

# Czech law firms more competitive

## EXPERT FILE

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Both 2005 and 2006 were filled with legislative changes that affected the legal services sector in the Czech Republic in a variety of ways. Several key acts and amendments were adopted and came into effect that forced attorneys and law firms to react promptly to changes in routine procedures.

Within this context I wish to draw attention to four important rulings: the Administrative Procedure Code that took effect Jan. 1, 2006, the amendment to the Act on the Legal Profession that took effect on Apr. 1, 2006, and the Public Procurement Act and the Act on License Agreements and License Procedure, both which became effective July 1, 2006.

The amendment to the Act on the Legal Profession in particular introduced very significant changes—if not revolutionary ones—to legislation governing legal services in the Czech Republic. In the past, attorneys worked on a contract basis and were not considered as employees. After long discussion, an agreement was reached by which an attorney at law is able to employ another attorney at law. In addition, creating and incorporating limited liability law firms and limited partnership law firms is now permissible. Such amendments to the Act on the Legal Profession were followed by amendments to the Income Tax Act.

Based on the above amendment, the so-called “responsibility agenda” of the Czech Bar Association was altered. The rules for appointing free legal counsel services have been clarified in order to limit their misuse. The Bar may now appoint legal counsel only in cases where legal counsel may not be appointed under given rules of procedures. Furthermore, an applicant for legal aid is obliged to provide evidence of his financial need by completing a questionnaire about his property.

Other major changes have resulted in the strengthened position of the Czech Bar Association in disciplinary proceedings, while disciplinary proceedings themselves have been simplified and become more effective. The amendment allows for the suspension of an attorney who intentionally evades disciplinary pro-

ceedings. Moreover, a disciplinary order on the legal profession, similar to the criminal order, has been introduced into Czech law.

## Market development

In the last two years the legal services market in the Czech Republic has experienced a dynamic expansion (after the downsizing from 2000 to 2002 in some international firms). Currently, the fate of law firms is changing significantly, as strong competition in the legal services market and certain material shifts are evident.

In the 1990s, international law firms operating in the Czech Republic had certain competitive advantages because of the high quality of services they offered, a result of their long experience in the field; their know-how and diverse international contacts ensured a steady inflow of clients. However, the importance of such advantages is gradually diminishing.

## Complex cases require firms to provide specialized services

Large Czech law firms now are able to compete successfully with branches of large multinational firms. They offer services of equal quality and have been able to acquire a ready supply of foreign contracts thanks to their membership in independent international associations of law firms, for example **Procházka Randl Kubr** within Lex Mundi, **Peterka & Partners** within TerraLex, and **Čermák Hořejš Myslíl a spol.** within TAGLaw. In this respect it must be said that these international associations are a dependable source of international clients only when they are efficient and when their members maintain regular personal contact.

Independence is an undisputed advantage of Czech law firms. Such firms don't have to respect global internal procedures. Their practice is created on the basis of their client's needs and their pricing policy is set independently. Global pricing policy and its relatively high costs for an infrastructure now appear as an increasing disadvantage for large multinational law firms.

Czech law firms have competed with international firms by expanding abroad. This growing trend has gone on since January 2001 when



Illustration photo by Martin Siebert

The amendment to the Act on the Legal Profession affects some choices for attorneys

the law firm of Peterka & Partners expanded to Bratislava, Slovakia, followed by several other firms, including Procházka Randl Kubr. At the beginning of 2003, the law firm **Kocián Šolc Balaščík a spol.** opened a branch in Brussels; in April 2006 **Brzobohatý Brož & Honsa** established a branch in Moscow; and in June 2006 Peterka & Partners opened another office in Kiev. Thanks to their growth and penetration in foreign markets, the competitiveness of Czech law firms is increasing, especially within the Central and Eastern European market.

Aside from the increased competitiveness of Czech law firms, we can point to another trend in the Czech legal services market. Recently, small teams separated from large multinational law firms to specialize in selected branches of law. The law firm **Johnson Šťastný Kramářik** (split from **Allen & Overy** in 2004), specializing in public-private partnership projects (PPP), is an example. PPP is a system in which a government service or private business venture is funded and operated through a partnership of government and one or more private sector companies.

In the legal milieu which has formed in the Czech Republic, specialization is a must for large law firms as well. Moreover, the demand for legal services with low-added-value has decreased. Compared to previous years, most such services

are performed by in-house lawyers, and outside firms are hired only for more complex cases.

## Prospects for 2007

As for development in the legal services market in the Czech Republic, it's likely that current trends shall continue and further develop. The differences between small-scale and large-scale law firms will become more pronounced, and the structure of large Czech law firms will begin to more closely resemble major Anglo-Saxon law firms. Specialization within Czech law firms will increasingly develop and these firms shall be hired for complex cases that require specific and in-depth knowledge. In this respect, work effectiveness shall be considered as one of the most significant factors.

With regard to legislative changes, several significant legal regulations are expected to enter into effect in 2007. In addition to the Labor Code, the Building Code and the Act on Health Insurance—all effective on Jan. 1, 2007—the Insolvency Act will replace and use different principles than the current Bankruptcy and Composition Act, and is scheduled to take effect Jan. 1, 2008. No significant amendments to the Act on the Legal Profession are planned for 2007. ■

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