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RUSSIA

Russian Lawyers Find Lucrative Niche Counseling Clients Hit by Sanctions

‘We explain how to soften the blow,’ says one of a growing number of Moscow attorneys aiding blacklisted firms and individuals

By *Georgi Kantchev*

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MOSCOW—When the U.S. levied sanctions against scores of well-connected Russians in April, Russian lawyer Ilya Rybalkin had to make a choice: he either had to drop his biggest client, a now blacklisted billionaire, or give up his promising career at a prestigious American law firm and launch his own practice to represent him.

Mr. Rybalkin opted to strike out on his own. Eight months later, he said, his new business is thriving.



Ilya Rybalkin recently left the Moscow office Akin Gump to start his own law firm, which represents individuals and firms hit by U.S. sanctions. PHOTO: OLGA INGURAZOVA FOR THE WALL STREET JOURNAL

“Clients are asking “Are we dead? Is this the end for us?,” he said. “So we explain how to soften the blow.”

Mr. Rybalkin isn’t the only Russian attorney to have taken a risk on blacklisted clients and seen it pay off.

Years of international sanctions against Moscow have hobbled domestic companies and business tycoons and helped push Russia’s economy into recession. While the downturn has hit Russian law firms, too, the sanctions have helped some of them to new profits. Sanctions-related legal and consulting work is now a fast-growing business, according to interviews with more than a half-dozen Russian lawyers and experts.

Russian lawyers are racking up billable hours by helping companies hit by sanctions navigate treacherous legal terrain, and preparing others in case they are targeted next. Some law firms have established special departments focused solely on sanctions, lawyers say. For that lucrative niche, domestic firms are picking up prized talent as foreign firms scale down their presence in Russia, a country many of them once saw as a legal cash cow.

A spate of Western sanctions since Russia's 2014 annexation of Crimea from Ukraine has hit the economy and sharply reduced investment. In April, the U.S. turned up the pressure, blacklisting more than three-dozen Russian individuals and entities in response to what U.S. officials have said are Russian aggressions, including meddling in U.S. elections, cyberattacks on critical U.S. infrastructure, the Kremlin's military intervention in Ukraine, and Moscow's support for the regime of Syrian President Bashar al-Assad. More sanctions were leveled against firms and individuals in August.

That is likely not the end of it. Some 86% of big businesses in Russia say they are concerned about new U.S. sanctions, according to a recent survey of more than 1,000 firms commissioned by RBC, a Russian news website.

New U.S. sanctions are likely to be imposed soon as a second round of punishment for Moscow's alleged nerve-agent attack in March against a former Russian spy in the U.K. Congress is also considering further penalties on Russia's financial system and its banks.

Russian lawyers aren't complaining.



The offices of law firm Rybalkin, Gortsunyan & Partners in Moscow. PHOTO: OLGA INGURAZOVA FOR THE WALL STREET JOURNAL

"Sanctions-related work has become huge part of our business," said Yuri Sidorenko, a partner at Naryshkin & Partners.

In a recent case, Mr. Sidorenko advised European clients wanting to purchase a factory in St. Petersburg from a sanctioned Russian firm on the brink of insolvency. Due to the restrictions imposed by the sanctions, the buyers—whom the attorney declined to identify—couldn't pay the Russian firm directly.

Mr. Sidorenko said he advised the clients to wait for the Russian firm to go into insolvency, so they could skirt the sanctions by buying the factory from the creditors rather than the sanctioned entity. That way, he said he told them, they would also acquire the asset at a bargain price. The case is still being resolved.

With the West and Russia embroiled in an escalating confrontation, said Andrey Zelenin, managing partner at Moscow-based Lidings, Russian law firms are "in the middle of the battle."

For example, Mr. Zelenin said, he had a Russian client earlier this year who was waiting to be paid by a foreign firm. But after the client was hit by U.S. sanctions, the money, a few hundred thousand dollars, was stuck somewhere in the international banking system, the lawyer said, adding that he was working on getting it released.

Lawyers say sanctions are also leading to a shift away from using English law—hitherto the norm in international mergers and acquisitions—in favor of Russian law. English law is often the preferred governing law for corporate transactions world-wide, in light of its well-



Lawyers with Rybalkin, Gortsunyan & Partners discussing a case in their offices. PHOTO: OLGA INGURAZOVA FOR THE WALL STREET JOURNAL

developed and reputable jurisprudence.

Firms also increasingly prefer Russian courts over international judicial institutions for arbitration cases, given the possible impact on such cases of the tensions between the West and Russia, lawyers say.

Meanwhile, sanctions are biting Western law firms operating in Russia.

The demise of the Soviet Union in 1991 prompted a surge of big international players into Russia, eager to take advantage of the massive privatization drive as the country tried to build a market economy. But since Russia's annexation of Crimea from Ukraine in 2014 unleashed a wave of U.S. and international sanctions against oligarchs and well-connected businesses, some Western firms representing blacklisted individuals have been forced to scale down their local presence.

The Moscow branch of the Washington-based law firm Akin Gump Strauss Hauer & Feld now has 18 lawyers, down from 29 four years ago. A spokesman said the firm remains committed to maintaining a robust presence in Moscow.

Mr. Rybalkin was among those departing from Akin Gump, after his biggest client, billionaire Viktor Vekselberg, appeared on the list of more than three-dozen Russian individuals and entities sanctioned in response to alleged Russian aggressions.

"When I heard the news, I thought 'Oh my God, what do I do now?,'" Mr. Rybalkin said. "It was when I really understood the reality of sanctions."



Mr. Rybalkin, founding partner of RGP, in the law firm's Moscow offices. PHOTO: OLGA INGURAZOVA FOR THE WALL STREET JOURNAL

Mr. Vekselberg's Renova Group is a big account for Mr. Rybalkin. As an Akin Gump lawyer, he represented Renova in a giant deal in 2012 in which a consortium that included Renova sold its stake in Russian oil-and-gas joint venture TNK-BP to state-run energy giant Rosneft for \$28 billion.

His new venture, Rybalkin, Gortsunyan & Partners, launched in September. All its 13 lawyers came from international law firms. Mr. Rybalkin said the firm has so far been exceeding its business plan, handling four large cross-border disputes and working with Russian and international clients.

Even Russian law students are increasingly looking for a career at domestic firms, according to law school professors.

"My students used to dream about working at big international firms," said Alexander Molotnikov, a professor at the Lomonosov Moscow State University. "Now, they are thinking more and more of working for Russian firms or as in-house lawyers for Russian companies."

That's not to say that sanctions have been all positive for Russian law firms.

The economic downturn caused by the embargoes has dented lawyers' bottom lines, as has the steep decline in foreign deals. Foreign direct investment in Russia came to \$29 billion last year, less than half its 2013 level of \$69 billion, according to World Bank data.

"Legal services are quite sensitive to the business environment," Mr. Zelenin said. "Initially there was a lot of bankruptcy work, but that's also bad because your clients are dying out."

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