Portugal: First rays of the new rising sun

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A more confident economy is raising expectations among Portugal's lawyers, who had turned their gaze overseas

Near Lisbon Cathedral in the heart of the Portuguese capital is a plaque marking the home for more than 200 years of the Colégio de Estudiantes Irlandeses. Established by Portuguese noblemen and a group of exiled Irish Jesuits, the college was one of the earliest links between Portugal and Ireland.

Today, the Portuguese government, businessmen and lawyers are desperate to mirror the example of their longstanding friends by following Ireland's model as the class swots of the financial crisis and subsequent eurozone meltdown.

Whereas Greece and Italy remain economic and political disasters, first Ireland and now potentially Portugal have gone willingly to the headmaster's office. At the end of last year Ireland made a "clean exit" from the bailout programme dictated by the troika of the International Monetary Fund, the EU and the European Central Bank (ECB). Now, Portugal is aiming to follow.

The signs are positive, but only recently so. Indeed, a few months ago there were mutterings that Portugal would have to return cap in hand to the troika for a top-up of its initial €78bn (£64.4bn) cash injection. However, the combination of growing investor confidence that the eurozone crisis is over and an improving Portuguese economy has boosted hopes the worst is behind the country.

Recent reports suggest property investors are returning to Portugal, encouraged by signs of gradual economic recovery and the prospect of the bailout programme ending. In the wider economy unemployment, while still high, at 15.3 per cent, is at least on a downward trajectory, dropping for the third consecutive quarter at the end of last year from a recent high of about 18 per cent.

Exports up, imports down

All this means lawyers have a cautiously optimistic outlook.

"Generally, we feel there's an economic recovery," says Miguel Castro Pereira, managing partner at **Abreu Advogados**. "Not as fast as we'd like, but faster than we expected. So our expectations are that Portugal will not need to resort to additional aid from the troika."

PLMJ managing partner Manuel Santos Vítor points out that the country's GDP has grown over the past three quarters to 1.6 per cent – a feat not achieved in the previous 10 quarters.

"A combination of factors is at work," explains Vítor. "There has been significant growth in exports combined with a reduction in imports. Traditionally, Portugal was highly dependent on external markets, but less so now."

He points to several large industrial projects coming into play over the past year and a half, such as a paper and pulp unit and an oil and gas refinery refurbishment. The retail and manufacturing sectors have picked up too, along with agriculture and wine.

"There's an optimistic mood among businesses and politicians," adds Maria Joao Ricou, joint Lisbon managing partner of **Cuatrecasas Gonçalves Pereira**, "but they're also realistic. It's accepted that we're in a much better position than we were a year ago, but they take the view that while important milestones have been reached, there remains much to do."

Protasio

"The situation is better, but nobody can say we are completely off the hook in terms of needing another bailout," says Manuel Protásio, a project finance partner at **Vieira de Almeida** (VdA).

He claims there are discussions in the corridors of Lisbon ministries about alternative financial support short of a second full troika bailout if more cash is needed, such as having an ECB guarantee to prop up any lack in funding from the open market.

Protásio maintains the reasons behind Portugal's enhanced position in relation to the troika bailout are somewhat opaque.

"As always with markets it can't be easily explained – it has a lot to do with perceptions," he adds. "And the perception is that the Portuguese government has made a big effort in restructuring the economy and cutting public expenditure. The latest sovereign debt efforts have been rewarded with favourable interest rates from the markets – even secondary market rates are pretty reasonable."

However, Protásio points out wryly that even Portugal's darkest economic hour did not translate into a nightmare for the country's business law profession.

"Lawyers don't need a booming economy to live," he says. "They need movement, but not necessarily growth. The legal sector in Portugal has been quite resilient and survived the crisis."

Privatising practice

One reason for this is that Portugal's troika-mandated privatisation programme has been run more smoothly than the similar programme in, say, Greece. A core difference is that privatisations in Portugal are handled on a case-by-case basis, leaving more scope to negotiate separate arrangements for legal advice.

Largest firms in Portugal, by total number of lawyers

Firm	Partners	Others	Total
Abreu	26	148	174
PLMJ	47	126	173
Cuatrecasas Gonçalves Pereira	27	130	157
Vieira de Almeida	27	111	138
Morais Leitão Galvão Teles Soares da Silva	38	94	132
Garrigues	14	66	80
Uria Menendez	15	57	72
SRS	18	35	53
FCB&A	9	44	53
Servulo & Associados	16	35	51
Caiado Guerreiro	n/a	n/a	48
ABBC	9	36	45
Albuquerque & Associados	7	31	38
Maced Vitorino & Associados	n/a	n/a	37
Pedro Raposo & Associados	5	27	32
Linklaters	4	26	30
Campos Ferreira Sa'Carneiro	9	17	26
Serra Lopes Cortes Martins & Associados	8	14	22
Gomez-Acebo & Pombo	5	16	21
PBBR	10	10	20

Source: The Lawyer

"Although the government is looking to drive a hard bargain on fees it's been good work for law firms," says Vítor. "The deals don't fulfil our annual budget, so we can't depend on them to meet our overall targets. It's not a goldmine, but it's interesting because it attracts other work."

In addition to some privatisation deals cut as direct transactions with bidders, others involved IPOs and have helped revive the Portuguese stock exchange. Indeed, the privatisations have attracted significant Chinese interest, which in turn has encouraged large Chinese companies generally to cast an eye over Portugal, not least in the banking and real estate sectors.

So far, the privatisation programme has been politically and socially uncontroversial, involving sectors not generating high levels of public emotion such as electricity generation and a state-owned insurance company. The exception was the recent disposal of the postal service, and that could be a harbinger of storm clouds over the next tranche of sales involving water and waste, and transport.

"There'll be a lot more trouble with the remaining privatisations," predicts Protásio. "The government has been dragging its feet over the privatisation of transport because that sector needs massive investment which the government can't provide. It will be down to the private buyer. Also, transport has the strongest unions in Portugal and they are adamantly against privatisation as it will involve a huge redundancy programme."

While law firm partners will not be able to retire to Algarve golf courses on the fee rates the government is paying for privatisation instructions, lawyers are still keen to be in the game.

One partner comments: "It's good to be there with the privatisation programme. If you're not approached by an interested potential buyer you should work for the government because at least you're there. But let's not talk about fees. – obviously, the government is not the best fee provider."

Golden ticket

A resurgent Portuguese property market might provide a longer term boost to law firm fortunes. Institutional investors – particularly from Germany – are returning. There is also Chinese interest in the prime resort locations in the south of the country.

Castro Pereira

"Some big projects that had ground to a halt because of a lack of funding during the crisis are now being marketed," claims Abreu's Castro Pereira.

He goes on to point to another spur to the property market – the government's 'golden visa' programme, which grants any investor putting in at least €500,000 (£410,000) a time-limited residency permit. The deal is predictably popular with Chinese, Russian and Persian Gulf investors looking for a route to free movement within Europe's Schengen area. Some 500 permits have been granted since the programme kicked off last year, resulting in €300m of property investment.

"That has really helped the market, which had basically stopped during the crisis," says Pereira. It's also helped law firms, who have diverted teams from a flagging if not dead M&A market to advising potential golden visa investors.

Arguably, another victim of the financial crisis is the much-touted concept of a pan-Iberian business law firm. While over the past 10 years some big Spanish players have muscled into Lisbon, Cuatrecasas – following its 2000 merger – is seen as the only practice truly to straddle both countries.

"The idea of an Iberian platform doesn't work," claims a partner at a Portuguese firm. "If they team up with Lisbon law firms, the Spanish tend to downsize the

Portuguese side. They are having problems with the concept. They rely quite a lot on Spanish investment into Portugal, but the economic crisis has also seriously affected Spain. So Spanish companies' first thought in exporting is not Portugal – they are looking more at bigger jurisdictions in Latin America and Africa. Therefore, Spanish law firms will have second thoughts about expansion in Portugal and will contract or perhaps withdraw completely. That's already happening to an extent."

International practice a must

While Spanish firms are becoming more or less domestic players in Lisbon, the big Portuguese players themselves continue to look overseas for expansion possibilities. Former colonies in Africa and the Far East offered opportunities when the domestic market froze during the financial crisis.

VdA is the latest to launch an overseas outpost, opening a two-lawyer office in East Timor this month.

"Portugal is a country of only 10 million people and the days of domestic double-digit growth rates are long gone," comments Protasio, explaining the overseas expansion strategy. "In addition, the potential for conflicts domestically is growing. So we have to look elsewhere, and international practice is clearly a must."