

POLAND | NEW ENTRANTS

THE WARSAW CONUNDRUM

Poland, with its burgeoning economy, is fast becoming a gateway for business in Central and Eastern Europe and a destination for international law firms. But, with a mature and increasingly crowded legal market, those seeking to launch in Warsaw face quite a test

BY ELLEN HAYES*

THE global financial crisis has only enhanced Warsaw's status as the gateway to the legal markets of Central and Eastern Europe (CEE). The appeal of Warsaw as a strong base for law firms looking to gain access to CEE was highlighted just prior to the recession when Spanish firms Uría Menéndez and Garrigues kicked off expansion drives in the region with the launch of their respective Warsaw offices in 2008 and 2007, and Bird & Bird started its CEE expansion by opening its Warsaw office in 2008. More recently, in April 2010, K&L Gates elected to enter the region by taking over a 40 lawyer Warsaw-based team

from Hogan & Hartson. Taylor Wessing is rumored to be considering a merger with its alliance partner BSJP. Wolf Theiss has been evaluating the market with a view to entry and anticipates being in the market soon.

But while these firms have taken or about to take the plunge, some of the incumbents are incredulous that new firms might want to enter what they see as a cut-throat market. Other firms who have studied the market carefully have so far held off opening an office in Warsaw.

What is it about the Warsaw market that generates such different views and approaches? What are the factors

in deciding whether or not to open an office? What practice areas should new entrants focus on?

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For Warsaw

New entrants are mesmerized by Poland's domestic market, and the potential to use Warsaw as a base to cover other markets in the region. Garrigues closed its office in Romania last year as a move to centralize its CEE practice in Poland. "The firm's current strategy in CEE is to centralize all its functions and services through the Warsaw office – we see this as an efficient gateway to all our clients' needs in this region," said **Alejandro Miquel**, managing partner at Garrigues in Warsaw.

Poland's domestic market is a jewel to behold, its economy hav-

ing markedly differentiated itself from other CEE countries in the last three years. It is by far the biggest economy in central Europe (making up 40% of the GDP of the EU's ten new ex-communist members). But it is not only the size of the economy which is remarkable – Poland was the only economy in the European Union that kept growing all of

the way through the crisis. The IMF predicts Poland's GDP will grow by 4% in 2011 and again in 2012.

As a result, Poland's consumers are confident. Its 38 million people have a relatively low level of household debt. The June ICD Research report, entitled "The future of retailing in Poland to 2015" predicts that the luxury, apparel and accessory goods market will be the fastest growing retail market in the country, with a compound annual growth rate of over 7% through 2015.

Polish companies are flexing their muscles. As the website of K&L Gates' Warsaw office brags: "Over 170 of the 500 largest companies in the CEE region are located in Poland. There are more than 300 R&D institutions in Poland and Warsaw is recognized as one of the 20 best locations for business in Europe." And although some of the larger Polish companies have substantial in-house departments, these same companies are beginning to expand in the region and need external help. For example, in the energy sector alone, PKN Orlen, the Polish refining company, has acquired the largest refiners in the Czech Republic and Lithuania. PGNiG, the state oil and gas company, has invested in gas fields in Norway. Poland's number two refiner Lotos Group expects its revenue to rise by at least 20% this year and operates in Lithuania and Norway.

Capital markets lawyers are also finding work in the fertile IPO market in Poland. The Warsaw Stock Exchange, with 79 initial public offerings in the first half of 2011, had more than 10% of IPOs worldwide. Polish companies grow fast and are open to capital markets. Transaction such as recent successful IPO of JSW put Poland on the map of places where you can do serious



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Maciej Jamka, K&L Gates



business and it has been noticed by the investment community. Moreover, the IPO work also comes to Poland from foreign issuers for which the Warsaw Stock Exchange is an attractive alternative to the AIM, Frankfurt and Vienna listings. “We expect this trend to continue,” said **Marcin Studniarek**, partner, White & Case.

Lejb Fogelman, senior partner at Dewey & LeBoeuf, comments: “Some of the largest IPOs and secondary offerings in Europe were completed within the last two years. Those in which we played an active role included last year’s multibillion Zloty offering of the largest insurer in CEE [PZU], and Kulczyk Oil Ventures which was the first IPO of a Canadian company in Poland. Worth mentioning this year is JSW, one of the largest coal companies in Europe and one of the largest offerings in Europe year to date, as well as the accelerated book building sale of PZU’s shares.

“We are also working on the secondary offering of PKO BP shares, a sizeable offering by one of the largest banks in CEE and on several smaller but still sizeable IPO’s of various polish and foreign companies.”

Other practice areas poised for growth are life sciences, with Poland’s big generic drug industry, energy & natural resources, and PPP. “PPP will in-

evitably take off in Poland. EU money is largely tapped out with no chance of replenishment due to the sovereign debt crisis and most municipalities and governmental authorities are at their debt limit. If people want modern waste treatment, water treatment and the like, it will largely get done on the back of PPP-type schemes,” said **David Dixon**, partner at Norton Rose.

Global investment banks such as Goldman Sachs and Credit Suisse, and Western European private equity firms such as EQT, Montagu and Bridgepoint, have established their sole Central European office in Warsaw. The professionals resident in these offices typically cover at least the surrounding countries (such as the Baltics and Ukraine), if not the entire CEE region. Lawyers also find Warsaw a useful base for covering the region; **Daniel Cousens** of Linklaters advises clients in Ukraine and Russia from Warsaw, and White & Case handles work in Ukraine and Belarus. “Warsaw is a great base of operations for CEE – it is now seen as an integral part of Europe due to its performance during the financial crisis. It is the dominant CEE country economically and it now assumes the EU presidency,” says Mr Dixon.

For the new entrants, entering the Warsaw market was a no-brainer. **Maciej Gawronski**, managing partner of Bird & Bird

in Warsaw, says: “Establishing on the ground in Poland and in other CEE jurisdictions was logical to ensure we were serving our clients”. “For a global law firm like K&L Gates, Warsaw is an important place to be, simply because it is such an important place for the firm’s global clients,” according to **Maciej Jamka**, administrative partner of the firm’s Warsaw office. **Janis Nordstrom**, chief strategy officer at Wolf Theiss says: “Having a Polish office will complete our extensive footprint throughout the CEE/SEE region, thus offering our clients a full range of services anywhere they need to go. We view Poland as being a key factor to our firm’s future strategic growth initiatives and plan on “hitting the ground running” once we arrive.”

Against Warsaw

CEE is littered with law firms who have entered mature markets late and have had trouble competing with the entrenched players. Linklaters pulled out of Prague, Budapest and Bucharest, and Freshfields Bruckhaus Deringer and Clifford Chance pulled out of Budapest. Through

Firms that have remained maintain that the Polish legal market as been saturated for over a decade. Law firms in Warsaw are having to accept a permanent shake up in how they are retained and compensated, with a view to further changes in billing methods. New entrants will face fierce competition in terms of quality and pricing. “There is strong competition at every level and stage of the market.

The “know how” and quality is already in the hands of Polish firms, and there are many of them, so what’s on offer to entice clients to go to a new firm unless they are positioning themselves as a niche player?” asks **Dominik Galkowski** co-managing partner of KKG, which have offices in Warsaw and Krakow.

Piotr Spaczynski, managing partner at Polish law firm Spaczynski, Szczepaniak i Wspolnicy (SSW) says: “The market is saturated with international law



Pawel Debowski

firms stress the importance for new entrants to try to find the right angle. “The Warsaw legal market looks over-lawyered. New entrants will have to find a clear way to differentiate themselves from incumbents. Otherwise, only being very price-competitive may give them a market share. This raises the question whether this is where they would like to be,” emphasizes **Grzegorz Namiotkiewicz** of Clifford Chance.

“The distinction between “foreign” and “local” law firms is obsolete really. The firms that rely heavily on their own network and referrals, without a solid base in the local market do not grow,” says **Pawel Debowski** a partner in Salans’ Warsaw office and head of its CE real estate group. “Entering the market without a unique selling point and trying to build a full service law firm by organic growth will be extremely difficult.” ■

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Grzegorz Namiotkiewicz, Clifford Chance



the years, firms which were not 100% committed to building a Polish practice, such as Vincent & Elkins and Dickinson Wright, have picked up and left.

firms. For clients, the brand can be irrelevant, it is instead about the trusted advisor relationship and the quality of the lawyers”.

Even the leading international

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