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Dealing With Zombies: Mergers v State aid

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Issue

- Economic dynamism, entry, and superstar firms
- "*Why aren't any of the top digital companies European?*" (Renda, 2019)
- Multiple reasons
  - "*Zombie firms*"?
- *Concurrences* Edito with J. Padilla on Covid19

Top 25 European firms by revenue, 2018

1. Royal Dutch Shell (Netherlands) - $311.9B
2. Volkswagen (Germany) - $260B
3. BP (UK) - $244.6B
4. Glencore (Switzerland) - $205.5B
5. Daimler (Germany) - $185.2B
6. EXOR Group (Netherlands) - $161.7B
7. AXA (France) - $149.5B
8. Total (France) - $149.1B
9. Allianz (Germany) - $123.5B
10. BNP Paribas (France) - $117.4B
11. Gazprom (Russia) - $111.9B
12. Prudential (Britain) - $111.5B
13. BMW Group (Germany) - $111.2B
14. Assicurazioni Generali (Italy) - $100.6B
15. Lukoil (Russia) - $93.9B
16. Siemens (Germany) - $91.6B
17. Carrefour (France) - $91.3B
18. Nestle (Switzerland) -$91.2B
19. Bosch Group (Germany) - $87.9B
20. Banco Santander (Spain) - $87.4B
21. Deutsche Telekom (Germany) - $84.5B
22. Crédit Agricole (France) - $84.2B
23. Enel (Italy) - $84.1B
24. Uniper (Germany) - $81.4B
25. ENI (Italy) - $80B

Non technical definition

- Slow => low productivity (Barnejee and Hofmann, 2018)
- Decaying => no growth potential (Barnejee and Hofmann, 2018)
- Resilient => static
- Replicate => crowding out (Andrews and Petroulakis, 2019)

Source

- Exit barriers
  - Political barriers (Qu, 2019)
  - Economic incentives (Andrews and Petroulakis, 2019)
  - Legal obstacles
    - Décret Montebourg (see GE/Alstom)
    - Insolvency laws
- Covid19
  - Missing markets for zombie assets
  - Banks have no incentive to push zombies into restructuring (Shleifer and Vishny, 1991)

Policy options

- Should zombies be killed (liquidation), transformed by Governments (subsidies) or rationalized by markets (competition and acquisition)?
- Pros and cons for all options, but specific impact of recessions on optimal choice
- Mixed policy, question is more whether one of calibration

Existing approach

- State aid: good EC response, but
  - Paints with too broad a brush (Maczkovics, 2020)
  - Opportunism
- Merger
  - Strict rivalry minded policy and excluded FFD
  - But
    - Productive efficiencies from mergers w/ zombies (Dimopoulos and Sacchetto, 2017)
    - No legal justification (CJEU, *BIDs*, 2007, §39)

Existing approach, Cont'd

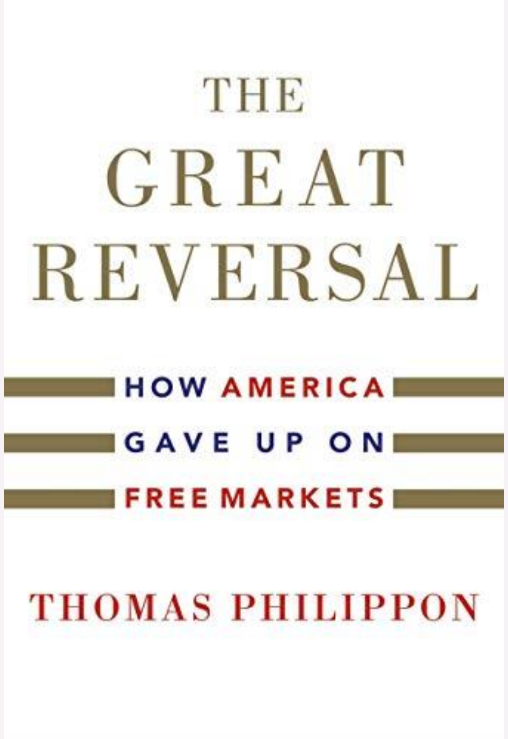
- "*Let them fail*"
  - – Unreal efficiency assumptions from competition
  - – Unreal conjecture about efficiency of insolvency legislation

Identification problem

- What’s a Zombie, what’s not?
  – Easy in movies, less in markets?
- But the nature of competition policy is to address firm type problems in marginal cases
  – EUMR: “Maverick firms”
  – *Huawei v ZTE*: non practicing entities
  – DSA and NCT: “gatekeepers”, “killers”, etc.

Conclusion

- Careful of reverse "*Great reversal*"



- The American Challenge, 2.0?