

Interview with Andrey Goltsblat, Managing Partner, GOLTSBLAT BLP



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Pepeliaev, Goltsblat & Partners and the major UK firm Berwin Leighton Paisner (BLP). It calls itself the first international Russian law firm. Can you explain to our readers the rationale behind the creation of this firm and why Goltsblat BLP is interesting for the market?

There was a split amongst the lawyers at Pepeliaev, Goltsblat & Partners, representing differing strategic views. The half of the firm that eventually chose to form Goltsblat BLP felt that our previous organisation had no clear vision for future development and misunderstood the leadership.

With the strong feeling that the Russian market will continue to develop under the Anglo-Saxon transactional legal system and in order to enhance our capabilities and enter different market niches, we believed that we needed a UK element or a UK presence and to be more internationalised in terms of expertise and knowledge in particular jurisdictions.

In order to achieve this goal, there were two obvious options: to employ UK-qualified lawyers, or to merge with one of the great UK law firms. In doing so, we sought to secure the value and the brand awareness that we had developed over the previous seven years with Pepeliaev, Goltsblat & Partners.

We found that joining BLP was the most efficient means for realising our objectives, so it was the solution we chose. BLP was formed after the merger of two UK firms Berwin Leighton and Paisner

& Co in 2001. In the ten years that followed, the firm expanded rapidly both in the UK and overseas. Its international approach includes a panel of preferred law firms around the world, plus offices in key markets. In addition to Moscow and London, the firm has offices in Abu Dhabi, Brussels, Paris, Singapore and plans to open in Hong Kong later this year.

When we negotiated our deal, BLP had been considering their strategy for further extending their reach, exiting the London cycle, and becoming more truly international. This clearly fit in with our own strategies and ideas; plus their service structure and attitude was quite similar to ours. BLP did not hesitate to provide our team here in Russia with the necessary level of flexibility and liberty in terms of strategy development and implementation.

There is a strong synergy amongst our Russian colleagues and our UK colleagues. I discussed potential mergers with different law firms: in the U.S. and the UK and I believe that, had we merged with a different partner, it would have been difficult to retain the brand value, core team, and core expertise we inherited from our previous firm, which was the way to our success today.

Our decision allowed us more opportunities and more professional challenges, which is an engine for growth.

The major law firms we have spoken to—Baker & McKenzie, CMS, and now Goltsblat BLP—would all cite their ‘one stop shop’ multidisciplinary and international approach and an industry-focused practice. What sets Goltsblat BLP apart?

Obviously, the advantages you mentioned are classic comparative advantages that one may read in any Harvard law volume. I do not believe that a firm can sell itself on this alone.

I think our competitive advantage is that, having emerged from a purely Russian firm and having developed our Russian capabilities since 1994, when I started my first law firm, we know the way the law operates here. Local elements are crucial in any jurisdiction. One would be poorly suited to practise law without an exceptional understanding of local culture, body language and the domestic approach towards discussion and negotiation. The key strategic point of our further evolution is to maintain our unique Russian knowledge and capabilities and to develop the international approach to our services as a single Law Firm.

At one point in my career, I personally was Head of Staff of the Constitutional Commission of the Russian parliament, which is a great experience and advantage—because I know how the Russian legal system works. Other international law firms may not have a similarly privileged understanding of the way the Russian legal system and the Russian government operates. Working within the Parliament, you can understand how officials think, how best to approach particular matters, anticipate bureaucratic reactions here in Russia, etc. This gives a legal firm a great advantage, as Russia remains a country where the state plays a crucial role in investment support and

development.

We furthermore combine our local understanding with the entrepreneurial experience of the British lawyers and well-developed modern service technologies. And yet, in comparison with other international competitors, I think we retain a greater level of flexibility with respect to our central office. BLP is a winner of the Client Service Award from the FT Innovative Lawyers Awards. We are innovative here in Russia as well in this respect and innovation is something that the modern world requires more than ever, especially with the turmoil on the financial markets and an economic situation that makes clients hesitant. You have to be innovative; you have to be proactive; you have to be advanced in anything you offer as a service provider.

Finally, anyone who is young has a competitive advantage. We are approaching what is only our third anniversary on the market and we have quite a bit of energy but, in comparison with other young firms, we also have experience.

Is being a newcomer really an advantage, when your competitors are so well established? And, moreover, Baker and CMS are international firms first and Russian firms second. Goltsblat BLP is Russian first and international second. Do you believe that, as a Russian firm, you are respected as a strong player?

That might be the market perception, I am not sure, yet I believe we are already different. We have been working on changing this perception since we just started. We do not wish to be Russian first and international second. Our goal is to build the global, Russian practice of Berwin Leighton Paisner. This is Goltsblat BLP. We provide services to foreign clients coming to Russia and we provide services internationally to Russian clients. That is why we are the global Russian office, rather than the Moscow office or the Russian office. As a global practice, we service clients inbound and outbound through our offices in London, Singapore, Abu-Dhabi, Hong Kong, Brussels and Paris, using preferred Law Firm networks in other jurisdictions as well.

We are now determining an implementation plan for modifying this image. Yet, in any case, I think that 'Russian first-international second' is an artificial distinction.

Nonetheless, perception is quite important, is it not?

It is important. If the perception does not fit with your strategy, then you work to change the perception.

However, in order to get on to the market and to survive after the split from Pepeliaev, Goltsblat & Partners, we had to maintain the Russian element in our corporate image. Now, after almost three years, we are reshuffling our offer to the market to ensure that clients understand that we are more than a typical Russian firm. This has been proven by the projects we are undertaking.

You have certainly worked on a number of high-profile projects. Do you believe this trust from the market comes by virtue of your past work at Pepeliaev, Goltsblat & Partners or your new identity at BLP?

I believe that it is both. As I mentioned, at our previous firm we believed that we were good but needed UK law in order to obtain more exciting and interesting projects in the M&A and Finance sectors. During the subsequent three years, we have very heavily promoted our enhanced capabilities and this has worked quite well.

There are UK-qualified partners and associates sitting in our office as we speak. This is quite convenient and our clients are satisfied because they do not have to fly to London to speak with someone who understands their native legal framework.

Over 70% of your clients are major international businesses, many of whom you advised as they first entered the market in the 90s. In your years as a legal counselor, how have you seen the environment for international organisations evolve in Russia and the need for legal services along with it?

This is a very interesting question. In the mid-1990s, when the first multinational pioneers came here, no legal system effectively existed. We had only just emerged from the Soviet Union; as I mentioned, in 1990 I was head of Staff of the Russian Constitutional Commission under Boris Yeltsin and then, after he was elected President, under Ruslan Khasbulatov – the Speaker at that time, we were charged with drafting our first constitution! When the USSR collapsed, we inherited a legal system that did not fit the new realities, the new challenges, or future demands. Thus, we had to develop novel legislation from the ground up.

As this legislation was under development, newcomers—Mars and Pepsi, for example—entered the market, and lawyers were charged with helping them navigate the foggy environment. The lawyers, in turn, had to navigate using instinct, judgment, and experience.

I will give you an example. The Soviet Union's land law did not allow foreigners to lease land—when foreigners sought to build facilities in the wake of the collapse, lawyers needed to be flexible and find a way to do it. Mars Incorporated wanted to invest in Russia in 1993 and started negotiating a land lease with the local authorities. Mars engaged an international law firm to assist them. The firm essentially picked up the UK template of a land lease, a 35-40-page document complete with all domestic UK stipulations, such as reps and warranties, indemnities, retentions etc. They asked a secretary that had just graduated from the linguistic university to translate it into Russian, which she did.

As you can imagine, it was a complete mess. The firm brought the document to the mayor, and declared that this is what their client wanted to sign. The mayor's response was that these guys

were mad; in turn, the firm told their client that the mayor did not understand the particulars of a land deal! Needless to say, there was no deal. The owners of the business, who of course still wanted to lease it, got frustrated and requested a Russian lawyer to be brought in—and that is how I started my commercial legal career.

There were no Russian commercial lawyers at the time and no one had any experience to offer, so I had to read a book—the newly adopted Russian Land Code. We drafted a three-page lease based on Russian Law, took it to the mayor, and signed it after just six weeks. Mars has owned that land for 15 years now, and I believe it was a great deal.

I think that, although the legal environment lacked structure and clarity in the 1990s, it was simpler, easier, and more exciting to provide legal advice than it is today. Now, the amount of regulations and legislation has made investment far more complicated. Foreign investment is now becoming routine, on one hand; on the other hand, the landscape is considerably more bureaucratic. There are fewer challenges but more red tape! You might say that the progress made since the 90s has been offset by such bureaucracy.

We have heard that, while the overall statutory direction is positive in Russia, it seems that much of the legislation that is introduced creates barriers rather than facilitates business. Russian lawmakers are certainly not incompetent. What do you believe is the problem here? Is it a matter of inexperience? Entrenched interests?

It is a matter of enforcement. It is a matter of inexperience. It is a matter of administration. It is a matter of basic knowledge of the fundamental, commercial legal institutions. If you do not understand those basic institutions, it is very hard for you to judge. Officials hesitate to make a decision, because they have little basis for judgment, but do not wish to be penalised for making an incorrect decision. As long as you have uncertainty, it is hard to make progress.

For example, we had a case that lasted for two and a half years, with a client that simply wanted to lease a strip of forest to place their cables, in order to facilitate the building of their nearby manufacturing plant.

This is a 300 mn EUR investment. We are talking about a big plant that will employ more than a thousand people and pay huge taxes—and just this small strip of forest to place the cables took us that long to secure! We had to convince the authorities that there was nothing wrong with this use of the land; we have a very thick file full of back-and-forth correspondence. There were elements of extortion involved, which we hate. When you are being extorted, you have to move very cautiously and advise clients to ensure that they are fully compliant, and ensure that your firm is fully compliant. Corruption is an issue in Russia and you have to be absolutely resistant and see to it that your clients are not tempted. This is the only recipe for success.

The answer in this kind of highly bureaucratic and corrupt environment is to be absolutely compliant and to take your time?

Yes. And moreover, strategically, you are faster than the others if you proceed legally and ethically. There are those that tried to resolve their issues inappropriately, thinking it would speed their business along. They suffered: there are public cases such as that of Siemens and Daimler, where they lost considerable ground in terms of market share and reputation. They were significantly penalised by the FCPA. More haste, less speed in Russian.

Let's look at a sector where compliance plays a particularly crucial role: pharmaceuticals. Goltsblat BLP contends that, over the past year, it has invested considerably in developing a strong firm-wide healthcare and pharmaceuticals practice. Why was it important for the firm to advance its capabilities in this field?

It was less important as a firm and more important as a business. This industry represents strong potential for growth and financial windfall. Having recognised this potential and having recognised that the pharmaceutical industry is under development in Russia, with a great need for legal services, we decided that, strategically, we needed to build up the pharmaceutical in-house practice.

Our current clients, like AstraZeneca, Sanofi-Aventis, Teva, Philips, P&G, Kimberly-Clark, and JnJ , already retained us for a number of advisory functions, but not in pure pharmaceuticals or health care. This was a shame—we thought. Why provide them with corporate service, real estate service, etc., but not be able to provide them with pure regulatory pharma and Health Care services?

Is the firm now well-positioned to provide this kind of advice? What are your strengths as a partner to this industry?

Absolutely. We have hired a great pharmaceutical expert— Nina Belozertseva—who is very well respected and used to work for JnJ. She currently heads our practice in the field and is seconded to Novartis. I think she is the perfect person to navigate and guide the pharmaceutical industry through the constantly changing legal and regulatory environment.

The situation is extremely complex. The government is not yet very experienced in this field, yet it must figure out how to regulate and manage an absolutely new industry. Issues with IP, generic medicines, localisation, certification, etc. are huge, complex challenges! If we are able to help our clients, it will be at the core of the further growth of our reputation.

Going forward, how can this firm build on the instant prestige it has garnered on this market? As a very young company, what are your development ambitions?

We look to serve clients differently from traditional law firms. One of the ways we are attempting to do this is by outsourcing to neighbouring countries like Ukraine and Belarus. Their legal systems are very similar and their lawyers are very well qualified and very professional, but their costs are only a half or even a third of those in Moscow. That is one avenue we may use to develop the routine, daily support for our clients.

We are building up a finance practice here and developing a very strong finance team. This field is important because finance understanding is in keeping with our international strategy. Whatever transaction we may work with requires a finance partner—any M&A, for example, requires a finance partner. Finance is still governed by international law and international law firms; it is a portion of further growth and development in which we are investing very heavily.

Our next step will be the capital markets, because now I think the advantage is that capital markets are falling again. There was a bit of a peak last year, when many companies tried to offer IPOs, but now they are holding back again. This gives us time to prepare for the next round of IPOs.

Looking three to five years ahead, as I said, we would like to be the global, Russian practice of BLP—which is based in Russia, serving both Russian and international clients globally. We would like clients to utilise our strengths as lawyers who have a cultural understanding, a linguistic understanding, and an understanding of local business practices. We want clients to be comfortable coming to us for the same kind of services that our international competitors might offer, but in the local language. We even are thinking to send a number of our staff to the UK for six to eight months to become qualified UK lawyers. Then we would have native-speaking, native Russian, UK-qualified legal counselors. This is what the Russian practice needs.

What is your proudest achievement in your short company history?

I am satisfied with the way we have developed so far. I am also satisfied that we have been able to retain our key clients and people. I am proud that we have been able to reposition ourselves and achieve what we aimed to achieve over these three years. We are now a completely different proposition for the market than we used to be and that is what we wanted. Our efforts have not gone unnoticed.

What is your final message to the international readers of Pharmaceutical Executive?

We are very pleased that pharmaceutical players have been brave enough to come to Russia and that they trust in this country and its capabilities. As a law firm, we will be happy to assist as much as we can in order to achieve the goals and objectives of pharmaceutical organisations, enabling them to be as successful here as they are in the West. In turn, we hope that this industry will aid in the further development of this country and help bring it to a point where Russian Lawyers and Russian Law would retain the same or an even greater position than the others.

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