Who pays a visit to Brussels? Cross-border firm value effects of meetings with European Commissioners*

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Abstract

Analyzing data on meetings of U.S. company representatives with European Commission (EC) policy-makers, we present novel evidence on the value of political access in a cross-border setting. Meetings with Commissioners are associated with substantial positive abnormal equity returns. We then study channels of value creation. Using a dataset of merger cases at the EC, we find that U.S. firms with political access are more likely to receive a favorable decision than their peers without meetings. We show that a firm's sensitivity to the European corporate tax environment is a strong predictor of the likelihood of the firm seeking political access at the EC. Our work contributes to the scant literature on multinational firms' efforts to influence politicians in an international setting.

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1 Introduction

For many companies, the interaction with politicians and attempts to influence policy-making form an integral part of their corporate strategy. Several studies document the value effects of political connections (e.g., Fisman 2001; Faccio 2006; Akey 2015). The sources of value gains from connections are often associated with regulatory relief and influencing legislators' voting behavior (e.g., Mian, Sufi, and Trebbi 2010; Brown and Huang 2017). The evidence in the literature largely refers to big multinational enterprises (MNEs). However, the findings typically focus on corporations' lobbying efforts in a domestic setting.

Foreign countries are increasingly important for MNEs as sales markets. In 2018, the worldwide sales of foreign affiliates of MNEs amounted to $27,247 billion, and the top 100 MNEs realized 60 percent of their total sales abroad (UNCTAD 2019). Many of the regional headquarters and affiliates of MNEs face laws and regulations that differ from those in their parent's home country. This provides a strong rationale to seek access to politicians in the respective countries. Given the global presence of MNEs, it is striking that interactions with foreign policy-makers are largely unacknowledged by scholars.

We, indeed, observe a substantial intensification of cross-border lobbying, as the example of Google's efforts in Europe shows. The company increased its yearly lobbying expenses at European Union (EU) institutions from around €0.6 million in 2011 to more than €8 million in 2018.[1] The present work is the first to study these international interactions and to address the gap in the literature.

In this paper, we use a novel dataset to advance the understanding of cross-border political access, its value effects, and the channels through which the effects can materialize. We exploit the mandatory disclosure of information on meetings of corporate representatives and policy-makers at the European Commission (EC) to obtain a direct measure of cross-border access. We quantify the value of this political access by analyzing equity returns in financial markets around the date of the respective meeting. Meetings with Commissioners are associated with about 0.5 to 0.8 percent abnormal returns in the days and weeks following the encounter. We

[1] See https://lobbyfacts.eu.

discuss channels through which these value effects come about.

Interaction with the EC can be valuable for several reasons. The EC is the executive of the European institutions. It enforces the competition rules in the areas of antitrust, cartels, mergers, and state aid. In addition, the EC has the legislative initiative in the EU. It proposes laws to the European Council and the European Parliament and helps EU countries implement EU legislation. As an integral part of their strategy, the EC requests input from the public and stakeholders before proposing a new policy or law.

We identify channels of value creation that directly relate to the EC's competencies. First, we find that U.S. firms with EC meetings are significantly more likely to receive a favorable outcome in their merger decisions than their U.S. peers without meetings. The likelihood for unconditional clearance of a merger is about 20 to 30% higher for firms with political access. Second, we provide suggestive evidence that the potential to influence the design of European tax legislation is a driver for seeking political access. A firm's sensitivity to the EU corporate tax environment, as proxied by the number of subsidiaries in EU tax havens, is a strong predictor of the likelihood of having meetings at the EC.

Since November 2014, Commissioners and their cabinet members at the EC publish the information on meetings with organizations and self-employed individuals.[2] The information includes the names of the organizations, time, location, as well as the subject of the meeting. It has to be published on the respective Commissioner's website within two weeks of the meeting. We gather information on all meetings of corporate representatives or lobbyists of U.S. public corporations and their European subsidiaries between November 2014 and end September 2018. In total, we analyze 1,950 meetings of EC members with representatives of 149 public U.S. firms. 411 of these meetings are with Commissioners, 179 with directors, and 1,360 with cabinet members. We combine this data with security price data from the Center for Research in Security Prices (CRSP), firm characteristics from Compustat - Capital IQ, and lobby expenses in Europe from lobbyfacts.eu. Firms with political access are typically very large, they are concentrated in the manufacturing, services (technology), and financial sector, and their lobbying expenses in Europe are positively associated with their number of

[2]See EC decision 2014/839/EU, Euratom.

meetings.

To determine the effects of political access, we perform event study analyses around the date of the respective meetings. We show that meetings with Commissioners are highly valuable for the visiting companies. Figure 1 plots the mean cumulative abnormal returns (CARs) for all meetings with Commissioners. In the 30 trading days prior to the meeting, there is no trend in the CARs, which fluctuate around zero. This changes markedly around the date of the meeting, when the CARs begin to steadily increase for about the next month. For the seven trading days surrounding the meeting, we find statistically significant CARs of about 0.5 percent. The CARs increase to about 0.8 percentage points after roughly one month, when all effects seem to be fully incorporated in security prices.

In a next step, we provide insights on channels through which firms' political access at the EC can be value increasing. The first channel relates to the executive authority of the EC. The recent developments in global trade policies should intensify the importance of influencing regulatory decisions. This is, in particular, the case if firms expect protectionist tendencies in their foreign markets. For instance, there are repeated accusations of EU discriminatory behavior toward U.S. firms.[3] For the competition area of mergers, we show that firms with political access benefit from preferential outcomes. We compile a dataset of all merger decisions at the EC in which U.S. firms, their subsidiaries, or business units were involved. We combine information from the EC's competition database with information on deal characteristics from Thomson Reuters and Bureau van Dijk's Zephyr database. Mergers that involved U.S. firms with meetings at the EC form the treatment group, while mergers of U.S. firms without meetings serve as a control group. We find that U.S. firms with political access are 20-30% more likely to receive unconditional clearance of their merger plans than their peers without access.

The second channel relates to the legislative initiative of the EC. While the EC proposes laws in several policy areas, the area of taxation is of particular importance for MNEs. There is ample evidence that U.S. MNEs benefit from the EU corporate tax environment, which can

[3]For example, the Financial Times (2015) reports that Obama considers that European scrutiny of certain U.S. companies is driven by commercial interests. According to the Handelsblatt (2018), Washington calls the proposal for an EU digital tax an act of aggression against the U.S. tech industry.

lower their effective tax rates, among other things, via profit shifting and transfer pricing.[4] Recent EC initiatives, like the Common Corporate Tax Base (CCTB) or the Digital Tax, may substantially impact the tax bill of U.S. MNEs. Intuitively, the more sensitive firms are to European taxes, the more it should be in their interest to influence the tax legislation. We compile a dataset with all European subsidiaries of public U.S. MNEs, to show that this is indeed the case. Data on subsidiary location comes from Bureau van Dijk's Orbis database. A firm's number of subsidiaries in EU tax havens serves as a proxy for its sensitivity to European tax legislation.[5] We show that a firm's number of subsidiaries in EU tax havens is significantly positively associated with the likelihood of the firm seeking access to the EC.

Our work relates to the literature on the value of political connections. Several studies find significant value effects for connected firms. For evidence on value effects measured in financial markets see, e.g., Fisman (2001), Johnson and Mitton (2003), Faccio (2006), Goldman, Rocholl, and So (2008), Faccio and Parsley (2009), Cooper, Gulen, and Ovtchinnikov (2010), and Akey (2015). Other studies show that politically connected firms improve their performance and increase their financial leverage (Boubakri, Cosset, and Saffar 2012), have lower cost of equity capital (Boubakri et al. 2012), are significantly more likely to receive government bailouts (Faccio, Masulis, and McConnell 2006), have an increased likelihood of legislators altering their position on regulation in favor of the firm (Igan and Mishra 2014), have a lower likelihood of SEC enforcement (Correia 2014), and are associated with policy-makers voting behavior (Mian, Sufi, and Trebbi 2010 and Mian, Sufi, and Trebbi 2013).

In the literature, value effects from political connections are typically analyzed for ties to the legislative branch. The evidence on connections to the executive branch is scant and limited to domestic connections in the U.S. Acemoglu et al. (2016) report positive value effects from ties to Timothy Geithner during the financial crisis, while Fisman et al. (2012) find no significant association between firm values and connections to Vice-President Richard Cheney.

[4]For example, Reuters (2019) illustrates how Google benefits from a low effective tax rate due to the location of its subsidiaries in Ireland and the Netherlands, and Apple Inc. states in its 10-K filings that its effective tax rate is lower than the historical statutory federal income tax rate, in part, due to a substantial portion of foreign income that is generated by subsidiaries organized in Ireland (https://www.sec.gov).

[5]Following Tørsløv, Wier, and Zucman (2018), we consider as European tax havens Belgium, Cyprus, Ireland, Luxembourg, Malta, and the Netherlands.

The work most closely related to the present paper, is Brown and Huang (2017). The authors use data on the visitors to the White House between 2009 and 2015. They find that meetings of corporate executives with policy-makers lead to subsequent positive abnormal stock returns, and they provide evidence on several channels that can explain the value effects of this political access.

Our work contributes to the literature by providing insights on firm value effects of interactions with politicians in a cross-border setting. We identify channels of value creation that directly relate to the authorities of the political institution. In addition, we add to the scarce literature that measures political connections by direct access to politicians.

The paper is structured as follows. The next section provides a brief overview of the structure and tasks of the EC. Section 3 presents the data sources. In section 4, we present the methods and main results of the analysis. Section 5 concludes.

2 The European Commission

The EC is composed of the College of Commissioners. These include the President and Vice-Presidents. There is one Commissioner from each of the 28 EU countries, and they form the EC's political leadership during the legislative period. A new group of Commissioners is appointed every five years. Each Commissioner has a team of about five to ten cabinet members that support them in their daily work. The EC works under the leadership of a President, who is elected by the European Parliament. For the period that our dataset covers the President was Jean-Claude Juncker. The President's role is to determine the EC's policy agenda, decide on the organization of the EC, and assign responsibility to each Commissioner for a specific department, the Directorates-General. The Directorates-General are each headed by a director, who reports to the Commissioner in charge of the corresponding policy area. These Directorates-General develop, implement, and manage EU policy, law, and funding programs for different policy areas.

The EC proposes policies and laws to the European Parliament and European Council, which adopt them. The EC, together with the member countries, then implements the laws

and makes sure that they are properly applied. In combination with the Court of Justice, the EC ensures that EU law is complied with, and it can begin an infringement procedure if this is not the case. In addition, it can investigate and impose fines if companies do not respect EU competition laws. The EC is the executive of the EU institutions and it has the legislative initiative.

3 Data

This work combines several data sources. We retrieve information on the meetings between corporate representatives and EC policy-makers from the platform EU Integrity Watch and the respective webpages of the EC officials.[6] Data on firms' lobbying efforts in Europe is obtained from the Transparency Register and from LobbyFacts.eu.[7] Both are databases that provide information on lobbying expenses in Europe. We retrieve security price data are from CRSP and data on firm characteristics from Compustat - Capital IQ. To analyze the outcomes of merger proposals at the EC, we collect data on merger decisions from the competition database of the EC.[8] Data on mergers and acquisitions deal characteristics is obtained from Thomson Reuters and from Bureau van Dijk's Zephyr database. We retrieve data on subsidiary locations in the EU from Bureau van Dijk's Orbis database.

Following a decision of the EC on November 25, 2014, EC members should disclose details of their meetings with organizations and self-employed individuals.[9] The information should include the names of the organizations, time, location, as well as the subject of the meeting. However, the names of individuals acting on behalf of organizations will not be made public unless they give their consent. Our dataset includes the names of Commissioners, directors, and cabinet members who are present at meetings, but we do not have the identities of firm representatives for all meetings. The published data does not provide information on who initiates the respective meeting. We request additional data from the EC on agendas, minutes,

[6] See www.integritywatch.eu and https://ec.europa.eu.
[7] See http://ec.europa.eu/transparencyregister/public/homePage.do and https://lobbyfacts.eu.
[8] See http://ec.europa.eu/competition/.
[9] The decision is denominated 2014/839/EU, Euratom.

and email communication for the respective meetings between MNEs and Commissioners. A preliminary evaluation of the data strongly suggests that meetings are typically requested by MNEs and not by the policy-makers. We combine the available information for the meetings from Commissioners' webpages with data from EU Integrity Watch.

Table 1 provides an overview of the 15 U.S. firms with the largest number of meetings at the EC between November 2014 and end September 2018. Of the 1950 meetings, 411 are with Commissioners, 179 with directors, and 1360 with cabinet members. 149 public U.S. firms have at least one meeting with EC officials in the considered period. Table 1 illustrates that a large share of all meetings is concentrated among the 15 most frequent visitors.

Table 2 presents a break down of the meetings by SIC code industries. Most of the meetings are concentrated within the three industries *Services* (in particular, industry group 737: *Computer Programming, Data Processing, and other Computer Related Services*), *Manufacturing*, and *Finance, Insurance, and Real Estate*. This pattern holds for the total of all meetings as well as for meetings with Commissioners only.

Table 3 shows the five Directorates-General and their respective Commissioners with the most meetings with U.S. public firms. Many meetings are concentrated within a few policy areas. The five Directorates-General in Table 3 account for more than half of the total number of meetings.

Table 4 shows summary statistics for the U.S. public companies who have meetings with EC members. On average, firms have around 13 meetings in the roughly four years that we analyze. About three of these meetings are with Commissioners. The considered firms have mean yearly lobbying expenses of about €0.6 million, but the amounts range from close to zero to more than €8 million. The data on total assets shows that the firms that seek political access to the EC tend to be very large.

4 Results

The section describes the characteristics of U.S. firms whose representatives meet with EC officials in Brussels. It then provides an analysis of firm value effects of political access,

measured as abnormal equity returns around the date of the meetings. In addition, it presents evidence on the channels through which political access to the EC can increase firm value of U.S. MNEs.

4.1 Characteristics of firms with meetings at the Commission

Table 5 summarizes the association of firm characteristics with the number of meetings with EC members. The sample consists of all public U.S. firms that have at least one meeting between November 2014 and end September 2018. Column (1) shows the results of simple OLS regressions of the natural logarithm of the number of meetings in a given year on the respective annual lobbying expense. The lobbying expenses are the maximum annual costs related to lobbying activities at EU institutions, retrieved from the transparency register. The regressions include firm-year observations for which there is data on lobbying expenses of the respective firm. All specifications are run with year fixed effects and industry fixed effects at the industry level of the SIC code. Results are shown for robust standard errors. Columns (1) and (2) show that lobbying expenses are significantly positively associated with a firm's total number of meetings. This suggests that an increase in spending on lobbying activities increases the likelihood of access to policy-makers at the EC. The same result holds for the number of meetings with Commissioners (columns 3 and 4), although the magnitude of the coefficient is lower to some extent. The results also show that firm size, as measured by the natural logarithm of total assets, is a strong predictor of the number of meetings.

4.2 Firm value effects around meetings with EC members

In order to determine the firm value effects of political access to the EC, we perform event study analyses. To calculate abnormal returns, we apply the Fama-French three-factor model.[10] We fit the coefficients for the three factors during an estimation window of 200 trading days that runs until 20 trading days prior to the meeting. For each firm, we estimate cumulative abnormal returns (CARs) around the respective meeting and then pool the CARs across all

[10] See Fama and French (1992, 1993).

observations to calculate mean cumulative abnormal returns.

For each meeting, we calculate cumulative abnormal returns for two different time windows. For short-term returns, we consider the seven trading days (-3, 3) surrounding the meetings. We use this window for the short-term analysis based on the inspection of Figure 1, which shows that mean CARs begin to rise a few days prior to the meetings with Commissioners. For a longer event window, we consider a 25-day window (-3, 21). This choice, again, is based on the inspection of Figure 1, which shows that value effects of meetings are fully incorporated in markets after about one month following the meeting.

We calculate value effects for meetings with Commissioners, directors, and cabinet members, separately. Note that the number of meetings considered for the analysis of value effects in Table 6 differs from the sum of 1950 total meetings mentioned above. The reason is that often firm representatives have more than one meeting with different Commission members on the same day. For the analysis in this subsection, we count those meetings only as one meeting, and the day of the meetings enters only once in the analysis.

If a firm's representatives have meetings with a Commissioner and a director and a cabinet member on the same day, we code the meeting as a meeting with a Commissioner. If a firm's representatives have a meeting with a director and a cabinet member, but not a Commissioner on the same day, we code the meeting as a meeting with a director. We merely code meetings as a meeting with a cabinet member if there are no other meetings with either Commissioners or directors on the same day.[11]

Table 6 shows the value effects of meetings with Commissioners, directors, and cabinet members, respectively. Row (1) presents results for the short-term window. Firms, whose representatives meet with Commissioners, experience, on average, statistically significant positive cumulative abnormal returns of 0.49 percentage points during the seven trading days, starting three days prior to the meeting. These value effects are statistically significant on the 99% level of confidence. The value effects for meetings with directors are slightly positive, while those for cabinet members are slightly negative. However, the test statistics indicate that we

[11] For the firm value effects analysis, we exclude meetings from the calculation for which there was a quarterly earnings announcement of the respective company within the (-5, 5)-day window around the meeting.

cannot consider any value effects for these meetings that are significantly different from zero.

Figure 1 shows that value effects of meetings with Commissioners are not fully incorporated in the market after three trading days. This merely seems to be the case after about one month. The results in row (2) of Table 6 confirm this finding. For the 25-day event window (-3, 21), mean CARs for meetings with Commissioners increase to 0.81 percentage points. These are statistically significant on the 95% level of confidence. Figure 1 shows that after that there are hardly any changes in the CARs. There are also no significant value effects in financial markets for meetings with directors and cabinet members for the extended time window.

In conclusion, we find substantial value effects in security prices of firms that meet with Commissioners at the EC. We believe that access to directors and cabinet members is also of value to firms, for instance, meeting with a cabinet member may be the initial step to gain access to a Commissioner. Our approach of measuring value effects in financial markets, however, does not capture this value.

4.3 Regulatory outcomes and political access

In this section, we study a channel through which political access can increase firm value. It is likely that meetings with policy-makers can assist in influencing regulatory decisions at the EC. The EC pursues the enforcement of competition rules in the areas of antitrust and cartels, mergers, and state aid. Indeed, many of the U.S. firms that seek political access to the EC have or had a competition case pending at the EC. Table A.1 of the appendix gives an overview of the competition cases by area that are announced by the EC between November 2014 and end September 2018 for the U.S. firms with meetings. In total, these are 132 cases, with merger cases (95 cases) representing the large majority.[12]

Table A.2 of the appendix provides suggestive evidence that regulatory decisions at the EC can drive the decision to seek political access. In an OLS specification, we regress a firm's number of total meetings (columns 1 and 2) and meetings with Commissioners (columns 3 and

[12]We exclude from this count and the following OLS regression the three companies Kohlberg Kravis Roberts & Co. Partners, The Blackstone Group, and The Goldman Sachs Group. Together, they are involved in 67 merger cases. This, however, should be driven by their participation as private equity partners, and their consideration would bias the present focus on competition cases.

4) on its number of competition cases at the EC. In all of the specifications, the number of cases represents a strong and significant predictor for a firm's number of meetings. Importantly, information on meetings that directly relate to a particular competition case is not published by the EC. These meetings do not enter our analysis. Our results should, therefore, not be misinterpreted in the way that firms have more competition cases and, hence, by definition will have more meetings. All the meetings that are published by the EC do, officially, have difference subjects than a specific competition case.

We next analyze the outcomes of EU merger decisions that involve U.S. firms and show that U.S. firms with political access to the EC have a significantly higher likelihood of receiving unconditional clearance of their merger cases than their peers without meetings.

We compile a dataset of all merger decisions at the EC Competition Authority between November, 2014 and beginning of 2019. We combine the information on the merger cases from the EC database with data on deal characteristics from Thomson Reuters and Bureau van Dijk's Zephyr database. We limit the dataset to merely include cases in which at least one U.S. public or private firm or one of their subsidiaries or business divisions are involved.

To test whether meetings with officials can alter the merger outcomes, we focus on cases for which the competition authorities have to make a qualitative assessment and may have some discretion in their decision-making. We, therefore, exclude all cases for which the outcome is decided by the simplified procedure. This procedure is applied by the EC when the notified merger does not give rise to significant competition problems, typically due to the merging entities having small market shares or not operating in the same markets.[13] Virtually all mergers that are decided under the simplified procedure are cleared without any opposition of the EC.

We conduct our analysis for cases that are not decided under the simplified procedure, but

[13]The competition authorities announces the following guidelines for the simplified procedure (see http://ec.europa.eu/competition/mergers/procedures_en.html): "If the merging firms are not operating in the same or related markets, or if they have only very small market shares not reaching specified market share thresholds, the merger will typically not give rise to significant competition problems: the merger review is therefore done by a simplified procedure, involving a routine check. The market share thresholds are: 15% combined market shares on any market where they both compete, or 25% market shares on vertically related markets. Note that sometimes a 'market' can possibly involve relatively narrow business areas, both in terms of products and geographic areas. Above those market share thresholds, the Commission carries out a full investigation."

for which the EC carries out a full investigation. After the notification of a proposed merger, the EC has 25 working days to analyze the proposed deal during the phase I investigation. There are several potential outcomes from the phase I investigation: the merger is cleared unconditionally, the merger is cleared subject to accepted remedies, or the merger raises concerns, and it enters a phase II investigation. Phase II investigations can end with the following decisions: the merger is cleared unconditionally, the merger is approved subject to remedies, or the merger is prohibited because no adequate remedies to the competition concerns have been proposed by the merging parties. Compared to the unconditional clearance, all other potential outcomes should imply additional costs and inconveniences for the merging parties. For our analysis, we use a binary qualitative dependent variable model. We distinguish between unconditional clearance on the one hand and all other potential regulatory outcomes on the other.[14]

We define a simple binary outcome variable *Clear* for our empirical analysis. The variable *Clear* takes the value of 1 if the decision on a proposed merger is unconditional clearance after the phase I investigation and 0 for all other decisions. If a case is withdrawn, the outcome indicator variable has the value of 0. If a case is deferred to a member state, we do not consider it in our analysis.

We define the indicator variable *Political access* as equal to 1 if a merger case involves a U.S. firm's subsidiary or business division or the parent firm itself and for which the parent firm has meetings at the EC. The *Political access* variable has a value of 0 for all merger cases that involve a U.S. public or private firm or one of their subsidiaries or business divisions without meetings at the EC. This is the control group of the analysis. From both groups, we exclude merger cases in which both, U.S. firms with and without access, are involved. From the control group, we exclude all merger cases in which non-U.S. firms with political access are involved. This yields a final sample of 162 merger cases decided at the EC. 86 of these cases belong to the treatment sample (U.S. firms with meetings), and 76 belong to the control sample (U.S. firms without meetings).

Table 7 provides descriptive statistics for the cases that enter the analysis. There is a

[14]Our approach is similar to Aktas, de Bodt, and Roll (2007).

substantial difference in the likelihood of unconditional clearance decisions between firms with political access and those without. While 72.1 percent of the cases of firms with meetings receive a decision of unconditional clearance (*Share Clear*), this is the case for merely 55.3 percent of the control group. This is even more striking as the mean deal size is larger for firms with access. Deal size is negatively associated with the variable *Clear*. Table 7 also lists the industries in which most of merger cases are notified. The industries are defined at the SIC code level of the parent company of the acquiring firm. The treatment and control group compare fairly well with respect to industry distribution.

We analyze a Probit model of the following form:

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

where the dependent variable, $Clear$, takes on two values, 1 or 0, following the definition above. Φ is the cumulative distribution function of the standard normal distribution. β is a vector of coefficients, and X is a vector of explanatory variables. Naturally, one of these is the variable of interest, *Political access*, defined above.

Table 8 shows the findings of our empirical analysis. Panel A provides the results of Probit regressions of the indicator variable *Clear* on the variable *Political access*. t-statistics, based on robust standard errors, are shown in parenthesis. All specifications include year fixed effects. Column (1) shows that firms with political access are significantly more likely to receive a merger decision of unconditional clearance. The coefficient is even higher when including industry fixed effects at the industry level of the SIC code of the acquirer parent (column 2). Not all of the merger cases involve a publicly traded company, but a private firm or subsidiaries or divisions of the identified parent company. For many cases, it is therefore difficult to control for the size of the involved parties. Hence, our preferred size measure is the value of the deal, *Deal size*, which we retrieve from Thomson Reuters, Bureau van Dijk's Zephyr database, or via web searches. Not surprisingly, deal size is negatively associated to the likelihood of a merger clearance without opposition (column 3). The coefficient on the *Political access* variable increases to some extent if we control for the value of the deal. Private

equity firms are often involved as facilitators in merger deals. To account for the fact that this may drive the results, in column (4), we include the indicator variable, *Private Equity*. The variable takes the value of 1 if the merger case involves a private equity firm and 0 else. The coefficient of the *Political access* indicator slightly increases and remains strongly significant.

Another concern may be that the type of transaction of the merger drives the results.[15] We control for the transaction type in column (5), without major effects on our coefficient of interest. Panel B displays the marginal effects of the probit regression for the *Political access* variable. Firms with political access have a roughly 18 to 30% higher likelihood to receive an unconditional clearance for their merger cases than their peers without access.

The above results strongly suggest that merger outcomes at the EC are, on average, favorable for U.S. firms with political access. The potential influence on regulatory outcomes provides a clear motivation for seeking access to the EC.

4.4 The European corporate tax environment

We propose an additional channel that can explain firms' interest in seeking political access to European policy-makers. The channel relates to the EC's powers in the legislative initiative. The shape of the European corporate tax environment is important and beneficial for many U.S. MNEs. For instance, Apple Inc. states in its 10-K filing that "The Company's effective tax rates for 2017 and 2016 were lower than the historical statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings, a substantial portion of which was generated by subsidiaries organized in Ireland, for which no U.S. taxes were provided when such earnings were intended to be indefinitely reinvested outside the U.S."[16]

The opportunity to lower effective taxes largely derives from the fact that tax policies in the EU are national autonomy. This results in different corporate tax rates across states. Via particular tax deals with individual EU governments or profit shifting and transfer pricing, MNEs can take advantage of this. There are several initiatives in Brussels that intend to

[15]The majority of transaction types can be either classified as "purchase of shares" or "purchase of shares and assets". However, there are other additional transaction types: "agreement and plan of merger", "contract of management", "public bid", "public takeover under Dutch law", "purchase of assets", "purchase of securities", and "stock-for-stock exchange".

[16]See https://www.sec.gov.

change the current environment. For instance, the Common Corporate Tax Base (CCTB) proposed by the EC should remove the need for transfer pricing, thereby complicating profit shifting.[17] Another recent Commission initiative that would mainly affect large MNEs is the Digital Tax. It would enable EU member states to tax profits generated in their territory, even if the firm does not have its physical presence in the territory.[18] Although the EU-wide digital tax proposal was just abandoned by the member states, the example shows that the EC's legislative initiative can have far-reaching implications for MNEs.

Firms whose tax bill is very sensitive to European tax legislation should be most concerned to influence the design of the tax environment. To show whether this is indeed the case, we analyze to what extent the sensitivity is associated with the likelihood of seeking political access. We use a firm's number of subsidiaries in EU tax havens as a proxy for its potential tax benefits and sensitivity to the tax environment. We show that this number is a strong predictor for whether the respective firm belongs to the sample of U.S. firms with meetings at the EC.

In a first step, we compile a database with all European subsidiaries of public U.S. MNEs. We retrieve data on subsidiary location from Bureau van Dijk's Orbis database. We then calculate for each U.S. firm the sum of subsidiaries located in EU tax havens. Following Tørsløv, Wier, and Zucman (2018), we consider as European tax havens Belgium, Cyprus, Ireland, Luxembourg, Malta, and the Netherlands.[19] We use the most recent number of subsidiaries available for each firm as long as the last available year is 2014 or later. We consider a disproportionately high number of subsidiaries in EU tax havens as an indication of a large potential for lowering the effective tax rate and, hence, high sensitivity to the EU tax environment.

We analyze a Probit model of the following form:

[17] See https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016PC0685.

[18] See, e.g., https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en.

[19] Note that the special tax committee of the European Parliament confirms that these countries display traits of tax havens. See, e.g., http://www.europarl.europa.eu/news/en/press-room/20190225IPR28727/tax-crimes-special-committee-calls-for-a-european-financial-police-force.

$$Pr(Political\ access = 1) = \Phi(X'\beta) \tag{2}$$

where the dependent variable, *Political access*, takes on two values, 1 and 0. The value 1 denotes firms that have at least one meeting at the EC between November 2014 and end September 2018. The value 0 denotes firms that did not have any meetings at the EC. Φ is the cumulative distribution function of the standard normal distribution. β is a vector of coefficients, and X is a vector of explanatory variables. Naturally, one of these is the variable of interest, *# of subsidiaries in EU tax havens*. As an alternative variable of interest, one could consider a simple indicator variable of whether a firm has subsidiaries in EU tax havens or not. However, decreasing the effective tax rate via profit shifting often requires subsidiaries in more than one tax haven.[20] We, therefore, prefer the variable *# of subsidiaries in EU tax havens* over a simple indicator variable.

Table 9 provides the results of the Probit regressions. Column (1) shows that *# of subsidiaries in EU tax havens* is a significant predictor for the likelihood of firms seeking political access to the EC. On average, the more subsidiaries a U.S. MNE locates in EU tax havens, the more likely it is to meet with policy-makers. The coefficient of the variable of the number of subsidiaries in EU tax havens changes to some extent as we introduce control variables (columns 2 to 4). It, however, remains strongly significant for all specifications. Panel B displays the marginal effects of the probit regression for the political access variable.

One concern may be that the results are driven by the number of subsidiaries located in Belgium. It could be that firms do not locate there for tax reasons, but to be in proximity to the EC. This should be positively associated with the likelihood of political access. In unreported robustness checks, we exclude subsidiaries in Belgium from the sample. The results are qualitatively unaltered in this specification.

Our findings suggest that the opportunity to influence the design of the corporate tax environment provides another rationale for firms to invest in gaining political access to the EC.

[20] See, e.g., Reuters (2019) on Google's "Double Irish, Dutch Sandwich" tax strategy.

5 Conclusion

In this paper, we analyze a novel dataset to determine the cross-border value effects of political access to policy-makers at the EC. We examine all meetings of corporate representatives or lobbyists of U.S. public corporations with Commissioners, their directors, and cabinet members between November 2014 and end September 2018. We document substantial positive abnormal equity returns for firms around their meetings with Commissioners.

The value of political access should derive from the opportunity to influence regulatory outcomes and the legal framework in Europe. We provide evidence for channels that speak to both aspects. U.S. firms with political access have a significantly higher likelihood of having their merger cases cleared unconditionally than their peers without access. In addition, we show that U.S. MNEs that should be most sensitive to corporate tax policies in the EU are the ones that seek political access. Firms that disproportionately often locate their subsidiaries in EU tax havens are significantly more likely to meet with policy-makers. Both findings constitute a strong rationale for firms to invest in lobbying efforts to gain political access at institutions in Brussels.

To the best of our knowledge, we are the first to analyze the value effects of political access in a cross-border setting. Some of the considerations in this work may be rather specific to U.S. MNEs and their relationship to the EU. However, we believe that our results should also hold in a more general setting.

Political access and ties in a cross-border setting are largely under-explored. In particular, given recent developments towards a more protectionist trade policy of some countries, international political access should be of increasing importance to MNEs. Future research should shed light on strategies to influence non-domestic authorities and on the channels that motivate firms' cross-border political investment.

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Figure 1: **Cumulative abnormal returns around meetings with Commissioners.** This graph plots the cumulative abnormal returns for meetings with Commissioners during the 71 trading days surrounding the meetings. The abnormal returns are calculated using the Fama-French Three-Factor Model.

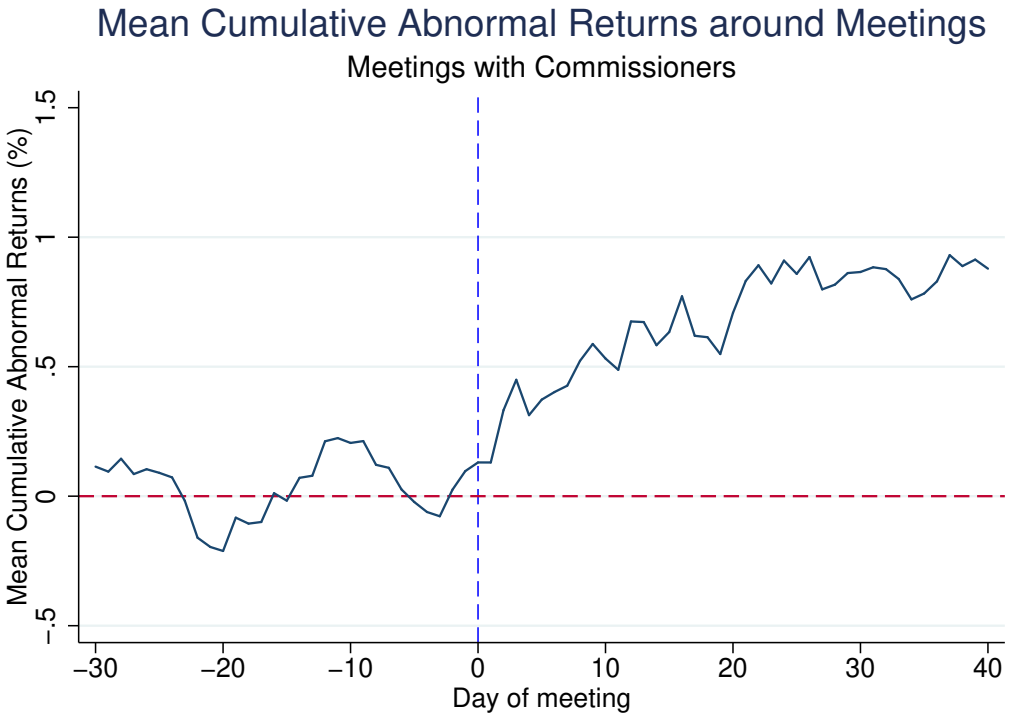

Table 1: **Most frequent visitors at the European Commission.** This table provides an overview of the 15 U.S. public firms with the highest number of meetings with European Commission officials from November 2014 through end September 2018. Columns (1) to (4) show the respective number of total meetings and of meetings with Commissioners, directors, and cabinet members.

	Number of meetings			
	Total	Commissioners	Directors	Cabinet members
Company name	(1)	(2)	(3)	(4)
Google	202	43	17	142
Microsoft	110	27	8	75
Facebook	96	22	4	70
IBM	92	23	13	56
General Electric	77	15	12	50
Amazon	57	17	7	33
Goldman Sachs Group	48	19	3	26
AT&T	45	9	8	28
Cisco Systems	45	12	7	26
Qualcomm	43	9	5	29
Apple	36	9	2	25
Blackrock	33	7	3	23
Citigroup	31	7	2	22
Symantec	30	8	1	21
eBay	29	4	0	25

Table 2: **Meetings by industry.** This table displays the number of meetings of U.S. firms with European Commission officials between November 2014 and end September 2018 by industries (SIC code denomination). Column (1) shows the breakdown for the total number of meetings and column (2) for the meetings with Commissioners.

	Number of meetings	
	Total	Commissioners
Industry	(1)	(2)
Agriculture, Forestry, Fishing	5	1
Mining	11	0
Construction	0	0
Manufacturing	531	114
Transportation, Communications, Electric, Gas, Sanitary Services	123	16
Wholesale Trade	0	0
Retail Trade	77	17
Finance, Insurance, Real Estate	285	77
Services	835	171
Public Administration	83	15

Table 3: **Directorates-General with highest number of meetings.** This table provides an overview of the five Directorates-General and their respective Commissioners with the highest number of meetings with U.S. public firms between November 2014 and end September 2018. Column (1) shows the total number of meetings of all members of the respective Directorate-General. Column (2) shows the number of the meetings of the Commissioner responsible for the respective Directorate-General.

		Number of meetings	
		Total	Commissioners
Directorate-General	Commissioner	(1)	(2)
Digital Single Market	Andrus Ansip	303	56
Digital Economy	Mariya Gabriel/ Günther Oettinger	247	77
Euro & Social Dialogue	Valdis Dombrovskis	215	83
Jobs, Growth, Investment and Competitiveness	Jyrki Katainen	157	30
Justice	Věra Jourová	123	34

Table 4: **Summary statistics.** This table provides summary statistics for the U.S. public companies that had at least one meeting with members of the European Commission between November 2014 and end September 2018. The sample includes 1,950 observations. *# of total meetings* is the number of meetings between U.S. firm representatives and Commissioners, their directors, and cabinet members in the considered period. *# of meetings with Commissioners, # of meetings directors*, and *# of meetings with cabinet members* are the number of meetings with Commissioners, directors, and cabinet members, respectively. *Lobbying expenses (€ mil)* depicts the maximum of reported yearly lobbying expenses in € million in the EU. *Total assets ($US mil)* is the book value of total assets in $US million. *Book-to-market* is the ratio of book value of common equity and its market value. *ROA* (return on assets) is income before extraordinary items (Compustat item IB) divided by total assets. *Book leverage* is total long-term debt divided by total assets.

	Mean	Median	Std. Dev.	P25	P75
# of total meetings	13.09	6	23.24	2	14
# of meetings Commissioners	2.76	1	5.65	0	3
# of meetings directors	1.2	0	2.52	0	1
# of meetings cabinet members	9.13	5	15.8	2	10
Yearly lobbying expenses (€ mil)	0.613	0.4	0.86	0.2	0.7
Total assets ($US mil)	120,049	23,741	333,880	10,954	82,003
Book-to-market	0.32	0.25	0.30	0.13	0.40
ROA	0.048	0.052	0.102	0.014	0.089
Book leverage	0.246	0.22	0.158	0.144	0.332

Table 5: **OLS regression: Number of meetings and firm characteristics.** This table displays simple OLS regressions of the number of meetings at the European Commission on lobbying expenses and firm characteristics. The regressions consider all U.S. firms that have at least one meeting with European Commission officials between November 2014 and end September 2018. *Ln(1+# of meetings)* is the natural logarithm of one plus the number of meetings a firm has with European Commission officials. Columns (1) and (2) show results for the number of total meetings. Columns (3) and (4) show results for meetings with Commissioners. *Ln lobbying expense (€ mil)* depicts the natural logarithm of the maximum of reported yearly lobbying expenses at EU institutions in € million. *Ln total assets* is the natural logarithm of the book value of total assets. *Book-to-market* is the ratio of book value of common equity and its market value. *ROA* (return on assets) is income before extraordinary items (Compustat item IB) divided by total assets. *Book leverage* is total long-term debt divided by total assets. *Year FE* depicts year fixed effects. *Industry FE* indicates whether the specification includes industry fixed effects at the industry level of the SIC code. t-statistics, based on robust standard errors, are shown in parenthesis. *, **, *** indicate significance on the 90%, 95%, and 99% levels of confidence.

Dependent variable: Ln(1+# of meetings)

	Total meetings		Commissioner meetings	
	(1)	(2)	(3)	(4)
Ln lobbying expense (€ mil)	0.293 (10.14)***	0.196 (5.88)***	0.161 (7.68)***	0.1 (4.72)***
Ln total assets		0.126 (4.40)**		0.1 (5.85)***
Book-to-market		-0.155 (0.92)		-0.208 (2.14)**
Book leverage		-0.693 (3.06)***		-0.276 (2.00)**
ROA		0.073 (0.12)		-0.004 (0.01)
Constant	-4.01 (6.78)***	-3.782 (6.45)***	-2.12 (6.31)***	-2.155 (56.63)***
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
# of firm-year observations	495	442	495	442
R-squared	0.372	0.423	0.228	0.282

Table 6: **Mean cumulative abnormal returns around meetings.** This table shows the mean cumulative abnormal returns around meetings between representatives of U.S. public companies and Commissioners, directors, and cabinet members, respectively. Mean cumulative abnormal returns are displayed for windows of seven trading days (row 1) and 25 trading days (row 2), starting three days prior to the meeting. Abnormal returns are calculated using the Fama-French Three-Factor Model. Test statistics for Patell's Z are shown in parentheses.

		Commissioners	Directors	Cabinet members
	7 days [-3, 3]			
(1)	Mean CARs - Fama-French	0.49%	0.07%	-0.15%
	(Patell's Z)	(2.79)***	(0.05)	(0.61)
	25 days [-3, 21]			
(2)	Mean CARs - Fama-French	0.81%	0.08%	-0.17%
	(Patell's Z)	(2.23)**	(0.02)	(0.06)
	# of meetings	300	133	830

Table 7: **Descriptive statistics: Merger decisions at European Commission.** This table shows descriptive statistics for U.S. firms with merger decisions at the European Commission's Competition Authority between November 2014 and beginning of 2019. *Political access* describes the subsample that includes all merger cases in which the involved U.S. firm has at least one meeting with European Commission officials. *Controls* describes the subsample that includes all merger cases in which none of the involved firms has meetings with European Commission officials. *# of cases* is the number of merger cases considered for each subsample. *Share Clear* is the share of merger cases in the respective subsample that receive a decision of unconditional clearance. *Mean deal size ($US mil)* depicts the mean deal size of the merger cases in $US million. *Share by industry* displays the share of merger cases by industry for the most frequent industries.

	Political access	Controls
# of cases	86	76
Share Clear	72.1%	55.3%
Mean deal size ($US mil)	11,005	6,704
Share by industry		
Manufacturing	59.3%	56.6%
Finance, Insurance, Real Estate	22.1%	27.6%
Transportation & Public Utilities	10.5%	0%
Services	5.8%	7.9%
Other	2.3%	7.9%

Table 8: **Probit regression: Merger decisions at European Commission.** This table shows the results for Probit regressions of the variable *Clear* on the variable *Political access*. *Clear* is an indicator variable, which takes the value of 1 if the outcome of a merger case is unconditional clearance and 0 else. *Political access* is an indicator variable, which takes the value of 1 if the U.S. firm involved in the respective merger has at least one meeting with officials at the European Commission between November 2014 and end September 2018 and 0 else. *Deal size* is the merger deal size. *Private Equity deal* is an indicator variable, which takes the value of 1 if the merger involved a private equity firm and 0 else. *Controls transtype* indicates whether the specification includes controls for the type of the respective transaction. *Year FE* depicts year fixed effects. *Industry FE* indicates whether the specification includes industry fixed effects at the industry level of the SIC code of the acquirer parent. Test statistics, based on robust standard errors, are shown in parenthesis. *, **, *** indicate significance on the 90%, 95%, and 99% levels of confidence. Panel A shows the results for the probit regression. Panel B shows the marginal effects coefficients of the probit regression for the variable *Political access*.

Dependent variable: Clear					
Panel A	(1)	(2)	(3)	(4)	(5)
Political access	0.515	0.657	0.798	0.985	1.017
	(2.43)**	(2.69)***	(2.94)***	(3.69)***	(3.71)***
Deal size			-0.00002	-0.00001	-0.00001
			(2.06)**	(1.70)*	(1.41)
Private Equity				1.122	1.254
				(2.93)***	(3.04)***
Constant	0.22	0.382	0.54	0.347	0.629
	(0.49)	(0.60)	(0.83)	(0.53)	(0.71)
# of observations	162	154	132	132	130
Pseudo R-squared	0.068	0.136	0.16	0.205	0.232
Controls transtype	No	No	No	No	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	Yes	Yes
Panel B	(1)	(2)	(3)	(4)	(5)
Political access	0.178	0.212	0.254	0.294	0.293
(marginal effects)	(2.57)**	(2.93)***	(3.33)***	(4.22)***	(4.34)***

Table 9: **Probit regression: Political access and subsidiaries in EU tax havens.** This table shows the results for Probit regressions of the variable *Political access* on the variable *# of subsidiaries in EU tax havens* and control variables. *Political access* is an indicator variable, which takes the value of 1 if the respective U.S. firm has at least one meeting with officials at the European Commission between November 2014 and end September 2018 and 0 else. *# of subsidiaries in EU tax havens* is a firm's total number of subsidiaries in EU tax havens (Belgium, Cyprus, Ireland, Luxembourg, Malta, and the Netherlands). *# of subsidiaries in EU* depicts a firm's total number of subsidiaries in the European Union. *Ln market value* is the natural logarithm of the market value. *Book-to-market* is the ratio of book value of common equity and its market value. *ROA* (return on assets) is income before extraordinary items (Compustat item IB) divided by total assets. *Book leverage* is total long-term debt divided by total assets. *Industry FE* indicates whether the specification includes industry fixed effects at the industry level of the SIC codes. Test statistics, based on standard errors that are clustered at the industry level of the SIC code, are shown in parenthesis. *, **, *** indicate significance on the 90%, 95%, and 99% levels of confidence. Panel A shows the results for the probit regression. Panel B shows the marginal effects coefficients of the probit regression for the variable *# of subsidiaries in EU tax havens*.

Dependent variable: Political access

Panel A	(1)	(2)	(3)	(4)
# of subsidiaries in EU tax havens	0.022 (2.24)**	0.024 (2.22)**	0.031 (2.83)***	0.011 (4.06)***
# of subsidiaries in EU			-0.002 (3.58)***	-0.001 (1.29)
Ln market value				0.581 (12.88)***
Book-to-market				0.1258 (1.17)
Book leverage				-0.025 (0.18)
ROA				-0.776 (5.35)***
Constant	-1.55 (24.97)**	-1.937 (26.89)***	-1.956 (28.71)***	-7.243 (14.83)***
# of observations	1523	1462	1462	1394
Pseudo R-squared	0.092	0.101	0.103	0.386
Industry FE	No	Yes	Yes	Yes
Clustered SE	Industry	Industry	Industry	Industry

Panel B	(1)	(2)	(3)	(4)
# of subsidiaries in EU tax havens (marginal effects)	0.003 (2.26)**	0.004 (2.59)**	0.004 (3.39)****	0.001 (3.71)***

Appendix

Table A.1: **Number of competition cases with the European Commission's competition authority by area.** This table shows the number of competition cases announced by the European Commission's competition authority from November 2014 through end September 2018 by area for firms that have meetings with EC officials. It excludes the firms for which case participation arises from being a private equity actor.

Panel A: number of competition cases by area	# of cases
Merger	95
Antitrust	22
State Aid	8
Cartel	7
Total	132

Table A.2: **OLS regressions of number of meetings on number of competition cases.** This table shows results for OLS regressions of the number of meetings on the number of competition cases with the European Commission's competition authority. The regressions consider all U.S. firms that have meetings with European Commission officials from November 2014 through end September 2018. The dependent variable in columns (1) and (2) is the log of the number of total meetings at the European Commission (*Log(1+# of total meetings)*). Columns (3) and (4) show results for a similar exercise with the log of the number of meetings with Commissioners at the European Commission *(Log(1+# of Commissioner meetings))* as dependent variable. *# of cases* is the number of all competition cases of a firm with the European Commission's competition authority for which there exists a web announcement by the Commission between November 2014 and end September 2018. *Log total assets* is the book value of total assets. *Book-to-market* is the ratio of book value of common equity and its market value. *ROA* (return on assets) is income before extraordinary items (Compustat item IB) divided by total assets. *Book leverage* is total long-term debt divided by total assets. *Industry FE* indicates whether the specification includes industry fixed effects at the industry level of the SIC codes. t-statistics, based on robust standard errors, are shown in parenthesis. *, **, *** indicate significance on the 90%, 95%, and 99% levels of confidence.

Dependent variable	Log(1+# of total meetings)		Log(1+# of Commissioner meetings)	
	(1)	(2)	(3)	(4)
# of cases	0.329	0.213	0.317	0.2
	(3.83)***	(2.56)**	(4.04)***	(2.50)**
Log total assets		0.256		0.264
		(4.79)***		(5.78)***
Book-to-market		-0.304		-0.375
		(1.02)		(1.34)
Book leverage		-0.7		-0.458
		(1.69)*		(1.18)
ROA		-0.061		-1.01
		(0.13)		(2.85)***
Constant	1.732	-0.692	0.477	-1.824
	(18.46)***	(1.42)	(6.02)***	(4.55)***
# of observations	146	136	146	136
Industry FE	No	Yes	No	Yes
R-squared	0.15	0.443	0.17	0.424