

Who pays a visit to Brussels? The firm value of cross-border political access to European Commissioners

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Motivation

- ▶ Extensive literature documents value effects of firm-politician connections - limited to **domestic** setting
(e.g., Fisman 2001; Faccio 2006; Akey 2015)
- ▶ Strong increase in share of multinational enterprises (MNEs)
 - ▶ **2017**: half of US public firms operate in more than one country
(Erel, Jang, and Weisbach 2020)
- ▶ Interactions with foreign policymakers underexplored

Motivation

- ▶ Motives to seek access to foreign policymakers
- ▶ Operating globally implies risk from political factors
 - ▶ Different legislation and regulation than in home country
 - ▶ Discriminatory behavior of foreign regulators
- ▶ Operating globally entails benefits through diversification or minimization of tax burden
 - ▶ Lower effective tax rates through, e.g., profit shifting and transfer pricing
- ▶ Indeed, increase of cross-border lobbying efforts; e.g., Google lobbying expenses at European Union (EU) institutions:
 - ▶ **2011**: €0.6 million; **2018**: €8 million

This paper

- ▶ Study value effects of cross-border political access
- ▶ Novel data set on meetings of European Commission (EC) policymakers with US firms
 - ▶ Direct measure of political access
- ▶ Analyze channels of value effects that
 - ▶ relate to executive powers and legislative initiative of EC
 - ▶ are very important for international operations of MNEs

Importance of cross-border political access to EC

European Commission is executive of European Union

- ▶ Influencing M&A decisions of particular importance for MNEs
 - ▶ Often enter foreign markets by acquisitions
 - ▶ Evidence that European policymakers treat foreign firms unfavorably in M&A decisions

(e.g., Aktas, de Bodt, and Roll 2007; Dinc and Erel 2013)

- ▶ “Donald Trump..., lashing out at Brussels for aggressively pursuing **antitrust cases against US technology groups** as actions by an EU regulator who ‘hates’ America.”

Financial Times, June 2019

Importance of cross-border political access to EC

European Commission has legislative initiative (e.g., tax legislation)

- ▶ US firms have lower effective taxes because of business in EU
- ▶ **Apple 10-K filing:** Lower effective tax rate due primarily to certain undistributed foreign earnings; a substantial portion generated by subsidiaries in Ireland
- ▶ “Google’s ‘Dutch Sandwich’ shielded €16bn from tax”
The Independent, January 2018
- ▶ EC tax initiatives, like Common Corporate Tax Base or EU Digital Tax, may substantially impact tax bill of US MNEs

Preview of results

- ▶ Analyze 2,205 meetings of EC officials with 169 US public firms (Nov. 2014 to Nov. 2019)
 - ▶ Commissioners: 507 (directors: 274; cabinet members: 1,424)
 - ▶ Large firms in Technology, Manufacturing, and Financials
 - ▶ EU lobbying expenses strong predictor of political access

- ▶ Political access associated with
 - ▶ positive abnormal returns for Commissioner meetings
 - ▶ higher likelihood of favorable outcomes in M&A decisions
 - ▶ lower effective tax rates on foreign income

Data

- ▶ Webpages of European Commissioners
- ▶ EU Integrity Watch
- ▶ Transparency Register
- ▶ Lobbyfacts.eu
- ▶ CRSP
- ▶ Compustat
- ▶ Orbis
- ▶ Thomson Reuters
- ▶ Zephyr

EU Commission: meetings

Meetings of Commissioner Günther Oettinger with organisations and self-employed individuals

◀ ◀ 1, 2, 3, 4 ▶ ▶

Date	Location	Entity/ies met	Subject(s)
23/11/2016	Stuttgart	American Chamber of Commerce to the European Union (AmCham EU)	digitising European industry
22/11/2016	Berlin	Axel Springer SE (AS SE)	copyright
22/11/2016	Berlin	United Internet AG	online platforms
18/11/2016	Brussels	Google	DSM
16/11/2016	Hamburg	Commerzbank AG	digitisation in the geopolitical context
15/11/2016	Brussels	Airbus	digitising European industry
15/11/2016	Brussels	European Magazine Media Association (EMMA)	copyright & e-privacy
15/11/2016	Brussels	Uber	technology in mobility services
15/11/2016	Brussels	Helmholtz-Gemeinschaft Deutscher Forschungszentren e.V. (Helmholtz)	information technologies & Big Data
15/11/2016	Brussels	Deutscher Sparkassen-und Giroverband (DSGV)	digitisation of finance sector

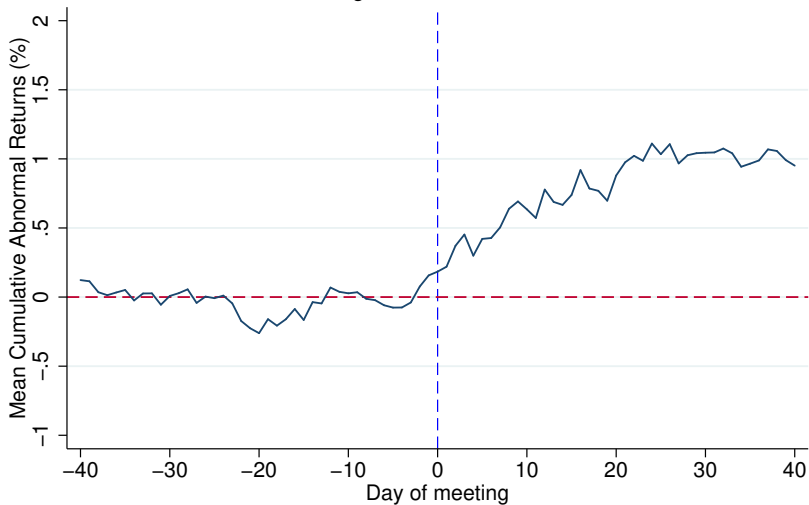
Meeting information: name of organization, time, location, subject
To be provided within 2 weeks following the meeting

Most frequent visitors

	Number of meetings			
	Total	Commissioners	Directors	Cabinet
Google	211	53	27	131
Microsoft	112	30	10	72
Facebook	109	32	10	67
IBM	90	27	16	47
General Electric	75	16	12	47
Amazon	60	20	10	30
Cisco Systems	53	14	9	30
Uber	53	19	4	30
Dow	49	9	8	32
Goldman Sachs	46	20	4	22
Apple	45	11	8	26
AT&T	44	9	11	24
Qualcomm	44	9	5	30
Citigroup	31	7	2	22

Mean Cumulative Abnormal Returns around Meetings

Meetings with Commissioners



Mean cumulative abnormal returns (CARs)

	Commissioners	Directors	Cabinet
<hr/>			
7 days [-3, 3]			
Mean CARs: Fama-French-Carhart	0.48%	-0.02%	-0.13%
(Standardized cross-sectional t-stat)	(2.63)***	(-0.38)	(-0.46)
25 days [-3, 21]			
Mean CARs: Fama-French-Carhart	0.94%	-0.03%	-0.28%
(Standardized cross-sectional t-stat)	(2.38)**	(-0.31)	(-0.46)
# of meetings	330	192	989

Cross-section regressions: CARs

Sample: all US firms registered in the EU Transparency Register between 2014 and 2019; i.e., firms that seek political access

For all dates of a Commissioner meeting:

$$CAR_{it} = \delta_j + \beta * Commissioner\ meeting_{it} + X'_{it}\gamma + \varepsilon_{it}$$

CAR: 7- or 25-day CAR of firm i around meeting date t

Commissioner meeting: indicator variable equal to 1 for firm with respective meeting on date t , and 0 else

δ_j - *Industry fixed effects*

X - *vector of explanatory variables*

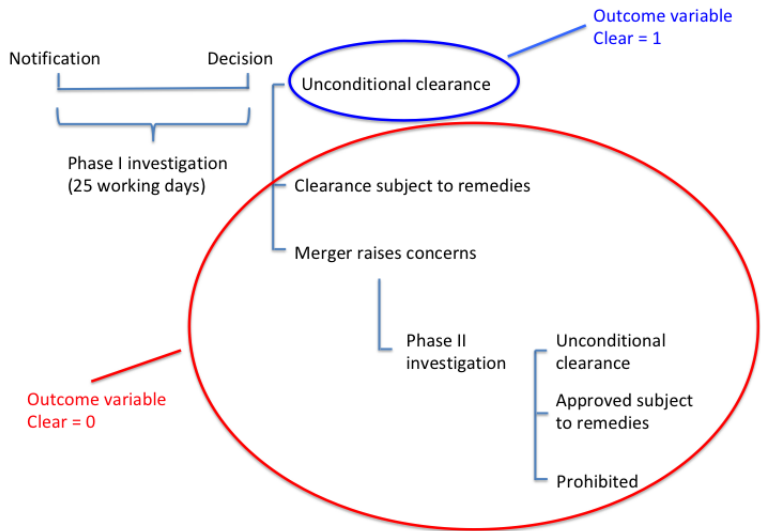
Cross-section regression: CARs

	Dependent variable:					
	CARs (-3,3)			CARs (-3,21)		
	(1)	(2)	(3)	(4)	(5)	(6)
Commissioner meet.	0.0056*** (0.0018)	0.0058*** (0.0019)	0.0059*** (0.0022)	0.0069** (0.0035)	0.0074* (0.0039)	0.0060 (0.0043)
Ln total assets		0.0003**	0.0005**		0.0002	0.0006
Book-to-market		0.0001	-0.0017		-0.0020	-0.0063***
Book leverage		0.0011	0.0010		0.0062**	0.0011
ROA		0.0082**	-0.0017		-0.0224***	-0.0412***
Tangibility		-0.0046***	-0.0055***		0.0040*	-0.0060**
Ln lobbying exp.			-0.0001			-0.0007
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
# of events	330	299	256	330	299	256

Channels of value creation - Regulatory outcomes

- ▶ Commission as executive authority of EU
 - ▶ Competition cases: antitrust, cartels, mergers, state aid
- ▶ Does political access increase likelihood of positive regulatory outcomes?
 - ▶ Compile dataset of merger cases at EC (2014 to 2019)
 - ▶ All M&As with participation of US public firms, their subsidiaries, or business divisions
 - ▶ **Treatment group**: M&As of US firms with political access
 - ▶ **Control group**: M&As of US firms without access
- ▶ Binary outcome variable *Clear*:
 - ▶ Equal to 1 if “unconditional clearance” of merger, and 0 else
(*similar to Aktas et al., EJ 2007*)

Merger cases at European Commission



Merger decisions and political access

Probit model:

$$Pr(Clear = 1) = \Phi(X'\beta)$$

Clear: indicator equal to 1 if unconditional clearance, and 0 else

Political access: indicator equal to 1 if political access, and 0 else

Φ - cumulative distribution function of standard normal distribution

β - vector of coefficients

X - vector of explanatory variables

Probit - Dependent variable: Clear (marginal effects for Political access)

	(1)	(2)	(3)	(4)	(5)
Political access	0.18** (0.08)	0.18** (0.08)	0.2*** (0.08)	0.22*** (0.08)	0.15* (0.08)
Ln deal size		-0.17** (0.07)	-0.14* (0.07)	-0.18** (0.08)	-0.13 (0.12)
Private equity			1.02** (0.44)	1.05** (0.48)	0.58 (0.60)
Market share EEA					-4.30*** (1.33)
Controls transaction & deal form	No	No	No	Yes	Yes
Industry & Year FE	Yes	Yes	Yes	Yes	Yes
Clustered SE	Firm	Firm	Firm	Firm	Firm
# of observations	160	138	138	134	97

Channels of value creation - EU tax environment

- ▶ Commission has legislative initiative
 - ▶ E.g., initiatives on Common Corporate Tax Base, Digital Tax
- ▶ Do MNEs with political access have lower effective tax rates?
 - ▶ Compile dataset of US MNEs with subsidiaries in EU
 - ▶ OLS regressions
 - ▶ Matching

Tax rate and political access

OLS regression:

$$\text{Foreign_effective_tax_rate}_{it} = \delta_j + \gamma_t + X'_{it}\beta + \varepsilon_{it}$$

Foreign effective tax rate: ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income

Political access: indicator equal to 1 if political access and 0 else

δ_j, γ_t - Industry and Year FEs; X - vector of explanatory variables

Matching estimation: propensity score matching based on covariates and exact match on year and industry

OLS - Dependent variable: Foreign effective tax rate

	(1)	(2)
Political access	-0.041*** (0.011)	-0.042*** (0.015)
Ln total assets		-0.003
Book-to-market		0.005**
Book leverage		0.044*
ROA		-0.048*
PPE/ Total assets		-0.042
Share EU subsidiaries		-0.000
Industry & Year FE	Yes	Yes
Clustered SE	Firm	Firm
# of observations	5,031	4,051

Matching - Dependent variable: Foreign effective tax rate; Treatment: Political access

Outcome variable: Foreign effective tax rate

	Nearest neighbor: 1	Nearest neighbor: 3	Nearest neighbor: 5
Political access (ATET)	-0.032* (0.016)	-0.036*** (0.014)	-0.026*** (0.012)

Conclusion

- ▶ Novel results on cross-border political access
 - ▶ Direct measure of access to identify and estimate value of access
- ▶ Positive value effects of meetings of US firms with EU Commissioners
- ▶ Channels of value creation:
 - ▶ Influence on regulatory outcomes: M&As
 - ▶ Influence on legislative initiative: Corporate tax environment