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Ukraine: Ukraine's economic washout

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Indies in the Ukraine are preparing themselves for a long, cold winter as the credit crunch begins to bite. Neasa MacErlean reports

It is going to be a pretty chilly winter in Ukraine. Most law firms accept they are facing major challenges, but are hoping for an upturn in financial and political conditions when temperatures go back above zero again in March.

"It is very difficult to predict where we will be even next week," says Vladimir Sayenko, managing partner of five-partner Sayenko Kharenko, which prides itself on its 'innovative cross-border' work. As Legal Week ILFE went to press, Ukraine had just been offered a £10bn loan from the International Monetary Fund (IMF) to save the country from going bust. On the upside, the state of financial emergency has at least ameliorated a political stalemate, forcing the Prime Minister and President to get on speaking terms again.

"The fact that they have put aside their petty squabbles is a good sign," says Jaroslawa Johnson, managing partner of US firm Chadbourne & Parke's Kiev office. Normally lawyers would not want to be making such political comments, but all of Ukraine's 48 million inhabitants know the effectiveness of its government is crucial right now. The Hryvnia, the Ukraine currency, slid 20% in October alone against the dollar, as this heavily-leveraged country emerged, along with Iceland and Hungary, as one of the worst-affected by the global credit crunch.

The situation lawyers face is dramatic. "We estimate that the legal market has decreased by about 40%," says Oleg Makarov, managing partner of local independent Vasil Kislil & Partners, talking about the decline of the last few weeks. He adds: "We believe that some firms will lose as much as 70% or 80% of their work."

Ukraine, one of the world's top 10 iron producers, is being hit by falls in steel prices which on occasion this autumn have slumped by as much as 50%.

Still, at the moment most firms seem to be holding on. After all, they are used to handling crises - which arise fairly regularly when neighbouring Russia intermittently cuts off the gas supply on which Ukraine is dependent.

"Having been in Ukraine for nearly 15 years now, I have witnessed numerous political crises and economic downturns, and my practice has survived all of them," says Adam Mycyk who left Chadbourne Parke to found CMS Cameron McKenna's Kiev practice in August 2007. "The key to weathering any downturn is to keep very close to existing clients, be on top of market developments, review, refocus and revamp existing practice areas and develop new areas - and above all, remain flexible and optimistic."

All the larger firms based in Ukraine are repositioning themselves - reassigning people from flagging capital markets work to M&A, now a promising sector as businesses sell off assets to raise cash.

Although most firms mention the M&A opportunities and an increase in litigation, these are not the only stories in town. Arbitration is growing, point out lawyers at 35-strong Astapov, which also recently opened an office in Moscow and has "a number of major energy and mining-related clients" in the Kazakh market. Sayenko Kharenko talks of increases in corporate restructuring, bankruptcy and tax planning.

Alexander Minin of three-partner KM Partners, which has particular strengths in tax and customs work, says that the domestic workload has been increasing recently: "We see significant developments in the agro sector, in certain processing facilities and in some high-tech related businesses."

Oleg Batyuk of French firm Salans, which opened its Kiev office in 1992, reflects the views of colleagues in other firms when he talks about the current acquisitions sector: "We are seeing a market full of distressed assets. As standalone assets, many are perfectly viable. This creates significant opportunities for those investors less reliant on leverage as well as the cash-rich sovereign wealth funds. We are having many conversations in this regard with investors who still recognise the viability of Ukraine, with many still referring to it as the 'last untapped market' in the region."

No-one should underestimate the ability of Ukrainian firms to get through difficult times; not least because most have had the opportunity to build up cash buffers since the country began growing again in 2000. Sayenko Kharenko saw profit grow by 30% for the first nine months of 2008, while turnover at Astapov is up 150% on last year, helped particularly by growth of business through the new five-lawyer Moscow practice. Vasil Kislil experienced 16% growth over the last year.

Magisters expanded from 90 to 100 lawyers in Kiev in 2007, and managing partner Oleg Riabokon is confident about the future: "Magisters has always practised conservative financial policies and we have approached the crisis with a good financial standing and strong overall performance. In fact, we look at the crisis as an opportunity for further development that will make the Ukrainian legal market stronger by putting pressure on firms with ineffective management or those which do not have a sound market strategy."

No firm admits to having big problems at the moment - and they do not especially expect others to go under, even if some offices slim down.

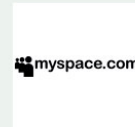
In fact, Salans has stated that it is "actively recruiting" and Jaroslawa Johnson of Chadbourne says: "It hasn't been difficult for us yet - but we can see that things are changing." However, as time goes by, more firms may have to adopt the realistic tone of Finnish lawyer Johan Aalto, whose firm, Hannes Snellman, went into Kiev in 2006 through a merger and now has five partners in situ. "It is an extremely interesting market," he says. "But in the downturn, it will take some more time to develop."

Only a year or two ago, there was a shortage of lawyers in Ukraine. Now there are growing numbers of law firms preparing to lay off staff. "I am getting CVs across my desk from people in all the main Ukrainian firms," says one managing partner. "There was a shortage - but now, as some firms seem to be firing lawyers, there is an excess," explains another.

If the credit crunch affects the ability of clients to pay bills, there could be a lot of sackings in the coming months. But firms which can get through this winter may have survived the worst, especially with the IMF money set to come through. Still, everyone is braced for a rough ride in 2009.

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