

Comment: Brian Zimbler

Crisis point – how are international firms faring in the troubled Russian market?

Foreign law firms in Russia may be suffering from the impact of the Ukraine crisis, but new business-friendly laws offer a glimmer of hope

Lawyers are by nature intermediaries, and this has been especially true of international lawyers in Russia during the past two decades. Since *perestroika* times, we have been introducing foreign investors to the USSR and Russia, supporting Russian clients in outbound transactions and joint ventures and handling complex disputes. This has been exciting work, and has led to a well-established legal community in Moscow, with a supporting cast in London and other major European cities that frequently commutes to – and depends on business with – Russia.

Now a large shadow looms. The crisis involving Ukraine shows no signs of abating, sinking political relations between Russia and the West to a post-Cold War low. The US, EU and others have imposed economic sanctions, toughened them and made further threats. In response Russia has banned some Western food imports, and reserved the right to issue its own counter-sanctions. Low oil prices and sanctions have helped push the Russian economy towards recession, with a tumbling rouble, capital flight and shrinking foreign investment.

How are these developments affecting lawyers focusing on Russia, and their clients? The answers are murky, but certain trends are emerging.

For finance lawyers, work has certainly suffered since sanctions have cut off major Russian banks from international capital



markets. This has then caused a knock-on effect for domestic lending. Still, refinancings and restructurings are expected, and there may be a rise in bankruptcy-related work. M&A transactions are continuing but volumes appear to be down, while expected investment from Asia, to replace capital flow from the US and EU, is yet to make much of an impact.

Meanwhile, sanctions advice is in heavy demand. Foreign clients in Russia need to ensure that their existing suppliers and customers are not 'blocked persons', and to navigate the complex rules for sector-based sanctions, particularly in the financial and energy industries. Where sanctions apply, relationships must be terminated or restructured. Similarly, Russian clients need detailed advice on Western sanctions, to both plan and understand their impact.

US and EU lawyers must tread carefully to avoid breaches or assisting any circumvention of sanctions. Interestingly, in certain circumstances a US lawyer can advise a blocked person

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regarding sanctions, though a licence is required to get paid.

But there are some positives: Russia has adopted substantial civil law reforms to improve the business environment, including new rules for taking security, corporate governance and shareholder agreements. A more controversial topic is a new law that requires Russian investors to report controlled offshore holdings and pay tax on affected earnings that are not repatriated.

Other legislative proposals are less friendly to foreign business. For example, there is a new 20% cap on foreign investment in media companies, and a ban on paid advertising for some television channels.

Experience shows that even in bad times Russia needs good lawyers. Past crises were especially painful for international finance and corporate practices, but most firms managed to bounce back. Russia's talent pool, extensive natural resources and 143 million consumers remain important draws for international companies. So while geopolitical tensions are a major concern, Russia is too big to ignore, especially for multinationals, many of which have spent years building their brands, developing strong management teams and acquiring local market knowledge.

Simultaneously, major Russian companies require sophisticated legal advice to navigate the complex global economy, and to address an increasingly strict compliance environment at home and abroad. In other words, the clients still need legal help, which is good news for their lawyers.

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