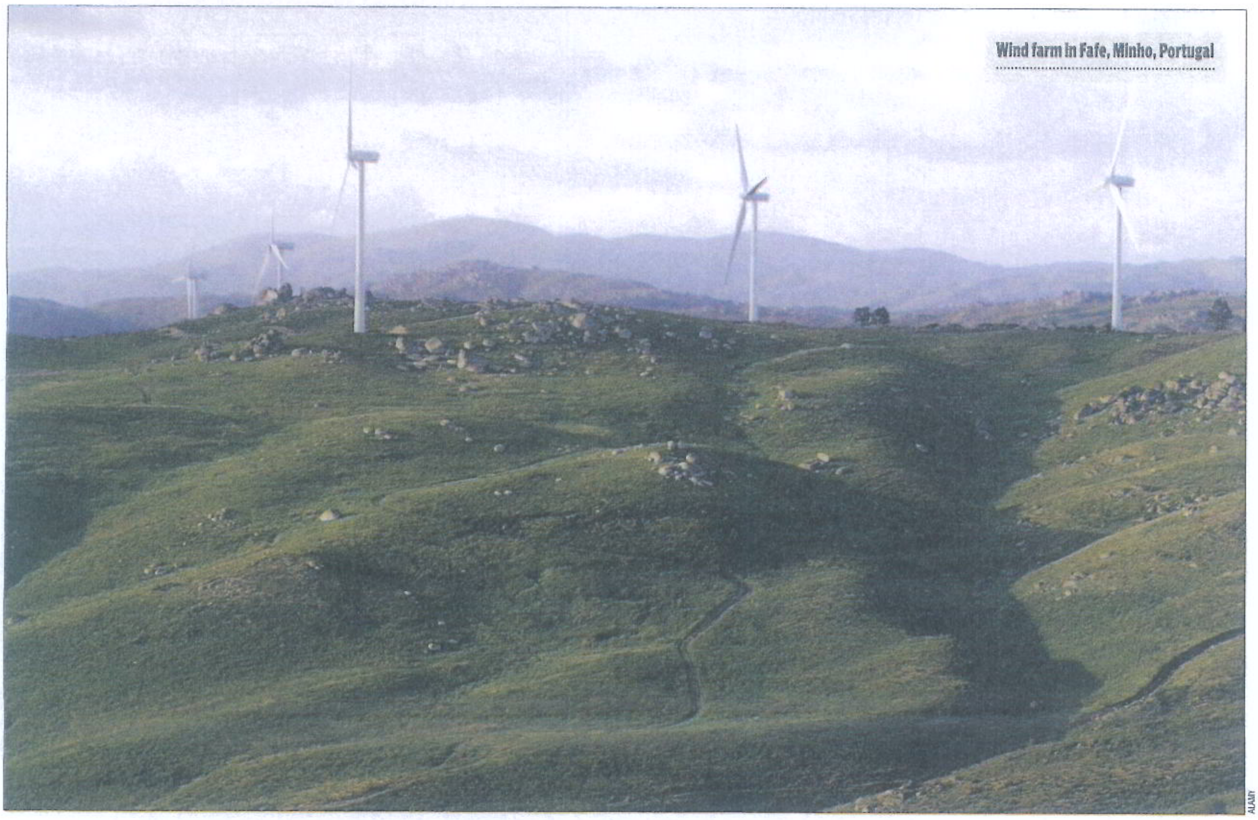

Wind farm in Fafe, Minho, Portugal

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B&B seeks to raise much-needed capital by selling off its entire European energy portfolio.

The deal has nevertheless 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 Espirito Santo de Investimento, Caixa Geral de Depositos and Millennium BCP.

But as with the rest of Europe's financial systems, Portugal's is also suffering the effects of the credit crunch and meltdown of the international capital markets, with inter-bank lending also having collapsed. Despite this, lawyers insist that the financial system remains relatively healthy. 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 (£17.88bn) initially available in the form of debt and loan guarantees.

Leading banks BPI, Millennium BCP, 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 Millennium BCP, Portugal's largest bank, may have suffered concerns surrounding its management, and private bank Banco Português de Negócios (BPN) has collapsed with €700m (£625.83m) losses as a result of international dealings, many believe there is no evidence to suggest that the system is fundamentally broken.

"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 management of BPN and is looking to sell off its life insurance division, while a number of struggling private banks are also reportedly for sale.

Infrastructure projects

Law firms, meanwhile, are looking positively towards a potential flow of projects work. Recently concluded projects include the €500m (£447.02m) Túnel do Marão project near Oporto, on which Linklaters and MLGTS advised. Still in development is the 270km Douro Litoral toll road PPP on which Uría Menéndez, VdA and Jardim Sampaio Caldas e Associados are all active. All have been part-funded by the European Investment Bank, which continues to invest locally.

In order to help stimulate the economy, some suggest that many delayed major infrastructure projects are now likely to get the go-ahead. João Espanha, a partner at Espanha e Associados, says: "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."

In the planning stage is an €8.5bn (£7.61bn) 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 (£4.39bn) Lisbon airport, as well as significant upgrades to the national power and telecoms transmission networks.

"The government's 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," says Nuno Galvão Teles, head of corporate at MLGTS. "For law firms this means an increase in consortium and finance work and inevitably that more will be involved."

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

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, layoffs and adapting their working practices in response.

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> Espanha e Associados

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

Firms are seeing an upturn in demand for labour, debt recovery and litigation advice, 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've seen a significant increase of work," explains Francisco Sa Carneiro, a partner at Uria's Lisbon office.

Lusophone ventures

It may still be too early to fully assess the impact of the crisis in Portugal, but some firms are clearly planning ahead.

As well as expanding nationally, Lisbon's law firms are also looking internationally, where they see opportunities to capitalise on an increasing flow of high-profile client work. Almost all the firms surveyed report a greater 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 Uria. But it is towards the lusophone world, Portugal's former colonies, however, that most emphasis is being placed by most firms.

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, although 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 influx of 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 itself has successful operations in both Luanda and Cabinda.

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

Barrocas Sarmento 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 Libya, where the firm has a lawyer on secondment, and it has been engaged on the extension to Tripoli International Airport.

Sea Discoveries Monument, Lisbon

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Such is the level of international interest in commodity-rich Africa that some 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, where Portugal's banks have also had notable success, although many have recently had to sell their subsidiaries.

September, for example, saw BPI sell its 49.9 per cent stake in Banco de Fomento Angola, the country's largest private bank, to Unitel, Angola's leading mobile phone operator, for $475m (£313.54m). Such sales may have been made under local duress, suggest some, but they have still helped to reinforce the Portuguese banks' tier one capital ratios.

Some, including Vieira de Almeida managing partner Joao Vieira de Almeida, say it is early days and that the African markets have yet to fully mature. Others question the relative attractiveness of Portugal, and even Europe, to African investors – or the likelihood of an upturn in investment.

"Europe is expensive, a long way to come and relatively unknown for African investors. Why come here when there are much more attractive options on the doorstep in neighbouring South Africa, Mozambique or Congo?" asks 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.

Taking no chances

The Portuguese economy may not 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 Gonçalves Pereira Castelo Branco managing partner Manuel Castelo Branco.

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

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

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.

However, 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.

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

Scott Appleton is international editor of Iberian Lawyer

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