



Copyright 2001 Petroleum Economist Limited
Petroleum Economist

October 23, 2001

SECTION: Pg.29

LENGTH: 2372 words

HEADLINE: ANALYSIS; GLOBALISATION OF LAW FIRMS.

BODY:

Legal frontiers As the energy industry expands its global reach, the services that support its operations must expand as well. This is becoming increasingly true for law firms, with the traditional homes of Houston and London being enhanced by new offices or extra personnel in more far-flung parts of the globe. David Townsend writes.

Energy companies' trend towards global expansion has been driven by new technology, which has permitted exploration and production activity in areas previously off-limits, such as deep-water West Africa, or geopolitical shifts, such as the collapse of the Soviet Union, which opened the Caspian to foreign investment.

At the same time, the trend towards deregulation and liberalisation, particularly in the utilities' sector, which began in the US and Europe, is spreading across the world. With the increasingly globalised economy, energy companies find themselves involved in projects that, a few years ago, would have been deemed unviable.

Moreover, state-owned oil firms in developing regions are adopting traditional Western economic practices to enhance operations, sometimes in the form of partial or total privatisation or as a result of macro-economic policy reform, which permits them to seek foreign capital for new projects.

All of this means that associated services - accounting, consulting and legal - are having to match the ambitions of their clients and this means, in many cases, increasing their own global presence.

Spreading out

A glance at the leading law firms that advise the energy industry, featured in Petroleum Economist's annual energy polls (PE 06/01 p9), shows how many are moving away from the traditional bases of London and Houston (with, in many cases, a single satellite office in both Asia and the Middle East) to opening offices around the world.

In some cases, new offices are not needed. A firm may already have a presence in a particular country, operating at a corporate law level.

In that case, it simply needs to expand its staff appropriately to take advantage of specific projects in the region. According to Teresa Sandon, London editor of The Legal 500, a guide to the legal market in

over 60 countries in Europe, the Middle East, Asia and the US: "Energy projects have become so international in oil and gas that law firms are having to meet the aspirations of their clients."

Says James Dallas energy partner and chairman at Denton Wilde Sapte: "Previously people took lawyers from Houston and London and expected everyone to travel." However, this is changing. "Today, the energy sector is increasingly a world-wide operation compared with 10 or 15 years go. Now, countries such as Russia and China are open and there are many more companies active in the industry." He adds: "Energy has been at the forefront of internationalising our practice; 25% of our business comes from the energy and infrastructure area."

Dallas says it is "a very strong advantage to have local capability, because while English and New York law underlies the oil, gas and power regime, there will always be local issues. "It's always helpful to have resources on the ground and to combine local input with the international practice. You can still bring in expertise from your regular bases, which we do up to a point, but it's also good to have local project managers."

In 1998, Denton Wilde Sapte took over the offices of Fox & Gibbons in Abu Dhabi, Muscat, Istanbul and Cairo, making for "one of the most extensive networks in the region", Dallas claims. "In the Middle East, because of the (short) time difference and quite a good flying time (from London), we have combined our London lawyers with lawyers in those offices. Our teams are a mixture of local civil law knowledge working with people from London."

The firm also has an office in Almaty, which, says Dallas, "is aimed at trying to secure work for the oil sector. With Kazakhstan, it's more difficult to work from London because of the time difference. So we may send people there for longer periods, but, again, you need local expertise."

Dallas notes that, while his firm has been involved in several energy projects in Africa, "none of our competitors have a presence, except in South Africa, so we're not really at a disadvantage". He says African projects tend to be dealt with from London. But the company does have alliances with local law firms, including Mkono, in Tanzania, and Corpus Globe, in Zambia. "These have worked very well. It will be a while before people look to set up offices there (in Africa) but it's a fruitful source of co-operation."

It seems clear the decision by a law firm to open new offices has been in response to the expansion of the energy industry as well where competitors operate. In July, Baker & McKenzie opened an office in Calgary, Alberta, designed to boost its international oil and gas practice, which it serves from offices in Sydney, Houston, Caracas, London, Almaty, Baku, Riyadh, Jakarta and Brazil.

A natural fit

It hired four Canadian oil and gas specialists to set up the office.

According to Bill Watson, Baker & McKenzie's Canadian offices' managing partner, "we anticipate Calgary will service a growing and broad list of premier clients from Canada and beyond. Calgary is widely known as the energy capital of Canada. It's a natural fit for a firm with an established oil and gas expertise."

According to Neil Donahue, European regional head of energy at Baker & McKenzie's London practice, the new Calgary office is "a useful fit because there are a number of worldwide energy companies based

there." He said the location was also expected to help the firm gain more expertise in upstream work, in which it is already involved, although to a lesser extent than midstream or downstream projects.

Says Donahue: "The increasingly global aspect of the energy industry means we have to meet our clients' requirements in that area. We already have an advantage because of our geographical spread. What we're doing now is making sure we apply best practices across that whole spread."

Mike Webster, also based in London and a partner in the firm's energy group, says that, while it was important to have an increased geographical reach, new offices bring new skills into the overall energy group, enabling the firm to "build up teams with real experience". Donahue notes that the Baker & McKenzie team that worked on the Barracuda offshore project, in Brazil, was drawn from the firm's London, Rio, Houston and Amsterdam offices.

Firms will sometimes open a temporary office linked to a particular project, while others will only create a new office if they are going to be in a location for a long time. Webster says Baker & McKenzie has tended to open offices "with a view to being there for the long term. In the case of emerging markets, which are volatile, they may go through leaner periods. A lot of firms did enter some countries, but really they just put a name on a door and didn't stay. We don't do that. We'd go in on the basis of more than one project."

Acquiring local knowledge, especially in countries or areas that may have been closed to the international investment community, is one of the chief advantages of opening a new office. According to Webster, "one of the main benefits is understanding how the place works, not just in terms of local laws, but practical things. Having local employees with experience of the domestic jurisdiction is a definite advantage."

Baker & McKenzie has added no new offices in the last year or so, apart from Calgary, although it continues to add lawyers with energy experience.

Explains Webster: "We've got such a broad network we're not necessarily looking to add more as a policy. We are more concerned about installing the resources in key offices that we have developed over the last 40 years and are strengthening and deepening." Donahue says a case in point is the firm's China office, established some time ago although not opened "necessarily with energy in mind".

Talent shortfall

With increased expansion, some firms say it has been difficult to find experienced energy lawyers. According to Webster: "It hasn't been easy for the last two to three years, especially in London, to find really good quality in the middle rank. Everyone's been struggling. But there's been a significant change in the market recently and we're seeing better qualified CVs than a year ago."

Donahue adds that another area of interest has been European energy market liberalisation and that the firm is improving its expertise in that area.

"We are seeing increased work there, so we are ensuring people are sufficiently trained to work on projects in those countries."

George Goolsby, head of **Baker Botts** energy practice in Houston, says: "You cannot have a worldwide practice without developing more than one key locale. Our vision is that the main offices are Houston

and London - where we have seen rapid growth. It was no longer possible (and hadn't been for some time) to support our worldwide energy clients from the US.

So, for us, London was the obvious choice. It was also important to find the right talent."

Baker Botts has recently increased its staff in London and all are dedicated to energy. Samantha Hampshire, an energy partner in the London office says: "The oil sector tends to be exciting and I think the firm is tracking the oil centres." The partner in charge of the London office, Antony Higginson, says: "Our clients want the expertise of an international firm. Normally, we use English law as a fundamental documentation law, so you bring that with you."

Goolsby notes that some of the recent major energy projects have required new legal expertise. "The **Azerbaijan** pipeline projects are a good example.

We've created laws for that. It's very interesting because, as well as normal agreements, the first order of business in many regions, especially with pipelines, is that you need legislation at treaty level and domestic law level. Sometimes there's no legislation there. For example, laws may date back to the Soviet era, when the fiscal regime was gauged for a different kind of commerce, so that has to be changed."

He adds: "In a developed situation, for example, in Turkey, you do a combination of both; it has some developed laws and then you need to interweave these into the existing ones. That requires a talented local counsel and you need to network."

Baker Botts has an office in Baku, which includes seven local lawyers.

In the early 1990s, it opened an office in Moscow and, while it remained there for several years, the location was closed. Goolsby explains: "It was designed to serve large energy clients doing large energy projects in Russia. But there weren't many large energy deals. The basic economic situation scared off the big oil firms and energy projects went away, apart from those on the periphery, such as Sakhalin, and a few in the Baltic." He adds: "Because of that, we were not able to continue, although we still have a lawyer there."

Goolsby claims that however many new law offices are opened around the world, the dominance of Houston and London "won't go away. Sometimes there are shorter-term projects, so we set up an office for a specific deal.

Then we have Riyadh and Baku, which are both situations where we see how the region develops and they could become permanent, although, like Moscow, sometimes the clients go away." Hampshire says the general perception is that "London is the second capital of the (legal energy) world, after Houston." Goolsby agrees the UK capital is "a close second".

Operating in Baku presents challenges, says Goolsby. "There are no templates for working in places like this," where there are marked cultural differences and potential geo-political obstacles, he says, describing **Azerbaijan's** pipeline projects as a "classic example" of a complex mix of regional and global political issues. Higginson adds that, once the Caspian pipelines are up and running, a lot of the risk will be removed and "we hope to build on that".

Some firms are prevented from opening in certain countries, such as Iran, because of US sanctions. Says Goolsby, "We would love to have the opportunity to work in any area of the world. But we don't complain, it's a fact of life."

Higginson says the service lawyers provide is not simply related to a specific project. "The most important thing for the instructing lawyer in foreign places can be things such as information on visas, work permits and then the business side follows. You need the law firm to get you in the country in the first place."

Goolsby says **Baker Botts** is "excited" about the openings for international energy firms in Saudi Arabia's gas sector. Its Riyadh office was involved "for two to three clients, particularly in the second phase". However, he adds that the opportunities are "still at a very conceptual stage".

Although the government has outlined the broad details, "a good bit of work" remains to define the project.

Vinson & Elkins has offices in Moscow, Beijing and Singapore, which are used as regional centres. All Middle East work is handled from London.

In August, the firm added two partners to its Singapore office to raise its profile in the Asia-Pacific region. Boyd Carano, who relocated from New York, says there had been signs of a "noticeable" increase in mergers and acquisitions activity in the region. "Also, privatisation programmes are under way in earnest in many countries in the region, and investment opportunities are being created in the energy infrastructure, private equity, and telecoms sectors, as regional assets are reallocated and recapitalised."

"We work regularly with counsel, in particular countries that we are dealing with," says Bruce Bilger, attorney and counsellor in Houston says Vinson & Elkins. "That seems to work well for us. We have good relationships with a number of law firms in virtually every country." As regards new offices in the future, Bilger "continues to evaluate whether it would be helpful to our clients to have an additional office, but at this point we have no plans".

LOAD-DATE: October 23, 2001
