Who Pays a Visit to Brussels? The Firm Value of Cross-Border Political Access to European Commissioners

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Abstract

We present novel evidence on the value of cross-border political access. We analyze data on meetings of US multinational enterprises (MNEs) with European Commission (EC) policymakers. Meetings with Commissioners are associated with positive abnormal equity returns. We study channels of value creation through political access in the areas of regulation and taxation. US enterprises with EC meetings are more likely to receive favorable outcomes in their European merger decisions and have lower effective tax rates on foreign income than their peers without meetings. Our results suggest that access to foreign policymakers is of substantial value for MNEs.

1 Introduction

The share of multinational enterprises (MNEs) has increased substantially in the recent past. About half of US public firms operate in more than one country (Erel, Jang, and Weisbach 2020). Operating globally may entail benefits through diversification or minimization of tax burdens. For instance, US MNEs tend to have lower effective tax rates due to their operations in Europe.[1] Global activities may also imply considerable risk from political factors. MNEs face legislation and regulation in their international markets that differ from their domestic market. In addition, policymakers may treat foreign firms unfavorably in regulatory decisions (e.g., Aktas, de Bodt, and Roll 2007; Dinc and Erel 2013). This suggests that seeking access to politicians in their foreign markets and influencing policymaking can be an important source of competitive advantage for MNEs.

We indeed observe a strong increase in investment in foreign political capital, as the example of Google's efforts in the European Union (EU) illustrates. The firm's yearly lobbying expenses at EU institutions rose from €0.6 million in 2011 to around €8 million in 2018.[2] Aside from such suggestive evidence, it is empirically challenging to identify firms' attempts to influence foreign policymakers. On the one hand, data on politician-firm interactions are difficult to obtain in a cross-border setting. On the other hand, the available data are typically indirect approximations of direct interactions between policymakers and corporations. As a result, endogeneity concerns are present in the form of measurement error and/ or omitted variables.

In this paper, we use a novel dataset to overcome some of the identification challenges and 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 firms and policymakers at the European Commission (EC) to obtain a direct measure of political access. We study all meetings between representatives of US public firms and European Commissioners, their directors, and cabinet members between 2014 and 2019.

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[1]For example, Apple Inc. states in its 10-K filings that its effective tax rate in 2017 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).

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

Electronic copy available at: https://ssrn.com/abstract=3339871

We analyze equity returns around the date of the respective meeting to quantify the value of foreign political access. Meetings with Commissioners are associated with almost 1 percent abnormal returns. We study two channels through which these value effects may come about: regulatory decisions and effective tax rates. To alleviate robustness concerns regarding the analyses, we identify a distinct control group for each of our three main specifications and include a matching exercise.

Interactions with officials at 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 assists EU countries in implementing legislation.

Our setup enables us to study potential channels of value creation of cross-border political access. The EC decides on regulatory outcomes and proposes laws that, for instance, shape the EU corporate tax environment. Regulation and taxation in their international markets are of significant importance for MNEs, making the two issues natural candidates for potential drivers of competitive advantage through political access. We show that US firms with political access are significantly more likely to receive favorable outcomes in their European merger decisions than their US peers without access. The likelihood for an unconditional clearance of a merger is around 15 to 20 percent higher for firms with EC meetings. We also find that firms with political access have about 2.5 to 3.5 percentage points lower effective tax rates on their foreign income than other US firms operating in the EU.[3]

Since November 2014, Commissioners and their cabinet members at the EC publish the information on meetings with organizations and self-employed individuals.[4] 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 of US public corporations or their European subsidiaries between November 2014 and November 2019, covering the entire

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[3]We define the foreign effective tax rate as the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income.

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

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period of the "Juncker Commission".

In total, we analyze 2,205 meetings of EC members with 169 US public firms or their subsidiaries. 507 of these meetings are with Commissioners, 274 with directors, and 1,424 with cabinet members. We combine these data with security price data from the Center for Research in Security Prices (CRSP), firm characteristics from Compustat - Capital IQ, and lobbying expenses in Europe from LobbyFacts.eu.[5] 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 EC meetings.

To determine the value effects of political access, we perform event study analyses around the date of the respective meetings. We find 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 40 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. In the seven trading days surrounding the meeting, firms experience CARs of about 0.5 percent. The CARs increase to almost 1 percent after roughly one month. In cross-sectional regressions, we show that these effects are not driven by observable firm characteristics or particular industries.

In a next step, we provide insights on channels through which political access to the EC can create value. The first channel relates to the EC as executive authority and its function to make regulatory decisions, for instance in the area of mergers and acquisitions (M&A). Influencing M&A decisions can be of particular importance for MNEs because they often enter foreign markets by acquisitions. Repeated accusations of European discriminatory behavior toward US firms suggest a potential bias against US MNEs in regulatory outcomes.[6] Empirical evidence confirms that European policymakers may indeed treat foreign firms unfavorably in M&A decisions (e.g., Aktas, de Bodt, and Roll 2007; Dinc and Erel 2013). Interactions with

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[5]The platform LobbyFacts.eu collects data on lobbying expenses from the EU's Transparency Register, the official source for information on organizations that lobby the EU institutions. See https://lobbyfacts.eu.

[6]For instance, the Financial Times (2015) reports that Barack Obama considers that European scrutiny of certain US 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 US tech industry.

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foreign policymakers may alleviate this potential bias and result in competitive advantage toward competitors without access. Extant literature documents that corporate strategies to influence policymakers are associated with beneficial outcomes in M&A decisions.[7]

To analyze whether cross-border political access to the EC is associated with preferential regulatory outcomes, we compile a dataset of all M&A decisions at the EC in which US firms, their subsidiaries, or business units are involved. We combine information from the EC's competition database with data on deal characteristics from Thomson Reuters and Bureau van Dijk's Zephyr database. The sample of mergers that involve US firms with meetings at the EC forms the treatment group, and we compare its merger outcomes to those of a control group of mergers that involve US firms without EC meetings. We find that firms with political access are 15 to 20 percent more likely to receive unconditional clearance of their merger plans than their peers without access.

The second channel through which political access to the EC can create value 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 globally operating firms. There is ample evidence that US firms experience lower effective tax rates because of their operations in the EU, for instance, through profit shifting and transfer pricing.[8] EC tax initiatives, like the Common Corporate Tax Base or the EU digital tax, may substantially impact the tax bill of US MNEs. This constitutes a strong rationale for the enterprises to influence EC policymakers who design the EU corporate tax environment.

We analyze whether political access to the EC is associated with beneficial tax rates. We compare the effective tax rates of US MNEs with EC meetings to those of all US MNEs that have operations in Europe, but no EC meetings. We compile a dataset of all US firms that have at least one subsidiary in the EU according to Bureau van Dijk's Orbis database. Ideally, we would like to compare the effective tax rates for every European country or the EU region. Unfortunately, data on income and taxes on such a disaggregate level are not readily

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[7]See, e.g., Ferris, Houston, and Javakhadze (2016); Croci et al. (2017); Fidrmuc, Roosenboom, and Zhang (2018).

[8]For instance, Reuters (2019) illustrates how Google benefits from a low effective tax rate due to the location of its subsidiaries in Ireland and the Netherlands.

available for many firms in our dataset. We approximate this ideal setting by calculating and comparing a foreign effective tax rate. We define the foreign effective tax rate as the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. This measure has the advantage that data on foreign income and taxes for many US MNEs is available in Compustat - Capital IQ. A drawback of this measure is that it also includes non-EU foreign income and taxes. It accordingly merely approximates the effective tax rates on EU income. We conduct a matching estimation and find that firms with EC meetings have around 2.5 to 3.5 percentage points lower foreign effective tax rates than their peers without meetings.

Our work relates to the extensive 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 impact policymakers' voting behavior (Mian, Sufi, and Trebbi 2010; Mian, Sufi, and Trebbi 2013).

We contribute to the scant literature on political connections to the executive branch (Acemoglu et al. 2016; Fisman et al. 2012; Brown and Huang 2020; Child et al. 2020). Studying the EC context, Luechinger and Moser (2020) find positive value effects for firms that hire former Commissioners. The only extant study on firms' attempts to connect to foreign policymakers is Fink and Stahl (2020). The authors analyze how non-US firms establish connections to US politicians via the contributions of their US subsidiaries' political action committees. They find that firms with considerably more contributions to Republicans benefit from positive abnormal equity returns following the 2016 US presidential election.[9] Our study

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[9]See Sojli and Tham (2017) for a study on how governments through their investments have vested interests in firms abroad.

differs from their work in two important ways. First, we use a direct measure of political access. Second, we identify channels through which interactions with foreign policymakers can create value.

In particular with respect to the direct measure of political access, the present work is closely related to Brown and Huang (2020). The authors study meetings of US corporate executives with policymakers at the White House between 2009 and 2015. They find that firms experience positive abnormal stock returns, receive more government contracts, and are more likely to receive regulatory relief following the meetings. In contrast to the domestic focus in Brown and Huang (2020), we study political access to foreign policymakers and identify channels of value creation of significance for MNEs in their international markets.

We are the first to document value effects of cross-border political access. The EC data provide us with a direct measure of political access and enable us to quantify value effects in financial markets around the date of the interaction. We consider our contribution a first step toward a more thorough understanding of cross-border interactions between policymakers and the corporate sector as well as the channels through which these interactions can be valuable for MNEs.

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 and 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 27 EU countries, and they form the EC's political leadership during the legislative period.[10] 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

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[10]On January 31 2020, the United Kingdom withdrew from the European Union. Our dataset covers the period from November 2014 to November 2019, for which the EU had 28 member states.

President who is elected by the European Parliament. Our dataset covers the entire presidency of 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 particular departments, the Directorates-General. The Directorates-General develop, implement, and manage EU policy, law, and funding programs for different policy areas. They are each headed by a director who reports to the Commissioner in charge of the corresponding policy area.

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 policymakers from the platform EU Integrity Watch and the respective webpages of the EC officials.[11] We gather data on firms' lobbying efforts in Europe from the Transparency Register and from LobbyFacts.eu.[12] We obtain security price data from CRSP and data on firm characteristics from Compustat - Capital IQ. All continuous firm characteristic variables are winsorized at the 1st and 99th percentile. To analyze the outcomes of merger proposals at the EC, we collect data on merger decisions from the EC's competition database.[13] Data on M&A deal characteristics are 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

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[11]See www.integritywatch.eu and https://ec.europa.eu.

[12]See http://ec.europa.eu/transparencyregister/public/homePage.do and https://lobbyfacts.eu.

[13]See http://ec.europa.eu/competition/.

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of their meetings with organizations and self-employed individuals.[14] The information includes the name of the organization, time, location, as well as the subject of the meeting.[15] It has to be published on the respective Commissioner's website within two weeks of the meeting. The names of individuals acting on behalf of organizations are not made public unless the persons give their consent. Our dataset includes the names of Commissioners, directors, and cabinet members who are present at meetings, but for many meetings we do not have the identities of the firm representatives. We consider meetings of EU subsidiaries or affiliates of US public firms as meetings of the ultimate US public parent.

In total, we analyze 2,205 meetings of firm representatives with EC officials between November 2014 and November 2019. 507 meetings are with Commissioners, 274 with directors, and 1,424 with cabinet members. 169 public US firms have at least one meeting with EC officials in the considered period. Table 1 provides an overview of the 20 US public firms with the highest number of meetings at the EC. Table 2 presents a break down of the meetings by 2-digit SIC code industries. Most of the meetings are concentrated within the three industries *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 lists the ten Directorates-General and their respective Commissioners with the most frequent meetings with US public firms.

The definition of the control groups to analyze EC merger outcomes and effective tax rates is rather intuitive. For the merger outcomes analysis, the control group consists of all merger cases that involve US firms that do not have EC meetings. For the comparison of effective tax rates, the control group includes all US MNEs that have operations in Europe, but do not have EC meetings.

For the analysis of value effects and firm characteristics of political access, finding a control group is a more challenging task in our setting. An appropriate control firm should be a US public firm with operations in Europe. In addition, it should seek political access to the EC, but without success, i.e., without actually meeting EC policymakers. To define a control

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[14]The decision is denominated 2014/839/EU, Euratom.

[15]Note that information on meetings that directly relate to a particular competition case are not published by the EC.

group, we exploit the fact that all organizations that want to interact with EU policymakers have to register in the EU Transparency Register and provide information on their lobbying expenses in the EU. We, hence, define as control firms all US public firms which themselves or their European subsidiaries or affiliates have been registered in the EU Transparency Register and report lobbying expenses between November 2014 and November 2019, but for which we do not observe any meetings.

Table 4 provides summary statistics for firms with political access (169 firms) and for control firms (59 firms). Panel A shows statistics on the number of annual meetings for firms with political access. On average, firms have slightly more than 2 meetings per year, and 0.5 of these meetings are with Commissioners. The figures, however, vary considerably across firms. The maximum number of annual total meetings and annual Commissioner meetings are 59 and 15, respectively. Panel B shows firm-year observations for firm characteristics of firms with political access and control firms. Firms with political access have mean yearly lobbying expenses at the EU of about €0.7 million. This figure amounts to about €0.2 million for control firms. A nonparametric test for the equality of sample medians shows that the median lobbying expenses for the two samples differ significantly. This is also the case for size and leverage. Several firms are not registered in the EU Transparency Register for the entire period of observation, but merely for some years. This explains why there are less observations for the lobbying expenses than for other covariates.

4   Results

In this section, we study firm characteristics and value effects of political access. We then present evidence on the channels through which political access to the EC may increase the value of US MNEs.

4.1   Political access and firm characteristics

Table 5 provides evidence on the association between the number of EC meetings and observable firm characteristics. The sample consists of the 169 firms with political access and

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the 59 control firms. The table shows results of OLS regressions of the natural logarithm of the number of firm-year meetings on lobbying expenses and covariates. All continuous firm characteristic variables are winsorized at the 1st and 99th percentile. All specifications include year fixed effects and industry fixed effects at the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. We are, in particular, interested in the relation between political access and lobbying efforts in the EU. Columns (1) and (2) show that the amount of lobbying expenses is a strong predictor of a firm's total number of meetings. This suggests that an increase in lobbying activities increases the likelihood and frequency of access to policymakers at the EC. The findings are similar when merely considering Commissioners meetings (Columns 3 and 4). The results also show that firm size is positively associated with political access.

4.2 Firm value effects around meetings with EC policymakers

To measure firm value effects of political access to the EC, we perform event study analyses around the date of the respective meeting. We calculate CARs applying the Fama-French-Carhart Four-Factor model.[16] We fit the coefficients of the four factors during an estimation window that begins 200 days and ends 20 days prior to the meeting. For each firm, we estimate CARs for the respective meeting and then calculate mean CARs across all observations.

We report CARs for two different event windows. For short-term returns, we consider the seven trading days (-3, 3) surrounding the meetings. We use this window based on the inspection of Figure 1, which shows that mean CARs begin to rise a few days prior to the meetings with Commissioners. This suggests that the information on some meetings is known already before the meeting. Figure 1 also shows that CARs steadily increase until about one month following the meeting. This pattern can be explained by two factors. First, policymakers have up to two weeks following the meeting to publish the meeting information. Second, firm news related to the meeting may be announced in the following weeks. We therefore consider an event window of 25 trading days (-3, 21) that accounts for the pattern.

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[16]See Fama and French (1992, 1993) and Carhart (1997).

We calculate value effects for meetings with Commissioners, directors, and cabinet members, separately. If a firm has meetings with a Commissioner, a director, and a cabinet member on the same day, we code the meeting as a meeting with a Commissioner. If a firm has 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.

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, CARs of 0.48 percent during the seven trading days surrounding the meeting. These value effects are statistically significant at the 1% level according to the standardized cross-sectional test. The statistic is robust to event-induced variance, which gives consideration to the fact that frequently different firms have meetings on the same day. The value effects for meetings with directors and cabinet members are slightly negative. However, the test statistics indicate no significant difference from zero.

It is important to note that the number of meetings considered for the analysis of value effects in Table 6 differs from the sum of meetings reported above. One reason for the difference is that some firms have more than one meeting with different EC members on the same day. For the analysis in this section, we count those meetings only as one meeting, and the day of the meeting enters only once in the analysis. Another reason is that, to minimize confounding effects, we exclude meetings for which there is a quarterly earnings announcement of the respective company within the (-5, 5)-day window of the meeting.

Row (2) of Table 6 shows the results for the extended window. 21 days after the meetings with Commissioners, mean CARs increase to 0.94 percent. The result is statistically significant at the 5% level. For meetings with directors and cabinet members, there are also no significant value effects in financial markets for this event window. Although they have less political power than Commissioners, we believe that access to directors and cabinet members is still of value

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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. We limit the following robustness analysis to the value effects of Commissioner meetings.

One concern may be that the value gains for meetings with Commissioners are driven by particular firm characteristics or industry effects that the event study analysis cannot account for. To alleviate this concern, we run cross-section regressions of CARs that allow us to control for observable firm characteristics. We calculate CARs for all firms that have been registered in the EU Transparency Register (the firms with political access and control firms as defined above) for all dates on which a Commissioner meeting takes place. We then run the following regression for all Commissioner meetings:

$$CAR_{it} = \delta_j + \beta * Commissioner\ meeting_{it} + X_{it}'\gamma + \varepsilon_{it}, \tag{1}$$

where CAR_{it} is the respective 7- or 25-day cumulative abnormal return of firm i around meeting date t. δ_j is industry fixed effects at the 2-digit SIC code level. $Commissioner\ meeting_{it}$ is an indicator variable that takes the value of 1 for the firm that has the respective meeting, and 0 else. X_{it} is a vector of control variables, including the variables ln total assets, book-to-market value, book leverage, return on assets, tangibility, and ln lobbying expense. Continuous firm characteristic variables and CARs are winsorized at the 1st and 99th percentile.

Table 7 provides the cross-section results for all Commissioner meetings. Columns (1) to (3) report the results for the 7-day window. The coefficient on *Commissioner meeting* in Column (1) shows that, on average, the securities of firms that have a meeting with a Commissioner outperform other firms without a meeting on that date by more than 0.5 percent. The coefficient is statistically significant at the 1 percent level and in line with the estimates of the Fama-French-Carhart Four-Factor model reported in Table 6. The magnitude of the coefficient hardly changes when controlling for firm-level characteristics (Column 2), as well as lobbying expenses (Column 3). Columns (4) to (6) present the results for the 25-day window. The coefficient on *Commissioner meeting* varies between 0.6 and 0.74 percent. This is slightly

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lower than the coefficient reported in Table 6. The variance of the estimates increases for the extended event window. The statistical significance for the estimates is accordingly lower than for the short event window. When including lobbying expenses in the specification (Column 6), the coefficient on *Commissioner meeting*, while economically still significant, is no longer significant at common levels of confidence. However, there is no significant association between lobbying expenses and CARs. The decrease in statistical significance on the coefficient of *Commissioner meeting* seems to be driven by the decrease in sample size as we move from models (4) and (5) to model (6).

We believe that the sample of firms that have been registered in the EU Transparency Register constitutes the best control group to test for the robustness of the estimates of value effects. However, we perform a robustness test, in which we repeat the above exercise using a control group that consists of the S&P 500 firms and the firms with political access. Firms included in the S&P 500 generate a large share of their sales abroad. Hence, as regards the exposure to foreign markets, they resemble US MNEs with political access to the EC. Table A.1 in the appendix provides the results for the S&P 500 cross-section regressions. The coefficient magnitudes and significance levels are very similar to the ones reported in Table 7.

In conclusion, we find substantial value effects in security prices around firms' meetings with EC Commissioners. The value gains seem not to be driven by observable firm characteristics or industry effects.

4.3   Regulatory outcomes and political access

In this section, we study a channel through which political access to the EC may increase firm value. The EC pursues the enforcement of competition rules in the areas of antitrust, cartels, mergers, and state aid. Meetings with EC policymakers may therefore assist firms in influencing regulatory decisions at the EU level.

We compare the outcomes of M&A decisions at the EC for firms with political access to those for a sample of control firms. We compile a dataset of all merger decisions at the EC Competition Authority between November 2014 and November 2019, in which at least one US

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firm or one of their subsidiaries or business divisions are involved. We combine the information on the merger cases from the EC competition database with data on deal characteristics from Thomson Reuters and Bureau van Dijk's Zephyr database.

To test whether meetings with EC policymakers can affect merger outcomes, we focus on cases for which EC officials have to make a qualitative assessment and accordingly are likely to have some discretion in their decision-making. We therefore exclude all cases for which the outcome is decided by the so-called simplified procedure. This procedure is applied by the EC when the notified merger does not give rise to significant competition problems, typically because the merging entities have small market shares or do not operate in the same markets.[17] Virtually all mergers that are decided under the simplified procedure are cleared without any opposition of the EC.

We, hence, limit the sample to cases 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 of this phase I investigation: i) the merger is cleared unconditionally, ii) the merger is cleared subject to accepted remedies, or iii) the merger raises concerns, and it enters a phase II investigation. Phase II investigations can end with the following decisions: i) the merger is cleared unconditionally, ii) the merger is approved subject to remedies, or iii) the merger is prohibited because no adequate remedies to the competition concerns have been proposed by the merging parties. Naturally, an unconditional clearance after the phase I investigation is the preferred outcome for the merging parties. All other possible outcomes will imply additional costs or inconveniences. It is difficult to quantify to what extent these other outcomes add costs for each individual case. Therefore, we believe that a binary qualitative dependent variable model is the best choice of analysis in this setup. We distinguish between unconditional clearance after

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[17]The EC Competition Authority announces the following guidelines for the simplified procedure: "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." See http://ec.europa.eu/competition/mergers/procedures_en.html.

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the phase I investigation on the one hand and all other potential regulatory outcomes on the other.[18]

We define a 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 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 US public firm, its subsidiary, or business division and for which the ultimate US parent has at least one meeting at the EC prior to the merger decision. Hence, observations for which *Political access* is equal to 1 form the treatment group. Ideally, we would like to compare the merger outcomes of this group to a set of control firms that are equal in all dimensions except that they do not meet with EC policymakers. We approximate this ideal setting by defining a control sample that consists of merger cases that involve a US firm, its subsidiary, or business division, and for which none of the involved firms has meetings at the EC. The *Political access* variable has a value of 0 for this group. We exclude all merger cases from this group, in which non-US firms with political access are involved. From both groups, treatment and control, we exclude merger cases in which both, US firms with and without access, are involved. This yields a final sample of 166 merger cases decided at the EC. 81 of these cases belong to the treatment group, and 85 belong to the control group.

Table 8 provides descriptive statistics for the merger cases of the analysis. The columns *Political access* and *Control firms* present the statistics for the treatment group and control group, respectively. There is an apparent difference in the frequency of unconditional clearance decisions between the two groups as shown by the variable *Clear*. While 74 percent of the cases of firms with meetings receive a decision of unconditional clearance, this is the case for merely 64 percent of the control firms. This is even more striking as the mean deal size (*Deal size ($m)*) is larger for firms with access, although the difference in medians between the two groups is not statistically significant. The variable is negatively associated with the variable *Clear*. Deal size is the preferred size measure in our specification. Several merger cases include

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

entities that are not public. It is therefore difficult to obtain a size measure for all entities. *Private equity* is an indicator variable that is equal to 1 for merger cases in which a private equity firm is involved, and 0 else. This is more often the case for mergers in the control group. *Private equity* is positively associated with the outcome variable *Clear. Market share EEA* is the average expected market share of the combined entities in the European Economic Area (EEA). We retrieve the information on this variable from the EC's publications on merger decisions. Unfortunately, this information is not available for all cases. If the information is not available for the EEA, but merely for specific countries, we use an equal-weighted average of the market shares for the largest countries or for the countries for which the market share is reported.[19] There are no significant differences between the two groups regarding the market share. The variable is negatively associated with the outcome variable *Clear.* Table 8 also lists the share of merger cases by industry. The industries are defined at the 2-digit SIC code level of the ultimate parent of the acquiring firm. Most of the mergers take place in the manufacturing industry. In general, firms with political access and control firms compare rather well with respect to the industry affiliation.

To quantify the association between EC merger outcomes and political access, we apply a Probit model of the following form:

$$Pr(Clear = 1) = \Phi(X'\beta), \tag{2}$$

where the dependent variable *Clear* is defined as above. Φ is the cumulative distribution function of the standard normal distribution. X contains observable firm characteristics, including ln deal size, the market share in the EEA, and controls for private equity involvement, transaction type, and deal form. Naturally, it also contains the variable of interest, *Political access,* which is defined as above.

Table 9 presents the results of the empirical analysis. Panel A provides the results of Probit regressions of the indicator variable *Clear* on the variable *Political access* and controls. Panel B reports the marginal effects for the coefficient of *Political access.* All specifications include

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[19]We define as the largest countries Germany, UK, France, Italy, and Spain.

year and industry fixed effects at the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. Column (1) shows that firms with political access are significantly more likely to receive a merger decision of unconditional clearance. As the marginal effects in Panel B indicate, the likelihood of unconditional clearance increases by 18 percent as we move from the control to the treatment group. The coefficient remains very stable when including the control variables. To address the concern that the type of transaction or the deal form of the merger drive the results, we control for these in Columns (4) and (5). There is no substantial impact on the coefficient of *Political access*.[20] Column (5) also controls for the market share of the combined entities. It is strongly negatively associated with the likelihood of unconditional clearance of a merger case. The number of observations substantially decreases for this specification. This should explain why the statistical significance of the coefficient of *Political access* is rather low in this specification, although the magnitude of the coefficient hardly differs from those in Columns (1) to (4). It follows from the marginal effects in Panel B that, depending on the specification, the likelihood of unconditional clearance of a merger case is roughly 15 to 20 percent higher for firms with political access than for their peers without meetings.

The specifications in Table 9 merely consider a firm as having political access if the firm has a meeting with EC policymakers prior to the merger decision. Information on meetings at the EC is public only as of November 2014. It is, hence, possible that we exclude firms from the treatment group that have EC meetings prior to their merger decision, but we cannot observe them. This is, in particular, likely for firms that have merger decisions at the end of 2014 or beginning of 2015. To account for this possibility, we perform a robustness check, in which we assign all firms to the treatment group that have a meeting in the period November 2014 to November 2019, irrespective of whether the meeting takes place prior to the merger decision. We repeat the Probit regressions for this modified sample. Table A.2 of the appendix shows the results. The findings are very similar to those of the specifications reported in Table 9.

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[20]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". Most of the deal forms are classified as "full takeover" or "partial takeover", but some of them are also "joint ventures".

The results suggest that merger outcomes at the EC are favorable for US MNEs with political access. We consider this evidence for a channel of value creation through the influence of regulatory outcomes at the EC.

4.4 Effective tax rates and political access

In this section, we study a second channel that may explain the value of political access to the EC. The channel relates to the EC's competence in the legislative initiative. While the EC proposes laws in several policy areas, the design of the European corporate tax environment is of particular importance for globally operating firms. Many US MNEs lower their effective tax rates through their income in European subsidiaries.[21]

The opportunity to lower effective tax rates largely derives from the fact that corporate tax rates vary across EU member states. MNEs can take advantage of this through particular tax deals with individual EU governments or profit shifting and transfer pricing. Modifications of the EU tax environment can accordingly have far-reaching consequences for the tax bills of MNEs. There have indeed been several initiatives in Brussels in the recent past that intend to amend EU corporate taxation. For instance, the Common Corporate Tax Base, proposed by the EC, should remove the need for transfer pricing, hence impeding the opportunity for profit shifting.[22] Another recent EC initiative that would mainly affect large MNEs is the EU digital tax. It would enable EU member states to tax profits generated in their territory, even if firms do not have their physical presence there.[23] Although the EU-wide digital tax proposal was abandoned by the member states, the example shows that the EC's legislative initiative can have important implications for MNEs. This constitutes a strong incentive to exert influence on EC policymakers.

We study the association between taxes and political access. We analyze how effective tax rates of US MNEs with EC meetings differ from those of their peers without meetings.

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[21]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 US taxes were provided when such earnings were intended to be indefinitely reinvested outside the US." See https://www.sec.gov.

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

[23]See https://ec.europa.eu/taxation_customs/business/company-tax/fair-taxation-digital-economy_en.

Ideally, we would like to compare firms with political access to control firms that are equal in all dimensions except that they do not meet with EC policymakers. To approximate this setting, we compare US MNEs with political access to US MNEs without access, but with operations in the EU. We compile a dataset of active US MNEs hat have subsidiaries in the EU. We retrieve data on subsidiary location from Bureau van Dijk's Orbis database. We define as control firms all US MNEs that have at least one EU subsidiary, but no meetings with the EC.

Ideally, we would like to compare the effective tax rates for every European country or the EU region. However, data on income and taxes on such a disaggregate level are not readily available for many firms in our dataset. We therefore use as outcome variable the *foreign effective tax rate*, which we define as the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. Data on foreign income and taxes for many US MNEs are available in Compustat - Capital IQ. A downside of this measure is that it includes all foreign income and taxes and not merely EU data.

To analyze the association between effective tax rates and political access, we build on the following empirical specification:

$$Foreign\ effective\ tax_{it} = \lambda_t + \delta_j + \beta * Political\ access_{it} + X'_{it}\gamma + \varepsilon_{it}, \tag{3}$$

where $Foreign\ effective\ tax_{it}$ is the foreign effective tax rate as defined above of firm i in year t. λ_t and δ_j are year fixed effects and industry fixed effects at the 2-digit SIC code level, which control for unobserved heterogeneity across time and industries, respectively. *Political access* is an indicator variable that is equal to 1 for firms with meetings at the EC, and 0 else. X_{it} contains observable firm characteristics, including ln total assets, book-to-market value, book leverage, return on assets, tangibility, and the share of a firm's total subsidiaries that is located in the EU.[24] Continuous firm characteristic variables are winsorized at the 1st and 99th percentile. We merely consider observations for which the foreign effective tax rate is

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[24]To account for firms' exposure to the EU market, we define the variable *Share EU subsidiary* as the share of a firm's total subsidiaries that is located in the EU.

between 0 and 1.

Table 10 provides descriptive statistics for US MNEs with subsidiaries in the EU. It shows firm-year observations for firm characteristics of firms with political access and control firms. It is important to note that we only consider the foreign effective tax rate and control variables of firms with political access as of the year in which the respective firm has the first meeting with EC policymakers. That means, for instance, that if a firm has its first meeting in 2017, we merely consider the observations for the years 2017 to 2019. The nonparametric test for the equality of sample medians indicates that firms with political access have lower foreign effective tax rates and are larger than the control firms. In addition, they are more profitable and tend to have lower book-to-market ratios.

Table 11 presents the regression results. Both specifications include year fixed effects and industry fixed effects at the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. Column (1) shows that the foreign affective tax rate of firms with political access is about 4 percentage points lower than for their peers without meetings. The difference is statistically significant at the 1 percent level. The coefficient hardly changes when considering the set of control variables (Column 2).

There are several significant differences in firm characteristics between the sample of firms with political access and control firms, in particular, with respect to size, book-to-market value, and profitability. To account for this pattern and to add robustness to our results, we match each firm with political access to control firms in a matching analysis. We calculate propensity scores based on the continuous covariates (ln total assets, book-to-market value, book leverage, return on assets, tangibility, share of subsidiaries in EU) and an exact match on the respective year and industry at the 2-digit SIC code level. We employ the teffects psmatch approach, based on results by Abadie and Imbens (2016), to quantify the treatment effects. Table 12 reports the coefficient estimates of the matching procedure with 1, 3, and 5 nearest neighbors, *NN (1)*, *NN (3)*, and *NN (5)*, respectively. There is some variation in the magnitude and statistical significance across the estimates, depending on the number of nearest neighbors. The coefficient estimates are slightly lower than for the OLS regressions.

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However, the difference in foreign effective tax rates of 2.5 to 3.5 percentage points remains statistically and economically significant.

The specifications in Table 11 and 12 merely consider observations of firms with political access beginning in the year in which the respective firm has the first meeting with EC policymakers. As pointed out in section 4.3, it is possible that we exclude firms from the sample with political access that have EC meetings prior to November 2014, but we cannot observe them. To account for this possibility, we perform a robustness check, in which we consider all observations for all years for firms with political access, irrespective of when their first meeting takes place. Tables A.3 and A.4 of the appendix show the results. The findings are very similar to those of the specifications reported in Table 11 and 12.

The explanatory power of our analysis is somehow limited by the definition of the foreign effective tax rate, which includes all foreign income and taxes. In addition, the correlations presented here do not necessarily constitute a causal relation running from political access to the EC to effective tax rates. It may well be that firms pay lower effective taxes because they are tax planners or are very sensitive to the corporate tax environment. One would expect this type of firms to be predominantly seeking access to policymakers to influence the corporate tax design. In any case, the results suggest that the opportunity to influence the design of the EU corporate tax environment provides a rationale for US MNEs to invest in gaining political access to the EC.

5 Conclusion

In this paper, we analyze novel data on meetings between corporate representatives and policymakers at the EC between 2014 and 2019. To the best of our knowledge, we are the first to use the EC meetings data. We provide evidence on the value of cross-border political access. We find positive abnormal equity returns for US MNEs around their meetings with Commissioners. We further document that US firms with meetings at the EC are more likely to receive unconditional clearance of their European merger plans and experience lower effective tax rates on their foreign income than their peers without meetings. The two potential

channels of value creation, regulation and taxation, are within the scope of competencies of the EC, and both issues are of particular importance for MNEs in their international markets. Our results suggest that political access to foreign policymakers can be of substantial value for MNEs.

Some of the considerations in this work may be rather specific to US MNEs and their operations in the EU. However, we believe that our results are likely to extend to other settings in which MNEs and policymakers from different countries interact.

Cross-border relations between corporations and politicians are largely under-explored. In particular given recent developments toward more inwards-oriented or even protectionist government policies of some countries, influencing foreign policymakers should be of increasing significance for firms that operate globally. We consider our contribution a first step in documenting how MNEs influence policymakers in their international markets and how firm value can be created through this political access. Future research could shed light on different 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 European Commissioners.**
This graph plots the mean cumulative abnormal returns for US public firms for meetings with European Commissioners during the 81 trading days surrounding the meetings. The abnormal returns are calculated using the Fama-French-Carhart Four-Factor Model.
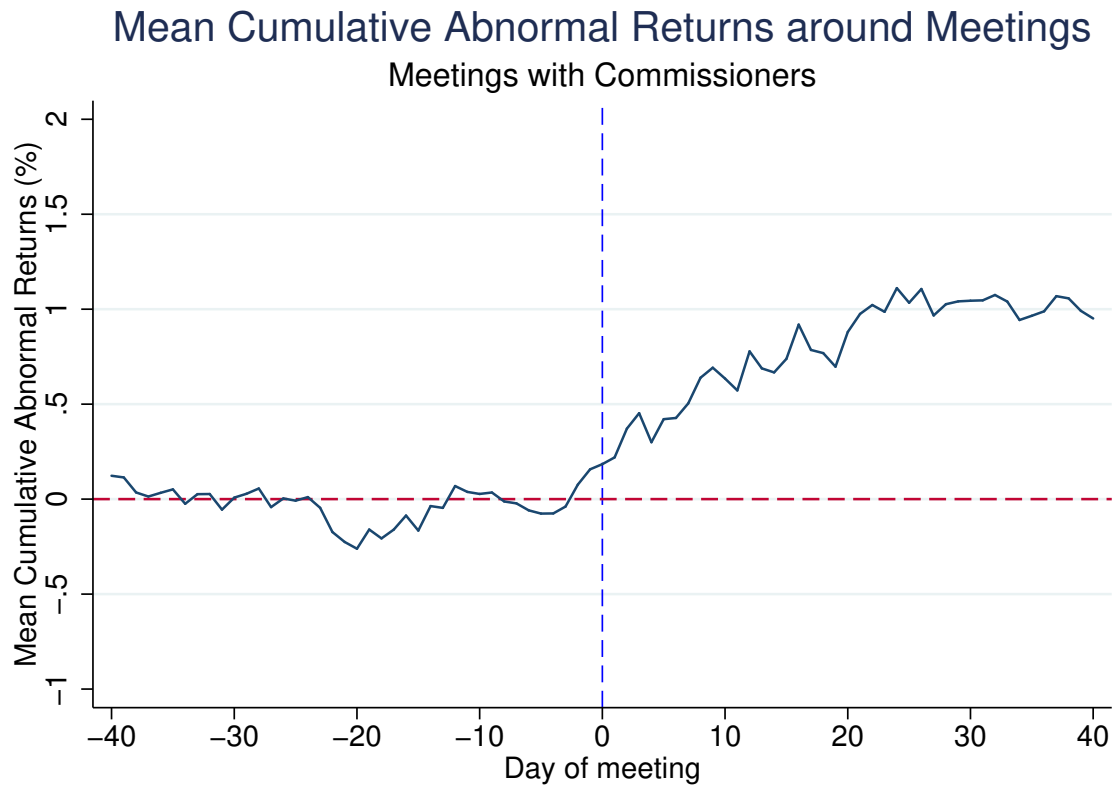

Mean Cumulative Abnormal Returns around Meetings
Meetings with Commissioners

Table 1: **Most frequent US visitors at the European Commission (EC).** This table provides an overview of the 20 US public firms with the highest number of meetings with EC officials between November 2014 and November 2019. Columns (1) to (4) show the respective number of total meetings and of meetings with Commissioners, directors, and cabinet members in the five-year period.

	Number of meetings			
	Total	Commissioners	Directors	Cabinet members
Company name	(1)	(2)	(3)	(4)
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 Group	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
Blackrock	29	7	3	19
Twitter	29	8	2	19
NASDAQ	28	5	4	19
eBay	27	4	0	23
ExxonMobil	27	5	12	10
JPMorgan Chase & Co.	26	10	3	13

Table 2: **Meetings by industry.** This table displays the number of meetings of US public firms with European Commission (EC) officials between November 2014 and November 2019 by industry (2-digit SIC code level). Columns (1) to (4) show the respective number of total meetings and of meetings with Commissioners, directors, and cabinet members in the five-year period. In total, there are 169 firms that meet with EC officials.

	Number of meetings			
	Total	Commissioners	Directors	Cabinet member
Industry	(1)	(2)	(3)	(4)
Services	908	219	100	589
Manufacturing	605	133	85	387
Finance, Insurance, Real Estate	309	83	30	196
Transportation, Communications, Electric, Gas, Sanitary Services	199	35	31	133
Retail Trade	82	20	11	51
Public Administration	81	16	15	50
Mining	15	0	2	13
Agriculture, Forestry, Fishing	4	1	0	3
Wholesale Trade	2	0	0	2
Construction	0	0	0	0
Total	2,205	507	274	1,424

Table 3: **Directorates-General with highest number of meetings.** This table provides an overview of the ten Directorates-General and their respective Commissioners with the highest number of meetings with US public firms between November 2014 and November 2019. Columns (1) to (4) show the respective number of total meetings and of meetings with Commissioners, directors, and cabinet members in the five-year period.

		Number of meetings			
		Total	Commissioners	Directors	Cabinet
Directorate-General	Commissioner	(1)	(2)	(3)	(4)
Digital Economy	Mariya Gabriel/ Günther Oettinger	303	78	34	191
Digital Single Market	Andrus Ansip	294	70	0	224
Euro & Social Dialogue	Valdis Dombrovskis	227	88	36	103
Justice	Věra Jourová	176	49	2	125
Jobs, Growth, Investment, Competitiveness	Jyrki Katainen	173	37	0	136
Internal Market	Elżbieta Bieńkowska	99	13	4	82
Research	Carlos Moedas	92	24	20	48
Trade	Cecilia Malmström	88	7	13	68
Transport	Violeta Bulc	82	14	30	38
Economic and Financial Affairs	Pierre Moscovici	79	28	14	37

Table 4: **Summary statistics.** This table provides summary statistics for US public firms that have been registered in the European Union (EU) Transparency Register and have lobbying expenses in the EU between November 2014 and November 2019. Statistics are shown for firms with *political access* (169 firms), i.e., firms that have at least one meeting with European Commission (EC) officials and for *control firms* (59 firms), i.e., firms that have been registered in the EU Transparency Register, but do not have EC meetings. Panel A shows the annual number of meetings of firms with political access. *N* is the number of firm-year observations. *# of meetings* is the annual number of meetings between US firm representatives and EC officials. *Total, Commissioner, Director*, and *Cabinet* are the annual number of total meetings, meetings with Commissioners, meetings with directors, and meetings with cabinet members, respectively. Panel B shows statistics on covariates for firms with *political access* and *control firms*. *Lobbying (€m)* depicts the maximum of reported annual lobbying expenses in the EU in €million. *Assets ($m)* is the book value of total assets in $million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Median test* displays the p-value for a nonparametric test on the equality of sample medians. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

Panel A: # of meetings

		Political access				
	N	Mean	S.D.	Median	Min	Max
Total	1014	2.18	4.89	1	0	59
Commissioner	1014	0.50	1.48	0	0	15
Director	1014	0.27	0.79	0	0	8
Cabinet	1014	1.25	3.11	0	0	40

Panel B: Covariates

	Political access				Control firms				
	N	Mean	S.D.	Median	N	Mean	S.D.	Median	Median test
Lobbying (€m)	536	0.74	0.99	0.40	207	0.21	0.25	0.10	0.00***
Assets ($m)	907	121,928	302,616	28,361	336	14,470	19,385	7,278	0.00***
Book-to-market	835	0.36	0.35	0.27	319	0.33	0.28	0.28	0.69
Book leverage	906	0.27	0.17	0.24	335	0.30	0.15	0.30	0.00***
ROA	907	0.05	0.09	0.06	336	0.05	0.08	0.05	0.82
Tangibility	898	0.20	0.20	0.13	334	0.22	0.21	0.15	0.56

Table 5: **OLS regression: Number of meetings and firm characteristics.** This table displays OLS regressions of the number of meetings at the European Commission (EC) on lobbying expenses and firm characteristics. The regressions consider all US public firms that have been registered in the European Union (EU) Transparency Register and have lobbying expenses in the EU between November 2014 and November 2019. These are firms with political access (169 firms), i.e., firms that have at least one meeting with EC officials and control firms (59 firms), i.e., firms that have been registered in the EU Transparency Register, but do not have EC meetings. *Ln(1+# of total meetings)* and *Ln(1+# of Commissioner meetings)* are the natural logarithm of one plus the annual number of total meetings and the natural logarithm of one plus the annual number of Commissioner meetings, respectively. Columns (1) and (2) show results for the number of total meetings. Columns (3) and (4) show results for meetings with Commissioners only. *Ln lobbying expense (€m)* depicts the natural logarithm of the maximum of reported yearly lobbying expenses in the EU in €million. *Ln total assets* is the natural logarithm of the book value of total assets in $million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Year FE* and *Industry FE* indicate whether the specification includes year fixed effects and industry fixed effects at the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Dependent variable:			
	Ln(1+# of total meetings)		Ln(1+# of Commissioner meetings)	
	(1)	(2)	(3)	(4)
Ln lobbying expense (€m)	0.33***	0.21***	0.18***	0.10***
	(0.04)	(0.04)	(0.03)	(0.02)
Ln total assets		0.16***		0.11***
		(0.03)		(0.02)
Book-to-market		-0.39**		-0.20***
		(0.15)		(0.07)
Book leverage		-0.96***		-0.42***
		(0.23)		(0.16)
ROA		-0.52		-0.18
		(0.54)		(0.32)
Tangibility		0.08		0.13
		(0.27)		(0.13)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Clustered SE	Firm	Firm	Firm	Firm
R-squared	0.28	0.36	0.20	0.27
# of firm-year observations	738	655	738	655

Table 6: **Mean cumulative abnormal returns (CARs) around European Commission (EC) meetings.** This table shows the mean CARs for US public firms for their meetings with EC Commissioners, directors, and cabinet members, respectively. Mean CARs are displayed for windows of seven trading days (row 1) and 25 trading days (row 2), starting three days prior to the meetings. Abnormal returns are calculated using the Fama-French-Carhart Four-Factor Model. Standardized cross-sectional t-statistics are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

		Commissioners	Directors	Cabinet members
	7 days (-3, 3)			
(1)	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)			
(2)	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

Table 7: **Cross-section regression: CARs - Commissioner meetings.** This table shows cross-section regressions of the cumulative abnormal returns (CARs) for all dates of meetings between US public firms and European Commissioners between November 2014 and November 2019. The sample consists of all US public firms that have been registered in the European Union (EU) Transparency Register and have lobbying expenses in the EU between November 2014 and November 2019. These are firms with political access (169 firms), i.e., firms that have at least one meeting with European Commission (EC) officials and control firms (59 firms), i.e., firms that have been registered in the EU Transparency Register, but do not have EC meetings. CARs are regressed for windows of seven trading days (*CARs (-3,3)*) in Columns (1) to (3) and 25 trading days (*CARs (-3, 21)*) in Columns (4) to (6), starting three days prior to the respective meeting. CARs for each meeting date are regressed on the indicator variable *Commissioner meeting*, which takes the value of 1 for the firm that has the respective meeting, and 0 else. *Ln total assets* is the natural logarithm of the book value of total assets in \$million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Ln lobbying expense (€m)* depicts the natural logarithm of the maximum of reported yearly lobbying expenses in the EU in €million. *Industry FE* indicates whether the specification includes industry fixed effects at the 2-digit SIC code level. *# of event observations* depicts the number of dates of Commissioner meetings in each specification. Heteroskedasticity robust standard errors are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

| | Dependent variable: | | | | | |
| | CARs (-3,3) | | | CARs (-3,21) | | |
	(1)	(2)	(3)	(4)	(5)	(6)
Commissioner meeting	0.0056***	0.0058***	0.0059***	0.0069**	0.0074*	0.0060
	(0.0018)	(0.0019)	(0.0022)	(0.0035)	(0.0039)	(0.0043)
Ln total assets		0.0003**	0.0005**		0.0002	0.0006
		(0.0001)	(0.0002)		(0.0002)	(0.0004)
Book-to-market		0.0001	-0.0017		-0.0020	-0.0063***
		(0.0009)	(0.0010)		(0.0020)	(0.0023)
Book leverage		0.0011	0.0010		0.0062**	0.0011
		(0.0016)	(0.0019)		(0.0032)	(0.0036)
ROA		0.0082**	-0.0017		-0.0224***	-0.0412***
		(0.0038)	(0.0042)		(0.0072)	(0.0092)
Tangibility		-0.0046***	-0.0055***		0.0040*	-0.0060**
		(0.0012)	(0.0016)		(0.0024)	(0.0030)
Ln lobbying expense (€m)			-0.0001			-0.0007
			(0.0002)			(0.0004)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
# of event observations	330	299	256	330	299	256

Table 8: **Descriptive statistics: Merger decisions at the European Commission (EC).**
This table shows descriptive statistics for merger decisions at the EC Competition Authority between November 2014 and November 2019, in which US firms, their subsidiaries, or business units are involved. *Political access* describes the sample of all merger cases in which the ultimate US parent firm has at least one meeting with EC officials prior to the merger decision. *Control firms* describes the sample of all merger cases in which a US firm is involved, but in which none of the involved firms has meetings with EC officials. *N* is the number of merger cases. *Clear* is an indicator variable that takes the value of 1 if the outcome of a merger case is unconditional clearance, and 0 else. *Private equity* is an indicator variable that takes the value of 1 if the merger case involves a private equity firm, and 0 else. *Deal size ($m)* depicts the deal size of the merger in $million. *Market share EEA* is the average expected market share of the combined entities in the European Economic Area. *Share by industry* displays the breakdown of merger cases by industry at the 2-digit SIC code level. *Median test* displays the p-value for a nonparametric test on the equality of sample medians. *, **, *** indicate significance at the 10%, 5%, or 1% level.

| | Political access | | | | Control firms | | | | |
	N	Mean	S. D.	Median	N	Mean	S. D.	Median	Median test
Clear	81	0.74	0.44	1	85	0.64	0.48	1	
Private equity	81	0.10	0.30	0	85	0.35	0.48	0	
Deal size ($m)	70	13,526	20,968	4,765	76	7,196	11,141	2,561	0.14
Market share EEA	59	0.23	0.13	0.25	59	0.28	0.13	0.25	0.13
Share by industry									
Manufacturing	81	0.70			85	0.54			
Finance, Insurance, Real Estate	81	0.12			85	0.31			
Transportation & Public Utilities	81	0.10			85	0			
Services	81	0.05			85	0.08			
Wholesale Trade	81	0.01			85	0.04			
Other	81	0.02			85	0.03			

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Table 9: **Probit regression: Merger decisions at the European Commission (EC).** This table shows the results for Probit regressions of merger outcomes on political access. It considers all merger cases decided at the EC Competition Authority between November 2014 and November 2019, in which US firms, their subsidiaries, or business units are involved. *Clear* is an indicator variable that takes the value of 1 if the outcome of a merger case is unconditional clearance, and 0 else. *Political access* is an indicator variable that takes the value of 1 for merger cases in which the ultimate US parent firm has at least one meeting with EC officials prior to the merger decision, and 0 else. *Ln deal size* is the natural logarithm of the merger deal size in $million. *Private equity* is an indicator variable that takes the value of 1 if the merger case involves a private equity firm, and 0 else. *Market share EEA* is the average expected market share of the combined entities in the European Economic Area. *Controls transaction & deal form* indicates whether the specification controls for the transaction type and deal form of the merger. *Year FE* and *Industry FE* indicate whether the specification includes year fixed effects and industry fixed effects at the 2-digit SIC code level. *# of observations* is the number of merger cases. Standard errors clustered by firm are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level. Panel A shows the results for the Probit regression. Panel B shows the marginal effects of the Probit regression for the variable *Political access*.

Panel A: Probit regression

	Dependent variable: Clear				
	(1)	(2)	(3)	(4)	(5)
Political access	0.57**	0.53**	0.66**	0.73***	0.64*
	(0.26)	(0.26)	(0.26)	(0.27)	(0.38)
Ln deal size		-0.17**	-0.14*	-0.18**	-0.13
		(0.07)	(0.07)	(0.08)	(0.12)
Private equity			1.02**	1.05**	0.58
			(0.44)	(0.48)	(0.60)
Market share EEA					-4.30***
					(1.33)
Controls transaction & deal form	No	No	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Clustered SE	Firm	Firm	Firm	Firm	Firm
# of observations	160	138	138	134	97
Pseudo R-squared	0.10	0.11	0.14	0.19	0.31

Panel B: Marginal effects

	(1)	(2)	(3)	(4)	(5)
Political access	0.18**	0.18**	0.2***	0.22***	0.15*
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)

Table 10: **Descriptive statistics: Foreign effective tax rate and political access.** This table provides descriptive statistics for US firms that have at least one subsidiary in the European Union (EU). *Political access* describes the sample of US firms that have at least one meeting with European Commission (EC) officials between November 2014 and November 2019. It only considers observations as of the year in which the first meeting takes place. *Control firms* describes the sample of US firms without meetings with EC officials, but with at least one subsidiary in the EU. *N* is the number of firm-year observations. *Foreign eff. tax rate* (foreign effective tax rate) is the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. *Assets ($m)* is the book value of total assets in $million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Share EU subsidiary* is the share of a firm's total subsidiaries that is located in the EU. *Median test* displays the p-value for a nonparametric test on the equality of sample medians. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Political access				Control firms				
	N	Mean	S. D.	Median	N	Mean	S. D.	Median	Median test
Foreign eff. tax rate	502	0.26	0.16	0.22	4545	0.30	0.20	0.26	0.00***
Assets ($m)	502	70,971	87,502	29,657	4545	6,484	19,168	1,886	0.00***
Book-to-market	370	0.30	0.28	0.25	3722	0.36	1.77	0.33	0.00***
Book leverage	500	0.25	0.16	0.22	4532	0.24	0.22	0.21	0.32
ROA	502	0.06	0.07	0.05	4545	0.03	0.17	0.05	0.01**
Tangibility	494	0.17	0.16	0.12	4517	0.17	0.16	0.12	0.42
Share EU subsidiary	502	0.18	0.10	0.17	4545	0.20	0.14	0.18	0.25

Table 11: **OLS regression: Foreign effective tax rate and political access.** This table shows OLS regressions of the foreign effective tax rate on political access for the years 2014 to 2019 for all US firms that have at least one subsidiary in the European Union (EU). *Foreign effective tax rate* is the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. *Political access* is an indicator variable that takes the value of 1 for the year in which the respective firm has its first meeting at the European Commission and all following years, and 0 else. *Ln total assets* is the natural logarithm of the book value of total assets in $million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Share EU subsidiary* is the share of a firm's total subsidiaries that is located in the EU. *Year FE* and *Industry FE* indicate whether the specification includes year fixed effects and industry fixed effects at the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. *# of firm-year observations* is the number of firm-year observations. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Dependent variable: Foreign effective tax rate	
	(1)	(2)
Political access	-0.041***	-0.042***
	(0.011)	(0.015)
Ln total assets		-0.003
		(0.003)
Book-to-market		0.005**
		(0.002)
Book leverage		0.044*
		(0.023)
ROA		-0.048*
		(0.029)
Tangibility		-0.042
		(0.032)
Share EU subsidiary		-0.000
		(0.032)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Clustered SE	Firm	Firm
# of firm-year observations	5,031	4,051

Table 12: **Matching estimation: Foreign effective tax rate and political access.** The table shows the results of a propensity score matching estimation for the outcome variable foreign effective tax rate. We match US firms that have political access to the European Commission (EC) to other US firms that do not have access to the EC, but have at least one subsidiary in the European Union (EU). Firms with political access are US firms that have at least one meeting with EC officials between November 2014 and November 2019. We calculate propensity scores based on the continuous covariates of Model (2) in Table 11 (ln total assets, book-to-market value, book leverage, return on assets, tangibility, share of subsidiaries in EU) and an exact match on the respective year and industry at the 2-digit SIC code level. *Foreign effective tax rate* is the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. *Political access* is an indicator variable that takes the value of 1 for the year in which the respective firm has its first meeting at the EC and all following years, and 0 else. The table provides results for the average treatment effect of the treated (*ATET*) for the treatment variable *Political access* for a matching to 1, 3, and 5 nearest neighbors, *NN (1)*, *NN (3)*, and *NN (5)*, respectively. Abadie-Imbens robust standard errors are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Outcome variable: Foreign effective tax rate		
	NN (1)	NN (3)	NN (5)
ATET: Political access	-0.032*	-0.036***	-0.026**
	(0.016)	(0.014)	(0.012)

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Appendix

Table A.1: **Cross-section regression: CARs - Commissioner meetings (S&P 500 firms)**. This table shows cross-section regressions of the cumulative abnormal returns (CARs) for all dates of meetings between US public firms and European Commissioners between November 2014 and November 2019. The sample consists of the S&P 500 firms and firms with political access (169 firms), i.e., firms that have at least one meeting with members of the European Commission (EC). CARs are regressed for windows of seven trading days (*CARs (-3,3)*) in Columns (1) to (3) and 25 trading days (*CARs (-3, 21)*) in Columns (4) to (6), starting three days prior to the respective meeting. CARs for each meeting date are regressed on the indicator variable *Commissioner meeting*, which takes the value of 1 for the firm that has the respective meeting, and 0 else. *Ln total assets* is the natural logarithm of the book value of total assets in $million. *Book-to-market* is the ratio of book value of common equity to its market value. *Book leverage* is total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets. *Ln lobbying expense (€m)* depicts the natural logarithm of the maximum of reported yearly lobbying expenses in the EU in €million. *Industry FE* indicates whether the specification includes industry fixed effects at the 2-digit SIC code level. *# of event observations* depicts the number of dates of Commissioner meetings in each specification. Heteroskedasticity robust standard errors are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Dependent variable:					
	CARs (-3,3)			CARs (-3,21)		
	(1)	(2)	(3)	(4)	(5)	(6)
Commissioner meeting	0.0049***	0.0051***	0.0059***	0.0082***	0.0071**	0.0062
	(0.0017)	(0.0019)	(0.0022)	(0.0034)	(0.0035)	(0.0041)
Ln total assets		0.0002*	-0.0002		0.0002	-0.0010***
		(0.0001)	(0.0002)		(0.0002)	(0.0004)
Book-to-market		0.0010*	0.0009		0.0023**	-0.0033
		(0.0005)	(0.0011)		(0.0011)	(0.0023)
Book leverage		-0.0008	0.0039**		0.0032*	-0.0008
		(0.0010)	(0.0017)		(0.0016)	(0.0036)
ROA		0.0051**	-0.0035		0.0010	-0.0393***
		(0.0024)	(0.0048)		(0.0048)	(0.0104)
Tangibility		-0.0015	-0.0070***		-0.0024	-0.0060**
		(0.0011)	(0.0021)		(0.0021)	(0.0052)
Ln lobbying expense (€m)			0.0008***			0.0014***
			(0.0003)			(0.0005)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
# of event observations	330	299	256	330	299	256

Table A.2: **Probit regression: Merger decisions at the European Commission (EC) - all meetings.** This table shows the results for Probit regressions of merger outcomes on political access. It considers all merger cases decided at the EC Competition Authority between November 2014 and November 2019, in which US firms, their subsidiaries, or business units are involved. *Clear* is an indicator variable that takes the value of 1 if the outcome of a merger case is unconditional clearance, and 0 else. *Political access* is an indicator variable that takes the value of 1 for merger cases in which the ultimate US parent firm has at least one meeting with EC officials between November 2014 and November 2019, and 0 else. *Ln deal size* is the natural logarithm of the merger deal size in $million. *Private equity* is an indicator variable that takes the value of 1 if the merger involves a private equity firm, and 0 else. *Market share EEA* is the average expected market share of the combined entities in the European Economic Area. *Controls transaction & deal form* indicates whether the specification controls for the transaction type and deal form of the merger. *Year FE* and *Industry FE* indicate whether the specification includes year fixed effects and industry fixed effects at the 2-digit SIC code level. *# of observations* is the number of merger cases. Standard Standard errors clustered by firm are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level. Panel A shows the results for the Probit regression. Panel B shows the marginal effects of the Probit regression for the variable *Political access*.

Panel A: Probit regression

	Dependent variable: Clear				
	(1)	(2)	(3)	(4)	(5)
Political access	0.53**	0.57**	0.67***	0.74***	0.68**
	(0.24)	(0.25)	(0.25)	(0.26)	(0.34)
Ln deal size		-0.19***	-0.15**	-0.20**	-0.15
		(0.07)	(0.07)	(0.08)	(0.11)
Private equity			0.94**	0.98**	0.59
			(0.41)	(0.44)	(0.57)
Market share EEA					-3.94***
					(1.28)
Controls transaction & deal form	No	No	No	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Clustered SE	Firm	Firm	Firm	Firm	Firm
# of observations	176	150	150	147	110
Pseudo R-squared	0.11	0.13	0.16	0.20	0.31

Panel B: Marginal effects

	(1)	(2)	(3)	(4)	(5)
Political access	0.17**	0.18**	0.20***	0.21***	0.15**
	(0.07)	(0.08)	(0.07)	(0.07)	(0.07)

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Table A.3: **OLS regression: Foreign effective tax rate and political access - all meetings.**
This table shows OLS regressions of the foreign effective tax rate on political access for the years
2014 to 2019 for all US firms that have at least one subsidiary in the European Union (EU). *Foreign
effective tax rate* is the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign
pretax income. *Political access* is an indicator variable that takes the value of 1 for firms that have at
least one meeting with European Commission officials between November 2014 and November 2019,
and 0 else. *Ln total assets* is the natural logarithm of the book value of total assets in \$million.
Book-to-market is the ratio of book value of common equity to its market value. *Book leverage* is
total long-term debt divided by total assets. *ROA* (return on assets) is income before extraordinary
items divided by total assets. *Tangibility* is net property, plant, and equipment divided by total assets.
Share EU subsidiary is the share of a firm's total subsidiaries that is located in the EU. *Year FE* and
Industry FE indicate whether the specification includes year fixed effects and industry fixed effects at
the 2-digit SIC code level. Standard errors clustered by firm are shown in parenthesis. *# of firm-year
observations* is the number of firm-year observations. *, **, or *** indicate significance at the 10%,
5%, or 1% level.

	Dependent variable: Foreign effective tax rate	
	(1)	(2)
Political access	-0.049***	-0.049***
	(0.011)	(0.014)
Ln total assets		-0.003
		(0.003)
Book-to-market		0.005**
		(0.002)
Book leverage		0.043*
		(0.023)
ROA		-0.052*
		(0.029)
Tangibility		-0.034
		(0.032)
Share EU subsidiary		-0.004
		(0.032)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Clustered SE	Firm	Firm
# of firm-year observations	5,181	4,182

Table A.4: **Matching estimation: Foreign effective tax rate and political access - all meetings.** The table shows the results of a propensity score matching estimation for the outcome variable foreign effective tax rate. We match US firms that have political access to the European Commission (EC) to other US firms that do not have access to the EC, but have at least one subsidiary in the European Union (EU). Firms with political access are US firms that have at least one meeting with EC officials between November 2014 and November 2019. We calculate propensity scores based on the continuous covariates of Model (2) in TableA.3 (ln total assets, book-to-market value, book leverage, return on assets, tangibility, share of subsidiaries in EU) and an exact match on the respective year and industry at the 2-digit SIC code level. *Foreign effective tax rate* is the ratio of a firm's foreign income tax less deferred foreign taxes to its foreign pretax income. *Political access* is an indicator variable that takes the value of 1 for firms that have at least one meeting with EC officials between November 2014 and November 2019, and 0 else. The table provides results for the average treatment effect of the treated (*ATET*) for the treatment variable *Political access* for a matching to 1, 3, and 5 nearest neighbors, *NN (1)*, *NN (3)*, and *NN (5)*, respectively. Abadie-Imbens robust standard errors are shown in parenthesis. *, **, or *** indicate significance at the 10%, 5%, or 1% level.

	Outcome variable: Foreign effective tax rate		
	NN (1)	NN (3)	NN (5)
ATET: Political access	-0.029**	-0.031***	-0.024**
	(0.014)	(0.011)	(0.010)