

Australia's international market for Legal Services¹: 2006-07 FY²

This analysis is intended to be read in conjunction with FMRC Legal's report and accompanying tables and charts prepared by the ILSAC Secretariat. All figures are in \$A millions. Unless otherwise stated, figures are for cross-border and export transactions, including disbursements.

Analysis and Comments – Key Points

Overview

- Total income from cross-border³ transactions and the export⁴ of legal services in 2006-07 was **\$675.1m** (compared to \$543.2 m in 2004-05). These figures include disbursements⁵ (\$61.2m) and billings from overseas offices of Australian practices (\$148.8m).
- Total **export income** (adjusted to closely align with ABS definitions) is **\$391.76m**. ABS' published figure for 2006-07 is **\$278m** which may be under-reported. If this is correct, the official export of legal services figure is likely to increase.
- The US remains the most important legal services market for Australia (**\$192.3m** for USA/Canada compared to \$134.2m in 04/05) – a market in which there is now no longer any office⁶ of an Australian law firm established. The market is serviced by cross-border communications,⁷ fly-in, fly-out,⁸ US clients in Australia,⁹ or a combination of these modes of supply.
- China/Hong Kong has emerged as the second most important legal services market for Australia (**\$105.2m** compared to \$73.9m), displacing the UK (**\$82.2m** compared to \$86.8m). Commercial presence plays a very important part in the delivery of Australian legal services to China, accounting for **\$56.7m** or more than half the total Australian legal services earnings from China/Hong Kong.
- Asia as a market for Australian legal services (**\$244.6m**) has grown faster (an increase of **56.4%**) than the rest of the world (**\$430.5m** and an increase of **25.5%**) over the period 2004-05 to 2006-07.
- International work is still concentrated: ten firms account for 79% of cross-border/export work.

Overseas markets

- Accounting for 66% of the total, the most important overseas legal services markets globally for Australia were:

(i) United States/Canada	\$192.3 m	28.5%
(ii) China/Hong Kong	\$105.2 m	15.6%
(iii) United Kingdom	\$ 82.2 m	12.2%
(iv) Europe (excl UK)	\$ 66.1 m	9.8%

Type of work

- The top areas of legal services work, globally, for Australia were (i) Corporate/ M&A (\$214.7m or 31.9%); (ii) IP, IT & Telco (\$156.8m or 23.2%); (iii) Litigation (\$76.1m or 11.3%) and (iv) Banking & Finance (\$67.3m or 10%). These accounted for **76.3%** (or **\$514m**) of all fields of work.

Commercial presence

- Commercial presence, an overseas office or 'foreign affiliate' of an Australia supplier of legal services, generated earnings of **\$148.8m** in 2006-07 (compared to \$85.193m in 2004-05). Net of disbursements the figure was \$145.1m (compared to \$79.50 m in 04-05).

¹ Legal services comprises commercial legal services and barrister services, patent & trade mark attorney services, commercial dispute resolution services (including arbitration and mediation) and other services.

² The Australian financial year (FY) is from 1 July to 30 June.

³ 'Cross-border' transactions include 'resident to resident' earnings (eg an Australian law firm acting for an Australian client in respect of an investment in an overseas country) and earnings of overseas offices of Australian law firms and patent and trademark attorneys. These kinds of earnings are not regarded as an export under international and ABS statistical conventions.

⁴ 'Export' has been defined to closely align with ABS and international statistical conventions, ie involving a transaction between a resident and a non-resident.

⁵ Disbursements include other legal services (eg barrister's fees) and non-professional costs incurred on behalf of a client (eg international travel). Disbursements are not included in the ABS export definition.

⁶ World Trade Organisation/ General Agreement on Trade in Services Mode 3 (commercial presence).

⁷ WTO/GATS Mode 1 (cross-border supply).

⁸ WTO/GATS Mode 4 (movement of natural persons).

⁹ WTO/GATS Mode 2 (consumption abroad).

- Commercial presence provided **22%** of overseas earnings in 2006-07 (16% in 2004-05).
- The most important markets (by office location) for this mode of delivery were:
 - China/ Hong Kong (\$70.7 m or 47.5% of the commercial presence total),
 - NZ & PNG (\$34.2m or 23%)
 - Singapore (\$21.7m or 14.6%)
 - UK (\$12.5m or 8.4%)

Commercial presence in these four geographic destinations accounted for **93.4%** of income derived by the overseas offices of Australian law firms and patent and trademark attorney firms.

- The source of income for these offices was most diverse in Singapore, with only 62% of income deriving from within Singapore, and the remaining 38% from other geographic markets. Firms in the UK and China/HK also undertook work from a range of markets, with 28% of commercial presence income in the UK, and 22% of commercial presence income in China/HK, deriving from other geographic markets.
- Top areas of work for overseas offices were Corporate/ M&A (36.8%), Banking & Finance (18.9%), and Litigation (14.7%). These four areas accounted for about **70.3%** of all fields of work.

Fly-in, Fly-out

- Fly-in, fly-out from Australia totalled **\$118.1m** or \$106.2m (net).
- Fly-in, fly-out represented around **17.5%** of all legal services work in overseas markets.
- The most important markets were: (i) US/Canada (\$32.3m or 27.3% of fly-in, fly-out work); (ii) Africa and the Middle East (\$13.9m or 11.7%); (iii) UK (\$11.5m or 9.7%); and (iv) Singapore (\$8m or 6.8%). These four markets accounted for about **58%** of total fly-in, fly-out work.
- Top areas of work for Fly-in, fly-out were (i) IP, IT & Telco (\$51.1m or 43.3%); (ii) Corporate/ M&A (\$21.1m or 17.8%); (iii) Energy & resources (\$13.9m or 11.8%); and (iv) Other infrastructure (\$12.6m or 10.7%). These four areas of work accounted for about **83.6%** of all fields of fly-in, fly-out work.

Australian Projects

- Australian projects was the largest category of cross-border and export work and totalled **\$408.1m** (\$362.6m net), or **60.5%** of all Australian legal services work with an international connection.
- The most important markets for this mainly inbound work were (i) US/Canada (\$154.4m or 37.8%); (ii) UK (\$57.8m or 14.2%); (iii) EU (excl UK) (\$51.9m or 12.7%); and (iv) China/HK (\$43.2m or 10.6%). These four markets accounted for about **75.3%** of Australian Projects.
- Top areas of work were (i) Corporate/ M&A (\$140m or 34.1%); (ii) IP, IT & Telco (\$95.5m or 23.4%); and (iii) Litigation (\$51.9m or 12.7%). These three areas of work accounted for **70.4%** of Australian Projects.

Suppliers of legal services in cross-border and export activity

Legal practices (solicitor practices and barristers) provided most (\$529.6m or 78.4%) of the legal and related services. Patent and trade mark attorneys were also significant providers of services (\$120.2m or 17.8%). Australian arbitrators/mediators reported modest earnings from international work (\$5.1m or 0.8%), but this should be treated with caution due to the small response rate from this professional group.

Appreciation

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