
DEVELOPMENTS IN THE INTEGRATION OF BALTIC LEGAL MARKETS

The three Baltic countries – Estonia, Latvia and Lithuania, have often been referred to as the “Baltic tigers”. Rightfully so far. What else can one call economies that have had annual growth rates close to double digit figures for each of the past fifteen years. Currently the more recent cooling down of these economies is creating new challenges for law firms and entrepreneurs locally as well as internationally in order to improve efficiency and find new opportunities across the region.

The period has offered quite an adventure for Baltic legal systems. Over the last decade Estonia, Latvia and Lithuania, have undertaken remarkable initiatives so that they could meet the requirements of their market economies. European integration and the conclusion of association agreements led the three countries to harmonize their legislation to meet EU legal requirements. All three Baltic countries also have faced significant changes to adapt to global integration - adopting new civil and commercial legislation, laws on competition and other legislation affecting M&A and other legal spheres.

Location is the key word to understand the Baltic States’ legal markets, where proximity to Scandinavia as well as cultural affinity to nearby former Soviet Union countries enable the Baltics to act as the gateway for international companies to find new possibilities and markets. The Baltic region is increasingly integrated with the Nordic countries, has its own dynamic markets, and keeps close connections to Russia and Poland, providing a conduit for business in that part of the continent.

The Baltic legal markets are known for the various alliances between law firms from each of its three states. Thanks to the RoschierRaidla combination, Raidla Lejins & Norcoux has been able to establish its presence in Nordic countries such as Finland and Sweden. Although, naturally, while each jurisdiction has its individual economic and regulatory attributes, clients see the area as one market and are looking for ‘one-stop-shopping’ when it comes to legal services. This is to be expected as companies are consolidating within the region and the last few years show a noticeable trend for businesses to move into other Baltic countries – the Baltics are increasingly perceived as one economic market. Furthermore for some time now many Baltic firms have been aggressively exploring possibilities for joint assignments in Scandinavian as well as global projects together with law firm alliances in order to exchange relevant precedents, know-how, marketing and the development of new products and services. The leading law firms in the region have maximized the effectiveness of these alliances in order to provide more fully integrated resources and

expertise to their clients and guarantee a consistently high level of quality and style of service as well as strengthen unified teamwork and management.

More investment also is now coming from Russia and the Ukraine. Since the break-up of the Soviet Union most of the major economic opportunity has been from the direction of the West and the EU has provided natural trading partners. Currently Russia’s economy is gaining strength and trade from this direction is starting to pick up significantly. The Baltic countries gateway concept paves the way for increasing relations towards the East as they provide a familiar cultural climate for local people seeking to establish their business in the EU. Even better, many locals in the Baltics speak their language fluently.

Mergers and acquisitions advice comprises, of course, a key component of the leading Baltics players’ workload. In the 1990’s M&A activities in the Baltics mainly were focused on mass privatisation of state owned industries. In the first decade of this century however, the M&A focus clearly has been on real estate, probably reaching its peak in 2006, when for example in Estonia the aggregate value of real estate deals was some EUR 5 billion. In the first part of 2007 the same pace continued, but by the end of the year, a correction had set in. The beginning of 2008 witnessed only a modest number of real estate transactions. Most likely these were mainly spill-overs from 2007, consisting of projects that were strong enough to convince the banks to fund them.

The energy sector is growing in importance for lawyers: The Baltic States are looking for possibilities to become more integrated into European networks and diversify their energy sources. Estonia launched Estlink, a submarine and underground electricity cable connecting Baltic power systems to Finland, and another cable is planned. Additionally, there are plans to build a link between Lithuania and Poland, making the Baltic networks part of Europe’s UCTE system. Each of the three states is also preparing for the construction of a new nuclear plant.

The somewhat gloomy perspectives for the upcoming year in the Baltics, most likely will provide significant new challenges for Baltic law firms. Many of the firms expanded rapidly during the past years surfing on the high waves of rapidly expanding economies – increasing their head count (often poaching competitors), and many setting up Baltic co-operations of different types. The upcoming year or two will most likely offer a rough road for many of them. The most solid ones that sustained their rapid growth during good years will adapt, and return to their earlier expansion strategies once the complicated times are over.

TRENDS IN THE LEGAL MARKET

IN NORTHERN EUROPE - SPRING 2008

RoschierRaidla is one of the leading and largest law firm operations covering Scandinavia and the Baltic states. Sweden and Finland have developed a special role as gateways to the region and the surrounding areas. While maintaining market leadership in Finland, the growth of Roschier's Stockholm office in 2007 was 75%, thereby ranking the fastest growing law firm in the country. The Baltic firms are also growing hand-in-hand with the emerging business markets.

The North European region covering Sweden, Finland and the Baltic states has developed into an area with certain common features as regards the underlying market, business and infrastructure. Sweden and Finland have developed a special role as gateways to the region and the surrounding areas, such as the other Nordic countries and Russia. Today, Sweden and Finland can be considered two closely integrated markets supported by common history, traditions and common views on the political and social régimes.

The legal markets in Sweden and Finland are also similar: both are very stable and localized, and difficult to non-local law firms to access. The markets have been dominated for decades by a handful (2-3) of major firms with deep links to the domestic client base and well developed networks for capturing international referrals. Lately, these markets have shown signs of consolidation, breaking up the local establishment and creating room for new players. To some extent, these developments have been influenced by the ethical rules in force in the region, whereby a law firm can only represent one bidder in a so-called "controlled auction", allowing for mid-sized local firms and certain foreign firms to build a strong market position in the footsteps of the few big firms. The lack of interest of the major international law firms towards the region has also set the scene for local development.

The pan-Baltic legal market, on the other hand, has developed hand-in-hand with the emerging businesses. Growth rates are high, and the jurisdictions comprising Estonia, Latvia and Lithuania can increasingly be regarded as one combined market. The leading law firms within the Baltics tend to have a presence in all three jurisdictions, or alternatively cover the area through close cooperation within a network or alliance, so as to be able to offer clients the full service package in all three Baltic States.

Law firm strategies

The relevant law firms active in Scandinavia, i.e. the more

established (vs. emerging) markets of the region, can be divided into different categories based on the strategies chosen.

Full service firms. Certain Nordic firms have chosen to capitalize on their size and geographical coverage by increasing the number of lawyers and keeping the "full service" flag high. There is no obvious link to traditional key financial parameters such as profit per equity partner or profit margins, but instead the focus has been on increased turnover. Some of these firms are even showing a drop in the latest figures of profit per partner. At best, these firms are growing with the market and are subject to certain inherent price pressure when expanding into new areas. A new element has been to combine the strong home market position with international expansion by establishing small "outlets" in emerging markets, with an ambition to guide the key clients also in other than domestic work. While these outlets cannot be full service, the main reason for their existence is to tighten the grip on the domestic clientele.

Integrated market approach. Certain firms have clearly recognized the consolidation of the underlying business markets and established a presence on several markets with an ambition of becoming a leading player on the combined, regional market. These firms operate as fully integrated both business and culture wise. As an additional element, law firms being able to position themselves as leading, with critical operations in the relevant jurisdictions, are also attractive for referral work from London, Frankfurt and other major European based international law firms. These firms have also recognized the need to nurse and keep the "strategic maneuver space" by not growing beyond a size motivated by the market. Such firms, with financial parameters



at par with major international firms, have a tendency of being focused on transactional work in the broad sense, also offering services in other key competence areas such as international arbitration.

Niche players. The market has also seen signs of emerging niche firms, i.e. small or medium sized firms with a strategic focus on certain practice areas or a certain client base. These firms tend to choose another focus area than transactions (which would require a bigger critical mass and heavy investments into HR, competence development and knowledge management in order to attract and retain lawyers and personnel). Niche firms often emerge as either spin-offs from mid-sized transactional firms, where e.g. litigation and arbitration boutiques have been established, or are formed as a result of consolidation among smaller firms focusing e.g. on insurance and litigation.

International firms. As the “global battle” among the magic circle firms is being fought in Asia and other emerging markets, the top tier international players do not seem keen to establish a local presence in Scandinavia or the Baltic region. As a rule, the larger international firms present in the region have chosen to be there either for client specific reasons or for individual reasons (i.e. having partners originating from the region). Some smaller international players (i.e. law firms or alliances with representation in a number of jurisdictions) have also established a presence in order to add these jurisdictions to their network. Scandinavia as such has not been considered an emerging market, where global growth is likely to take place within the foreseeable future. Further, the competition and price structure of the legal market does not easily support local financial performance that would allow for an integrated one-firm concept with the international law firms present in the major financial centers, thereby creating a need to down-size the local operations or create a niche approach to only handle cross-border or high-end assignments.

RoschierRaidla’s integrated market approach

The RoschierRaidla firms have recognized the benefits of, and adapted to, the integrated market approach. This is reflected, in particular, by the establishment of Roschier’s Stockholm office as well as the pan-Baltic consolidation of the operations of Raidla Lejins & Norcoux.

Since its establishment in late 2005, Roschier’s Stockholm office has taken a strong focus on transactional work and become one of the leading law firms on the Swedish transactional market. Its growth has been remarkable and has proven that the synergies between Swedish and Finnish businesses indeed form a solid base for offering cross-border legal services. The growth of Roschier’s

Stockholm office in 2007 was 75%, thereby ranking the fastest growing law firm in the country.

Roschier’s establishment on the Swedish M&A market is also reflected by its participation as an advisor in virtually all major takeovers and auction processes in Sweden during the past 24 months. Thanks to its presence in both Sweden and Finland, an established network in the Baltics through RoschierRaidla, as well as a high level of integration, the firm has capabilities to pull together suitable cross-border teams to support any major cross-border transaction in the region.

Since its establishment, the Stockholm operations of Roschier have focused mainly on transactional work. Now that the firm has gained a strong position on that market, it has also started to build up other key practice areas such of the firm such as International Arbitration. The recent recruitment of **Claes Lundblad**, perhaps the foremost expert in the region in this field, gives the firm an opportunity to quickly establish a leading presence in Sweden in this field as well. In Finland, the firm’s dispute resolution practice is already one of the largest in the region and well-known for its considerable experience in international proceedings.

The RoschierRaidla firms frequently act as advisors in the high-profile, cross-border assignments occurring in the region. Roschier has acted in the recent acquisition of Lindex by Stockmann, the acquisition of Scania by Volkswagen, in representing HSBC as financial advisor and lender to Borse Dubai in the public tender offer for OMX, as well as in representing the Kingdom of Denmark and CVC in the merger between Posten AB and Posten Danmark A/S, to name a few. The Raidla Lejins & Norcoux firms have acted, for example, in the acquisition of the Interinfo group companies by BaltCap, the sale of UAB Bité by TDC AS, the acquisition of Intrac Group by Catella Investments, as well as in assisting SEB with securing an acquisition facility related to a real estate portfolio acquisition in the Baltics.

The conclusion which can be drawn from looking at market trends and recent large-scale cross-border assignments in Northern Europe is that there is a clear demand for integrated legal services in the area. This applies to both Sweden and Finland as well as the Baltic states. The region is quickly evolving into an integrated market, which is bound to affect also the manner and scope of legal service offerings. The RoschierRaidla network is one of the largest law firm operations in Northern Europe, having a unique geographical footprint with Roschier offices in Sweden and Finland and Raidla Lejins & Norcoux offices covering all three Baltic states. The network continues to grow and develop its services with the objective of sustaining market leadership in the region.

ROSCHIERRAIDLA

LEGAL EXCELLENCE ACROSS NORTHERN EUROPE



RoschierRaidla is an integrated cross-border operation of leading law firms in Finland, Sweden, Estonia, Latvia and Lithuania.

The RoschierRaidla firms specialize in demanding international business law assignments and large-scale transactions. The network offers one-stop access to premier cross-border and local expertise in five capitals of the Nordic-Baltic region. Clients include leading domestic and international corporations, financial service and insurance institutions, investors, growth and other private companies with international operations, as well as governmental authorities.

The RoschierRaidla network was formed in 2004, when the Baltic states joined the EU. The RoschierRaidla firms shared a common vision regarding the development of the Northern European legal market and the opportunities it could offer to a regional player. Since then, the RoschierRaidla concept has proven a success and its firms have continued to grow at a rapid pace. In 2005, the network expanded to Sweden when Roschier set up an office in Stockholm. Today, RoschierRaidla employs some 260 lawyers and 400 professionals in total.

The RoschierRaidla firms have joint practice groups focusing on the following practice areas:

- Corporate and commercial,
- Mergers and acquisitions,
- Banking and finance,
- Capital markets,
- EU and competition,
- Dispute resolution,
- Intellectual property and technology, and
- Real estate.

The Firms

Roschier is one of the leading legal service providers in Northern Europe. The firm was founded in 1936, and its main offices are located in Helsinki and Stockholm. The Stockholm office, founded in 2005, has established a strong presence on the Swedish transactional market in just over two years. The growth of the Swedish office has been unprecedented – in 2007 Roschier was recognized as the fastest growing law firm in Sweden at a growth rate of 75%. Roschier employs approximately 160 lawyers, out of which close to 50 are located in Stockholm.

Raidla Lejins & Norcou, the Baltic arm of RoschierRaidla, comprises three leading law firms in Estonia, Latvia and Lithuania. The pan-Baltic operation currently employs approximately 100 lawyers.

The Estonian office of Raidla Lejins & Norcou (formerly Raidla & Partners) was founded in 1993 by Estonia's first Minister of Justice Jüri Raidla, and is the largest and best-known law firm in Estonia. The Latvian office (formerly Lejins, Torgans & Partners) was founded in 1994 and the Lithuanian office (formerly Norcou & Partners) in 2001. The firms frequently assist clients in international cases, and their clientele includes multinational enterprises, international banks as well as domestic corporations.

What others say...

...about Roschier

"[Roschier] is clearly distinguished from its Nordic competitors by its regional footprint and outstanding mandates." (Chambers Europe 2008, Corporate/Commercial - Nordic)

"A favorite for cross-border transactions, the firm is excellent in huge and hectic processes, keeping everything under control all the time." (Chambers Global 2008, Corporate/M&A)

"In an important recent development, the opening of a Stockholm office has increased an already formidable profile in international arbitration. With a network of firms in Northern Europe operating under the RoschierRaidla brand, the firm's ability to put together cross-border practice groups is unmatched in Finland. Such groups are being utilized to an increasing extent, prompting market watchers to recognize that the firm is 'incredibly strong in international work'." (Chambers Global 2008, Dispute Resolution)

"Roschier has an edge; the people there come from the other top firms and have combined their skills and thinking at the same time as they have learned from the mistakes made by others'. With the firm's main focus and core business being private and public transactional work, the first twelve months in Sweden saw it acting for a number of global players operating in the Nordic region." (European Legal 500 2007)

...about Raidla Lejins & Norcouis

"Without a doubt one of the market leaders, the firm's considerable experience and undoubted quality has contributed to its imposing profile." (Estonia, Chambers Global 2008)

"A well-established practice with particular strength in corporate work, this firm is generally considered to be a leading presence in the market." (Latvia, Chambers Global 2008)

"A good sized and high quality team operates out of the Vilnius offices of [Raidla Lejins & Norcouis]. Having handled a sophisticated workload since its establishment in 2001, the firm has marked itself out as a significant force in the Lithuanian legal world." (Lithuania, Chambers Global 2008)

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