

JIŘÍ ŠTĚRBA:

# No investors' stampede for the exit in Russia

As Managing Partner of BBH Moscow – the first Czech law firm to set up in Moscow – and the Czech representative at the Association of European Businesses, Jiří Štěrba is well placed to offer insights into how the Ukraine crisis is being received in Russia and how it might impact on foreign investors in the country

Igor Záruba

**The topic grabbing Europe at the moment is the EU sanctions and the retaliatory Russian sanctions. In the west you here and there get tough talk, while in the Czech Republic – in some circles – the rhetoric is somewhat more moderate. How are President Putin's policies being perceived by Russians?**

In recent months, politics have become a subject of discussion everywhere. In Moscow, which was always more business-minded than political, this is particularly notable. There is a significant increase in Russian patriotism spreading through society as can be seen on TV, in the newspapers and on social networks. The view of the events in Ukraine is completely different from what you encounter in the western media and the events in Ukraine are basically understood as an attack against the Russian nation and Russian strategic interests. The vast majority of the people support Mr. Putin's politics and his usually high popularity has even increased amidst all of this.

**Are concrete impacts yet to be seen, for instance with regard to the ban on imports of foodstuffs from "unfriendly" countries?**

No significant change has actually been seen in Russia so far. For example, in regard to the ban on certain

imported food: one must understand that there has always been a very broad offer of non-western food in Russia generally and there is very little "unique" western food that cannot be replaced by own-production or imported from other countries. The products imported from the west are usually quite expensive for average shoppers and thus the bans affect very few people. Also, a good deal of the foods under "western" brand names is in fact produced in Russia. In Moscow, many visitors are often stunned by the variety of food and cuisine available in the city and if it's a problem to get a genuine quattro formaggi pizza, it is easy enough to have a good Georgian khachapuri [cheese-filled leavened bread] instead. Some shops have also started to advertise Russian products, with labels saying "Grown in Russia" on their stock. I am often asked this question, but the truth is that it is not an issue.

**How big a problem do you see right now and what size of problem do you expect in relation to the outflow of investors and the fall of the rouble?**

It is absolutely not certain that investors will leave Russia, although it is true that they are cautious in the current unstable situation. We have seen that exports and imports can quite easily be affected by legislative acts of the

EU or Russia, however, direct investment has by definition a higher level of legal protection afforded by investment protection treaties, World Trade Organisation rules, etc. Long term, it may prove to be a good opportunity for many exporters and entrepreneurs to consider restructuring their business relations with Russian entities: establishing Russian business units or local production, finding reliable Russian partners, making connections and creating joint ventures. We can see that some companies are already doing so. Clearly, sanctions and trade bans are an imminent problem for certain companies and must be dealt with immediately, which is why they are attracting so much attention right now. As far as the devaluation of the rouble is concerned for investors, it is rather a task for proper foreign exchange risk management. The main problem for everyone remains the stagnation of the Russian economy.

**What is being planned in connection with these events in terms of the Association of European Businesses (AEB)?**

Since the beginning of the crisis, AEB has identified the huge economic risks arising for both sides and, on a long-term basis, is calling for the de-escalation of the current situation and the commencement of mutual talks.

**How much influence does AEB have in Russia, what can it influence?**

AEB is an association of more than 600 companies protecting the interests of its members in Russia. The members are big European firms, banks and other associations. Its representatives hold regular discussions with EU and Russian officials. AEB represents a large enough concern to wield certain influence.

**And your role at AEB?**

I am a representative of the Czech Republic, nominated by the Czech Embassy in Moscow, on the Council of the

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National Representation of AEB. The council consists of one representative per each EU country.

**Since when has your office, specifically the Moscow branch of Czech law firm BBH, been active in the Russian Federation, namely Moscow?**

Having supported our clients in their Russian projects for years, we opened the Moscow office back in 2006 – as the first Czech law firm in Russia. The decision to open the office was a clear and logical pro-business development step.

**What observations do you have regarding the branch's operations?**

We started with a very small team, and the initial period was particularly difficult. The Russian legal market is very different from that in Czech Republic. For example, we experienced problems with a high staff turnover and the exaggerated expectations of job applicants and, when the economic crisis started in 2008, there was a substantial decrease in the volume of work. But instead of closing the office or dismissing lawyers, we worked at

stabilising the team and improving our services. This strategy proved to be correct after 2010 when we began to grow significantly. Today, we have two Czech partners and one Russian partner and we employ 20 Russian lawyers in Moscow. We also have Russian desks in our Prague office, as do some other law firms, but our strong presence in Russia has a fantastic synergistic effect.

**How would you characterise the Russian legal environment? As ossified? As**

Jiří Štěrba (35)

He is a Partner of BBH and since 2010 the Managing Partner of the firm's Moscow office. Before joining BBH in 2002, Mr. Štěrba had worked in the legal department of the Czech Securities Centre. He graduated from the Law Faculty of the Charles University in Prague. His professional expertise includes M&A, corporate law and real estate with a particular specialization in projects in the Russian Federation. In Russia, he is a representative of the Czech Republic in the Council of National Representation in Association of European Businesses.

**in a transitional phase? As dynamically developing?**

It is very dynamic. In the corporate area, more and more of the common instruments required in the business environment are being introduced into law. It is becoming more flexible, closer to the western model. Shareholders agreements, for example, became enforceable. Of course, this trend is also due to the fact that it was not very investor friendly, even until quite recently. Currently, there is major reform under way that will merge the high commercial and civil courts. The decisions of the highest courts are well-considered and the laws are constantly amended to reflect the court precedents issued by the highest courts.

**What differences in habits and traditions do you see, as assessed through Czech eyes?**

There are many differences actually. For example, in Russian M&A projects, English law is predominantly used. English law is better developed than any other body of law for such projects. This also means that a significant number of very good English lawyers are active on the Russian market and the quality of the transactions is generally on a very high level. Our presence in Russia was one of the key reasons that we established our English law practice within our firm. We now have a team of four English law lawyers in BBH.

**How many people do you employ in Moscow? Is the staff purely Czech, full-time, part-time... do you have Russian colleagues?**

As I mentioned, currently we employ 20 Russian lawyers internally working full-time, plus support staff. My colleague at BBH, Tomáš Pešek, Partner, and I are the only two Czechs in the Moscow office. Furthermore, we cooperate with a number of international and Russian law firms, accounting firms, tax firms, corporate services providers and all the other necessary contacts that you need to effectively operate in Russia.

**What projects are you working on?**

In the M&A area, we regularly work on acquisitions, divestments and the creation of joint ventures. We have advised in the acquisition of considerable stakes in banks, insurance

companies, retail stores and significant real estate projects. We represent clients in the construction and delivery of industrial complexes, power plants, and so forth. We advise banks in connection with export financing and other projects in Russia. Over just the past few months, we worked for a German bank in relation to the lease of a Boeing cargo 747 to a Russian operator. We assist in property development projects and negotiate the resultant leases. In this area, for example, we are supporting PPF in the Comcity project, which will be one of the biggest office parks in Russia. We are often involved in litigations, bankruptcies and restructurings.

**Can you describe what kind of clients you have?**

We predominantly represent large investment groups, banks, insurance companies, construction companies, energy providers and machinery companies. But we also represent small and medium sized companies and entrepreneurs in making their entry on to the Russian market, in court disputes, and in general corporate and labour matters.

**To date, what have been your biggest successes in Russia?**

We do not think in these categories. Each project is very different and most are actually quite complex. Our clients' success is what matters here. For us, the important result is that we gain the confidence of our clients, advise on state-of-the-art projects and have a Moscow office that features as an important part of the whole BBH international business.

**What plans are there for the future when it comes to the Russian business?**

Obviously, our main goal is to ensure the stability of the Moscow office in these rather turbulent times. We know that it will not be easy, but for us it is just another challenge. We will constantly work on improving the quality and effectiveness of our services, develop our English law practice and, within the bounds of possibility, remain focused and strengthen our presence in Russia for the long term.



Photo: BBH