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**Employment Effects
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February 2024

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Employment Effects of a Weakening in European Anti-Tax Avoidance Rules: evidence from France*

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Abstract

This paper provides causal evidence on how multinational enterprises' (MNEs) presence in tax havens translates into job cuts in France following the 2006 European Court of Justice (ECJ) judgement on the Cadbury-Schweppes case, which weakened member States' controlled foreign company rules (CFC). Using French firm-level data over 2001 and 2014 we show that this weakening in European Anti-tax avoidance rules generates a sharp decline in employment in France in European MNEs having a pre-judgement presence in a European tax haven. We show that treated MNEs lose about 6% of their local employment after the ECJ decision. The effects are mainly concentrated in highly qualified workers and white collars (5% decline for each category). An event-study design shows that no effects are found for MNEs without a pre-judgement presence in a European tax haven, suggesting that it is the weakening in the CFC rules that fosters job cuts at home. Two plausible explanations for these findings are linked to: i) a decline in the cost of opacity allowing firms to restructure and carry out otherwise expensive mass layoffs in France and ii) more stringent rules specifically affecting "wholly artificial arrangements" (i.e. pure letter boxes), which increase the need to comply with substance rules and justify a presence in a European tax haven.

JEL *classifications*: D33, F23, H26, H87, O47

Keywords: Tax Havens, Freedom of Establishment, Employment, Mass layoffs, Economic Substance.

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1 Introduction

Together with the rise of financial globalization in the past decades, there has been substantial growth in multinational enterprises' (MNE) foreign activity and, with it, in MNEs' presence in *Offshore Financial Centers* (OFC) and tax avoidance. Meanwhile policymakers and civil society in general have now largely recognized this as a societal issue.¹ Following the large number of international scandals related to the Offshore Leaks, which unveiled the secrecy surrounding shell companies and trusts set up in offshore centers, there has been an increasing awareness of the issues related to the existence of these jurisdictions, which range from reduced tax revenues and tax unfairness to money laundering and illicit financial flows. Hence, a number of initiatives have been promoted both nationally and internationally in order to tackle tax avoidance by individuals and MNEs.²

In the meantime, a growing body of literature has developed and the effects of MNEs' tax avoidance through offshore financial centers on fiscal revenues and on how they distort aggregate statistics are now largely documented and well understood. Nonetheless, much less is known about the effects of offshore centers on workers, which beyond low taxation provide financial secrecy for firms. The latter, in turn, allows circumventing all types of rules which go beyond tax rules. With a few notable exceptions, the literature on this relation and the mechanisms behind the potential impact on workers and more specifically on employment, is still scarce. [Suárez Ser-rato, 2018], [Buettner et al., 2018], [Bilicka et al., 2022], [Souillard, 2022a] and [Lopez-Forero, 2021] are the few papers analyzing the effect of tax avoidance and tax havens on employment. Except for [Lopez-Forero, 2021], all of these studies focus on the mechanism through which a presence in offshore centers allows firms to reduce costs (taxes) and by this means affect investment and employment. While the literature has overlooked the potential effects of tax havens on workers through financial secrecy, some of these effects are well known by trade unions.³

¹Offshore centers and tax havens will be used interchangeably to denote those jurisdictions

²These range from FATCA in the US, the BEPS in the OECD, the FACT coalition in the UN and the BEFIT in the EU.

³See for instance the TUAC ([Tyralla and Hubbard, 2016]) and the ETUC who denounces the "use of shell entities for the circumvention of tax, social security and employment obligations, and criminal activities."

For instance, in 2022 France had two unprecedented cases in terms of tax fraud justice where workers actively participated in bringing MNEs to justice on the grounds of tax avoidance. On the one hand, following McDonald's employees' complaints on wages and tax justice with the European Parliament dating back to 2015, French tax authorities imposed a 1.2 billion euros record fine to McDonald's for tax fraud in 2022⁴. Later in the same year, General Electric's trade union directly filed a complaint with the French National Financial Prosecutor on the detrimental effects of tax fraud on employees. In both cases, labor unions got involved in MNEs' tax affairs because tax avoidance and financial secrecy can affect employees (wages, worker conditions, perspectives and employment protection), yet academic literature, despite its growing interest in tax avoidance, has very little to say about this relation.

This paper contributes to shedding light on this relation. First, we provide robust causal evidence on how a weakening in the European anti-tax avoidance rules translates into a large decline in the local number of workers in MNEs affected by these rules in France. Second, we show how this effect differently affects different workers according to their socio-professional occupation category. To assess this, we use detailed French firm-level data on firm characteristics, employment structure and their presence (either through parent or through affiliate) around the world between 2001 and 2014. The data allows exploiting within-firm-country variation in foreign presence of French firms and to reproduce the conditions of a natural experiment by comparing employment dynamics before and after the ruling of the European Court of Justice (ECJ) - a weakening of the European anti-tax avoidance rules - in firms affected by the ruling with those that were not affected by it. Crucially, this allows controlling for possibly confounding factors that may drive presence in OFCs.

The identification strategy exploits the fact that the 2006 ECJ decision in Cadbury-Schweppes, is an exogenous shock from the MNEs' point of view, as they arguably could not have foreseen the ruling and decided to set up in a European tax haven before 2006 in order to benefit from it. More specifically, the ruling restricted the application of the European anti-tax avoidance rules,

⁴See: EPSU brings McDonald's tax avoidance scheme in European parliament; Lesson For McDonald's: Beware The Tax Whistleblower Unions and McDonald's will pay \$1.3 billion penalty to settle French tax dispute

the controlled foreign company (CFC) rules, by member States and therefore loosened legal constraints for European MNEs with a presence in a European tax haven.⁵ Our findings imply that firm employment in France experiences a decline over the immediate years following the ECJ ruling, with an average estimated drop by around 6%. These job cuts are mainly concentrated in highly qualified workers and white collars, with a 5% decline for each employment category. Additionally, a 3% decline is found for intermediate professionals and a 2% decline for blue collars; although statistically significant, the latter is estimated with a lower precision. Unsurprisingly, the bulk of the effect on blue collars is concentrated in the manufacturing sector. These effects are corroborated in a dynamic framework within an event-study design, which allows showing that: 1) the employment decline is still present and significant seven years after the ruling; and 2) that the employment differential effect between firms affected by the ruling and those that were not, is equal to zero before 2006, the year of the ruling.

In order to understand why a weakening in European anti-tax avoidance rules translates into a decline in costs (as implied by a job cut) in a high tax economy such as France -and not an increase as predicted by tax avoidance theory, one has to consider the “opacity effect” in OFCs. The first explanation is rather paradoxical, as the ruling weakened members States’ ability to tax back firms who shift profits to a European tax haven as long the presence in the latter is not a “wholly artificial arrangement”. Thus, while generally weakening the anti-tax avoidance rules, the decision strengthened these rules in the case of pure letterbox. This may have led firms to localize some of their employees in European OFCs in the cases where their presence in these jurisdictions was an obvious “wholly artificial arrangement”. A second explanation is related to mass layoffs regulation in France, where an artificial decline in sales can allow firms to carry out mass layoffs for economic motivations and to make the whole procedure less expensive, as previously emphasized in [Lopez-Forero, 2021]. On the one hand, if the number of redundancies reaches ten or more during the thirty-day period, the company must initiate a mass layoff procedure (*Plan de sauvegarde de l’emploi (PSE)* in French). This procedure is only accepted by the judge in cases where the company can justify a serious economic problem, where a simple fall in profits is not enough, but where a fall in sales over at least a year can justify it. On the

⁵See section 2.2 for details on the Cadbury-Schweppes decision and the CFC rules.

other hand, the cost of this procedure is proportional to the firm’s economic situation.⁶ In this sense, shifting sales to OFCs can enable the legal mass layoff procedure and reduce its cost, thus allowing the firm to avoid costly employment protection regulations.

Policy implications of our results are at least twofold. First, opacity in offshore financial centers can allow firms to circumvent national rules that go beyond the fiscal sphere and which translate into higher costs for firms, such as strong employment protection regulation. Second, the ”substance requirements”, in the global negotiations of international corporate taxation such as the BEPS at the OECD and BEFIT in Europe, stipulate that MNEs need to demonstrate a minimum level of genuine economic activity in order to avoid being considered as engaging in harmful tax practices. These requirements can provide incentives for firms to relocate some workers in tax havens - without corresponding economic activity - in order to meet employment premises in tax havens.

The rest of the paper is organized as follows. Section 2 presents the relevant literature and briefly discusses the relevant legal framework; Section 3 describes the data sources, explains the econometric methodology, reports the empirical findings and provides a robustness analysis and Section 4 concludes.

2 Literature and regulatory framework

2.1 Closely related literature

A growing body of literature documenting MNEs’ tax avoidance, the mechanisms behind it, its effects on fiscal revenues and on how these practices distort aggregate statistics has developed in recent years, some recent examples include [Tørsløv et al., 2022], [Bricongne et al., 2023], [Martin et al., 2020], [Güvenen et al., 2022] and [Tørsløv et al., 2023]. Despite the increased interest on tax avoidance and tax havens, its real effects and, in particular, its effects on workers have been overlooked. Some recent papers have gone beyond the standard oversimplified assumption of the zero-sum nature of the transfer of profits to tax havens, by documenting its real effects on the

⁶See [Lopez-Forero, 2021] for more details on mass layoffs regulations in France.

economy, with a particular focus on investment. See [Alstadsæter et al., 2023] for a recent state of the art on the subject.

However, only a handful of papers explore the effect of tax avoidance and tax havens on employment, and the vast majority of these focus on the mechanism through which a presence in offshore centers allows firms to reduce costs by reducing their tax bill. The intuition behind, is that lower taxes reduce the cost of capital and hence, it has a positive effect on real activity, such as investment and employment. For instance, [Buettner et al., 2018] examine the effect of different anti-tax avoidance rules for German subsidiaries in a given country and find that in presence of a typical thin-capitalization rule -which limits the tax deductibility of interest, a percentage point increase in the statutory corporate tax rate is associated with a -0.4 percent employment decline in that country. Otherwise, the tax rate change doesn't seem to affect employment, suggesting that tax optimization could enhance employment. In the same vein, [Suárez Serrato, 2018] finds that domestic investment and employment decline in US multinationals when their ability to shift profits to Puerto Rico is curbed. Meanwhile, [Bilicka et al., 2022] analyze the employment impact in the UK from a debt limit regulation designed to restrict profit shifting through internal company debt, showing that this constraint on profit shifting resulted in a decrease in British employment.

To the best of our knowledge, only [Lopez-Forero, 2021] and [Souillard, 2022a], which are more closely related to this paper, look directly at the firm-level employment effects associated with MNEs' use of tax havens, and find diverging results. On the one hand, within an event-study setting, [Lopez-Forero, 2021] finds that an MNE's presence in an OFC translates into mass lay-offs (which involves a formal and costly legal procedure) and an average drop by 8% in the MNE's employment in France. She rationalizes the job cuts and OFC nexus by emphasizing the "opacity channel", in opposition to the standard "tax channel", which she is able to exclude at the local level (where a decline in effective taxes after locating in a tax haven is expected to boost local investment). Among the few papers exploring the relationship between tax havens and employment, only [Lopez-Forero, 2021] explores the opacity channel, which is one of the mechanisms that we highlight in our paper, and where the intuition behind it lies in the fact that tax havens

allow firms to avoid all kinds of expensive regulations beyond tax regulations (as well as any profit sharing with workers) thanks to the lack of transparency in these countries⁷. This paper differs from the latter in two aspects. First, the focus of this paper is not the firm's *first entry in a tax haven* but rather a weakening of anti-tax avoidance rules for *firms already benefiting from a tax haven presence*, which can arguably have different effects on employment. Second, this paper goes one step further by studying how different occupations are differently affected by a firm's usage of an OFC. On the other hand, within a difference-in-difference (DiD) [Souillard, 2022a] finds that US-listed multinational enterprises experience a rise in global employment after establishing a presence in an OFC. The divergent conclusions with [Lopez-Forero, 2021] can be attributed to the "tax channel" at play at the global level, as he observes worldwide employment of MNEs using havens rather than employment in the home country. On top of this, a work in progress by [Davies and Scheuerer, 2024] uses Norwegian data and finds that entry into a tax haven is associated with a decline in employment growth at home for firms in the services sector, which is concentrated in high-skilled workers. They rationalize this finding by suggesting that certain activities, such as the management of intellectual property, may be offshored to subsidiaries in tax-advantaged jurisdictions in order to justify shifting profits there. This third channel, where the relocation of employment to the tax haven is driven by tax advantages, can range from *patent boxes* (where real relocation of research and development can take place) to *pure letter boxes* (which are purely artificial arrangements). The second mechanism highlighted in our paper, relates to this need to comply with the substance rules, as the applicability of the European CFC rules has been redirected towards "wholly artificial arrangements" following the ECJ ruling. At this point, it is worth noting that in the absence of microdata on the number of employees that firms have in each of their foreign affiliates, one cannot distinguish which channel is at play behind the decline of employment at home.

Finally, this paper also relates to previous studies examining the effects on other variables of the 2006 ECJ ruling on Cadbury-Schweppes. [Schenkelberg, 2020] documents a 10% increase in

⁷Another notable exception focusing on opacity is [Krautheim and Schmidt-Eisenlohr, 2016], but their focus is on wages and not employment, and they argue that hiding profits allow firms to reduce workers' wage bargaining power. See [Souillard, 2022b], [Alstadsæter et al., 2022] and [Lopez-Forero, 2021] for the few other papers examining the effect of offshore centers on wages.

pre-tax earnings in European OFCs after the decision; [Overesch et al., 2018] a negative effect of the ruling on Europeans MNEs' effective tax rate vis-à-vis US MNEs' effective tax rate; and [Bricongne et al., 2023] find a negative effect of the ruling on productivity in France of European MNEs with a presence in a European OFC. Similar to the latter, we compare French firms with a pre-ruling presence in a European tax haven (this includes French firms with a European parent, excludes French firms with a non-European parent and excludes presence in non-European tax havens) to the rest of MNEs in the French firm-level data, and we assess the impact of the Cadbury-Schweppes effects on local employment.

2.2 Regulatory Framework

The Controlled Foreign Company Rules. The controlled foreign company rules are designed to deter the establishment of arrangements employed by companies with the sole purpose of optimizing taxes, by transferring profits to controlled entities subject to minimal or no taxation. The idea is to ensure a minimum taxation of the economic activity of the affiliate and to reduce MNEs' incentive to establish affiliates in low-tax jurisdictions for only tax purposes. These rules date back to the 60s (in the case of the US) and vary across countries. In France, they were first introduced by the 1980 Finance Law through the Article 209 B of the French Tax Code⁸. In recent years, these provisions have been at the core of anti-tax avoidance measures both by the European Union and the OECD, who have put in place different actions introducing CFC rules⁹. In the case of the French CFC rules over the period of analysis (1997-2014), it is established that when a French firm directly or indirectly owns a firm in a tax haven, the share of income attributed to the latter can be taxed. In this sense, profits of the French controlled company are consolidated within the tax base of the French parent, whereas losses cannot be deducted.

⁸See: <https://www.senat.fr/rap/197-351/197-3515.html>.

⁹The OECD published in October 2015 its recommendations on strengthening CFC provisions in Action 3 of the base erosion and profit shifting (BEPS) program. Whereas, the European Union adopted the Council Directive 2016/1164 introduced the obligation for member states to adopt CFC rules in their national legislation. The deadline for member States to transpose these rules into their national legislation was set at December 31, 2018.

Freedom of Establishment. The freedom of establishment is one of the founding principles of Europe (Articles 43 and 48 EC Treaty) and prevails over the national rules of the member States. The European Court of Justice (ECJ) is in charge of ensuring its compliance.

The Cadbury-Schweppes (2006) ruling. The Cadbury-Schweppes case opposed Cadbury-Schweppes group and UK tax authorities, who claimed that two Irish affiliates of the group had been created uniquely to benefit from the more favorable tax regime in Ireland. The national court also established that the group's affiliates in Ireland had been created with the aim to escape some UK tax provisions on exchange transactions. When the national tax authorities taxed back Cadbury-Schweppes by invoking the CFC rules, the group appealed and the UK court referred the case to the ECJ. The question was whether the exercise of freedom of establishment can preclude national tax authorities from taxing a parent company on the profits made in a foreign affiliate in Europe. The ECJ decided in favor of Cadbury-Schweppes and stated that CFC rules were not compatible with the freedom of establishment within the European Union, which is a founding principle of the EU: "[...] a national measure restricting freedom of establishment may be justified where it specifically relates to wholly artificial arrangements aimed at circumventing the application of the legislation of the member State concerned' (paragraphs 51 and 55 of Cadbury Schweppes and Cadbury Schweppes Overseas, Case C196/04 [2006])."¹⁰. Therefore, this decision limited member States' ability to invoke CFC rules in cases of abuse of freedom of establishment in general and in particular to tax back affiliates in European OFCs (Ireland, Netherlands, Luxembourg, Malta and Cyprus). Nonetheless, it certainly limited as well the ability of European MNEs to open freely 'letterboxes' and 'front subsidiaries', where a restriction of freedom of establishment is therefore possible.

¹⁰The freedom of establishment principle was subsequently referred to other ECJ decisions (e.g. C524/04 [2007], C330/07 [2008] and C182/08 [2009]) and moving away from Centros C212/97 [1997] which limited the freedom of establishment abroad in cases of affiliates without economic activity with the purpose to circumvent national law.

3 Empirical Analysis

3.1 Data and Descriptive Statistics

This paper makes use of different firm-level administrative data of firms in France: the FICUS and FARE bases, which are made available by the French national statistical institute (INSEE) and the public finances directorate (DGFIP). These bases are drawn from fiscal files and no firm size threshold determining the inclusion/exclusion is applied. Hence, there is full coverage of French firms given that every firm is subject to compulsory reporting with fiscal authorities¹¹. The FICUS-FARE base contains balance sheet information that varies at the level of the firm and year. In addition, a unique firm identifier is associated to each firm (siren number) which is used to link it to other French databases (LIFI and DADS) which we use in order to get yearly information on the firms' bilateral international trade, the firms' bilateral presence in a foreign country (and in a tax haven), and on the detailed composition of the firms' workforce and wage bill in France.

The LIFI database is the "financial linkages base" (*Liaisons Financières*) which comes from the INSEE. More specifically, it provides information about the composition of economic groups through firms' ownership relations (foreign and domestic) of companies residing in Metropolitan France and French overseas departments. Although the base has a good coverage, it is not exhaustive in the sense that it is constructed by applying different thresholds. More specifically, it includes firms verifying at least one of the following conditions: having more than 500 employees, holding equity securities above 1.2 million euro, having a turnover of more than 60 million euro, being the parent of a group or being held by foreign capital in the previous year. The survey is complemented with additional administrative sources (DIANE) in order to ensure a better coverage of smaller groups. The relevant information extracted from this base is the position of the firm within the group (parent, subsidiary), the list of subsidiaries abroad as well as their nationalities, the nationality of the parent when a French firm is a subsidiary of a foreign company and the amount of direct participation of the main shareholders. This information is used for my main variable of interest, the treatment dummy, which is defined in such a way that two

¹¹Excepting one person firms and firms in the financial and agriculture sectors.

conditions are met: i) European firms (i.e., with a European parent -in this case, either French or having the nationality of one European tax haven) and ii) who were present in a European tax haven before 2006, the year of the ECJ judgement. Control firms are all the rest of French MNEs -either with presence in non-European tax havens or without presence in tax havens at all.

Table 1: Main descriptive statistics by type of firm

	Treated firms	Control firms	All
Value added	31 190	8 403	12 364
Total sales	89 988	32 931	42 850
Employees	433	129	182
Affiliates	3.3	0.8	1.2
MNE Low wage country	0.016	0.0083	0.0096
Export intensity	0.17	0.19	0.19
Higher intellectual professionals (PCS 3)	93	28	39
Intermediate professions (PCS 4)	116	32	47
White collars (PCS 5)	95	42	51
Blue collars (PCS 6)	186	70	90
N firms	3 299	15 749	19 048
N obs	45 325	215 399	260 724

Note: Sales and VA in thousand euro.

Source: FICUS-FARE et LIFI.

Finally, the DADS database (*Déclaration annuelle de données sociales*) which is provided by the INSEE, is based on mandatory annual reports filled by all firms with employees; it contains annual hours paid in a firm, as well as the number of workers employed by different socio-professional occupation types. The relevant information that we extract from these data is the annual number of firm employees by socio-professional category (*Professions et Catégories sociales*, PCS). To this purpose, four occupational categories are defined: (i) higher intellectual professionals (PCS code 3), (ii) intermediate professions (PCS code 4), (iii) white collars (PCS code 5) and (iv) blue collars (PCS codes 6). Table 1 displays average numbers of the different types of workers in the sample.

The data cleaning consisted in dropping observations that reported negative values of employ-

ment, value added and capital stocks, as well as those of firms that went in and out of an OFC. Table 1 reports the main descriptive statistics by firm type for 19 048 firms between 2001 and 2014, reflecting the universe of MNEs that are left after the data cleaning. The baseline regression results are carried out on this sample, without removing more observations than those required by the cleaning. It can be seen from Table 1 that treated firms (those having a pre-ruling presence in a European tax haven and have a European parent) are much bigger both in terms of sales, value added and employees and have a much higher number of affiliates. One could therefore argue that the two groups are very different, and that these differences may end up determining the regression outcomes.

Hence, section 3.3 presents a robustness analysis where we carry out the analysis on a restricted sample in which we make the two groups more comparable by removing the 1% of observations at both ends of the distribution in terms of sales, value added and number of foreign affiliates. This makes the two groups more comparable given that those observations at the lowest end are the smallest firms in the sample, which belong to the control group, and those at the highest end are the biggest and belong to the treated group. Table 3 in the robustness section 3.3, shows that by removing 9 681 observations, both groups become much more alike.

3.2 Econometric analysis

The main hypothesis tested in this paper is whether the weakening of anti-tax avoidance rules can have an effect on employment, and if it is the case, how it affects different employees according to their occupations. For this, we exploit the ECJ 2006 ruling on the Cadbury-Schweppes case on French employment and assess its effect on four occupational categories: higher intellectual professionals (PCS 3), intermediate professions (PCS 4), white collars (PCS 5) and blue collars (PCS 6).

Within a two-way fixed effects framework, we begin by estimating the *average effect over the sample period* of the Cadbury-Schweppes judgement, the treatment variable. Next, we turn

to the analysis of the *dynamic effects before and after* the treatment, which is done within an event-study design and which allows inspecting the existence of non-parallel pre-trends. The identification strategy lies in the fact that the effect of the ECJ decision on the variables of interest at the level of the firm could not possibly be anticipated by the treated firms. In this sense, the Cadbury-Schweppes judgement is an exogenous event from the point of view of the firm, providing firms present in a European tax haven with a regulatory comparative advantage with respect to those not benefiting from it.

We exploit this ruling as an exogenous shock relaxing the stringent requirements that the CFC rules imposed to European MNEs when establishing in a member country for the purpose of benefiting from more advantageous taxation and from a less transparent environment. Given that the CFC rules apply only to European firms in European tax havens, we assess whether employment in France changed after 2006 for Europeans MNEs (regardless of whether they have a French or a European parent, but with a presence in France and thus, present in the LIFI administrative database) and simultaneously having a presence before the ECJ ruling in a European tax haven, relative to other MNEs in the database.

Static Employment effects of the Cadbury-Schweppes Decision. The difference-in-difference assesses, therefore, the differential employment effect as registered in France after the ruling between firms with pre-ruling presence in a European tax haven ("the treated group") and other MNEs ("control group"), as follows,

$$\begin{aligned} \ln Y_{fst} = & \beta_1 + \beta_2 \mathbf{1}[Treated]_f \times \mathbf{1}[Post\ 2005]_t \\ & + \alpha Z'_{ft} + \delta_f + \delta_{st} + \epsilon_{ft} \end{aligned} \tag{1}$$

where Y_{fst} alternatively represents the firm's total wage bill, the total number of workers and the number of each 1-digit category of workers (all in logarithms). $\mathbf{1}[Treated\ ECJ_f]$ equals 1 for treated firms, that is those who were present in a European tax haven before the ECJ decision, $\mathbf{1}[Post\ 2005]$ equals 1 from 2006 onwards, after the court's decision took place. Z'_{ft}

is a vector of control firm-level variables varying over time, which include: $\mathbb{1}[MNE]_{ft} = 1$, a dummy indicating whether the firm becomes an MNE in year t ; $\mathbb{1}[MNE\ lwc]_{ft} = 1$ a dummy indicating whether the firm has a new presence in a low wage country (lwc) in year t ; Number of foreign affiliates the firm has in year t and its export intensity in year t as measured by the firm's total exports over its total sales. δ_f and δ_f are firm and sector-year fixed effects, controlling for unobservable firm heterogeneity and sectoral time-varying heterogeneity, respectively. Finally, ϵ_{ft} are robust standard errors. Estimation results are displayed in Table 2.

Table 2: Employment effects of the ECJ decision

	ln number workers (1)	ln PCS 3 (2)	ln PCS 4 (3)	ln PCS 5 (4)	ln PCS 6 (5)
ECJ-treat \times <i>post2005</i>	-0.06 ^a (0.00)	-0.05 ^a (0.01)	-0.03 ^a (0.01)	-0.05 ^a (0.01)	-0.02 ^c (0.01)
1[MNE]=1	0.07 ^a (0.00)	0.06 ^a (0.00)	0.06 ^a (0.00)	0.05 ^a (0.00)	0.04 ^a (0.00)
1[MNE lwc]=1	0.02 (0.02)	0.03 (0.02)	0.03 (0.02)	0.00 (0.02)	0.05 ^b (0.02)
Num. affiliates	-0.00 ^a (0.00)	0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Export intensity	0.11 ^a (0.01)	0.06 ^a (0.01)	0.07 ^a (0.01)	0.05 ^a (0.01)	0.11 ^a (0.01)
Firm F.E.	Yes	Yes	Yes	Yes	Yes
Sector-Year F.E.	Yes	Yes	Yes	Yes	Yes
Observations	260662	223907	223078	218974	178476
Adjusted R^2	0.919	0.895	0.864	0.862	0.904

Note: Occupational categories are defined as follows: higher intellectual professionals (PCS 3), intermediate professions (PCS 4), white collars (PCS 5) and blue collars (PCS 6).

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

The main message that can be drawn from these estimation results is that the ECJ ruling had an overall negative and highly statistically significant effect on employment for those firms who had a presence in a European tax haven before the decision. More specifically, it translated into an average drop by 6% (column 1) in the number of workers in French establishments of these firms. These results echo findings in [Lopez-Forero, 2021] on the French labor share effect

of MNEs' usage of tax havens, showing that a new entry in a tax haven translates into sharp reductions in MNEs' local wage bill explained by equivalent job cuts and increases in mass layoff legal procedures. On top of this, the effect is largely heterogeneous across different employment categories, and it is mainly concentrated among higher intellectual professionals (PCS 3) and white collars (PCS 5) for whom the effect is tantamount to -5% for both employment categories, and it is statistically significant at the highest levels of acceptance. Additionally, a 3% decline also at the highest levels of acceptance is found for intermediate professionals (PCS 4). Whereas, a weaker effect both in magnitude and statistical significance is found for blue collars with a -2% effect, which is only significant at the 10 percent level.

Dynamic Employment Effects. An event-study design allows decomposing the average post-ruling effect on employment and assessing the dynamic effects of the weakening in the anti tax-avoidance European rules. More importantly, it allows inspecting the existence of a common pre-trend between treated and control units and assessing whether the two groups were comparable before the ruling. We are therefore interested in the impact of the $Event_f$, which represents the date of the ECJ judgement on the Cadbury-Schweppes case, as follows,

$$\ln Y_{fst} = \sum_{j=2}^J \sigma_j \mathbb{1}[Lag\ j]_{ft} + \sum_{k=1}^K \eta_k \mathbb{1}[Lead\ k]_{ft} + \alpha Z'_{ft} + \delta_f + \delta_{st} + \epsilon_{ft} \quad (2)$$

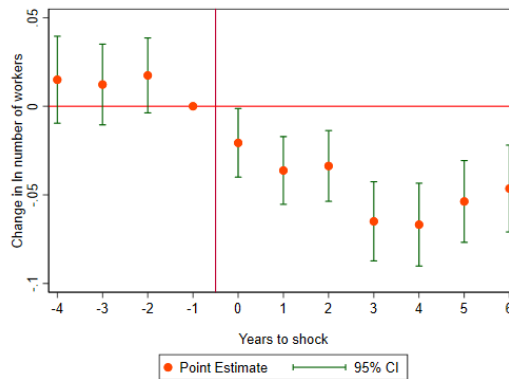
where the set of dummy variables $Lag\ j$ and $Lead\ k$ denote the distance to the $Event_f$ of interest, which is the first entry into a tax haven, and are defined as follows,

$$\begin{aligned} (Lag\ J)_{ft} &= \mathbb{1}[t \leq Event_f - J] \\ (Lag\ j)_{ft} &= \mathbb{1}[t = Event_f - j] \text{ for } j \in \{1, \dots, J - 1\} \\ (Lead\ k)_{ft} &= \mathbb{1}[t = Event_f + k] \text{ for } k \in \{1, \dots, K - 1\} \\ (Lead\ K)_{ft} &= \mathbb{1}[t \geq Event_f + K] \end{aligned}$$

The final lags and leads accumulate lags and leads beyond periods J and K, in our case we set them equal to 7 and 4 years. As indicated in equation 2, the reference period with respect to which we compare the effect of tax haven entry is $j = 1$, which is the year before the event. As before, we include a set of time-varying observables in Z' , we control for the fact of becoming an MNE, for having a presence in a low wage country, for the number of affiliates abroad, export intensity and, importantly, for unobservable firm time-invariant heterogeneity and shocks varying at the level of the sector. If the conditional common trend assumption is verified, then the coefficients on the years before the ECJ decision should not be significantly different from zero, in which case we could be confident about an effect caused by the ruling. The main results of the event study design are plotted in Figures 1 - 2 for the number of total employees and each of the different employment categories. The corresponding regression estimates are displayed in Table 5 in the appendix.

Estimation results from the event-study confirm the baseline static results where a large and sustained negative effect of this weakening in the CFC rules on treated firms' total number of workers, and where the effect is concentrated on higher intellectual professionals and on white collars. Figure 1 plots the estimated coefficients of year dummies reflecting the distance to 2006, the year of the ECJ judgement on the Cadbury-Schweppes case, both before and after it. Even if there is no reason to believe that treated firms anticipated the ECJ decision, the fact that pre-event estimates are strictly equal to zero for all the specifications confirm the validity of this hypothesis and allow a causal interpretation of the employment effects of the ruling. In the case of the total number of workers, Figure 1 shows a sustained and large effect of the ruling, which remains around -6% seven years afterward and statistically significant at the highest levels of acceptance.

Figure 1: Number of workers



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

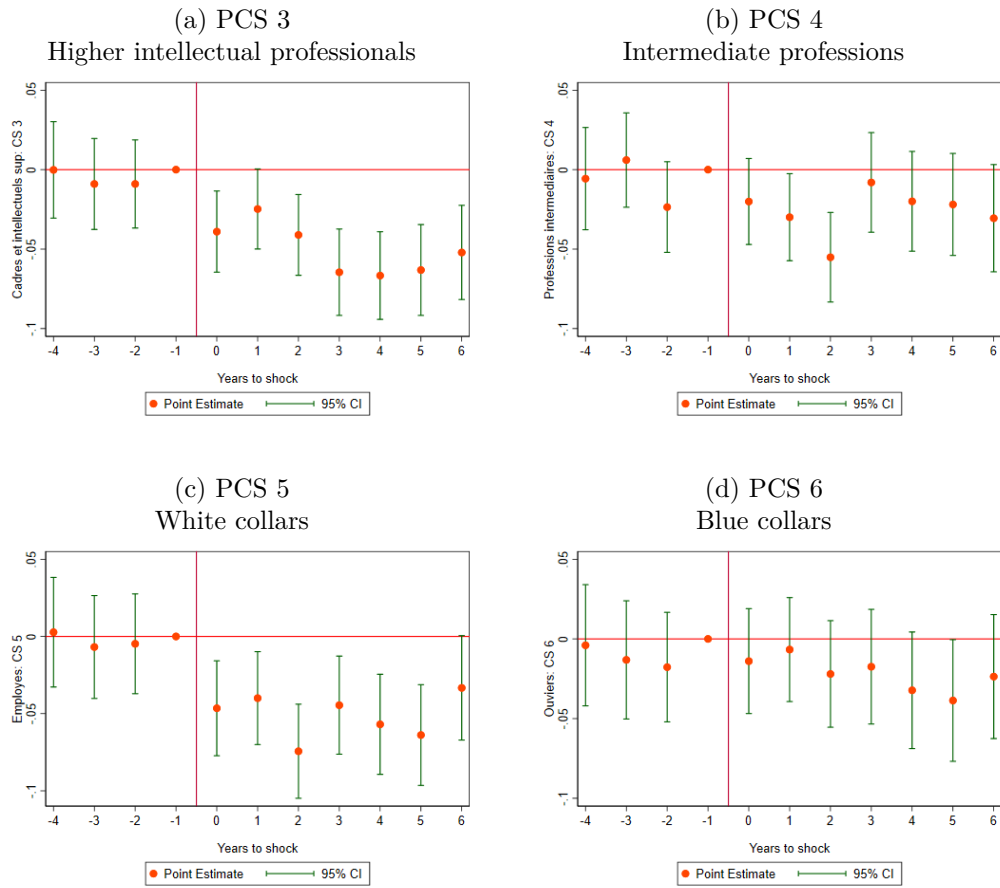
Next, when we decompose the effect by employment categories, estimation results reveal heterogeneous impacts for different workers. Figure 2 plots the estimation results for the four different categories, "PCS 3 - higher intellectual professionals", "PCS 4 - Intermediate professions", "PCS 5 - White collars" and "PCS 6 - Blue collars". Estimates for higher intellectual professionals and for white collars respectively, show that the bulk of the effect is concentrated at these two employment categories. In both cases the effect is large (around -4%), sustained over time and statistically significant (at the 1 percent level and at the 5 percent level for higher intellectuals and for white collars, respectively) seven years after the event.

The fact that the effect is strongly concentrated among high skilled workers (PCS 3) and white collars (PCS 5) – the latter being essentially administrative employees, can be related to two non-mutually exclusive explanations.¹² First, the 2006 ECJ ruling stated that member States can restrict the European freedom of establishment only in cases where "*wholly artificial arrangement*" are aimed at circumventing a national legislation. Even though the concept of "*wholly artificial arrangement*" is not defined in law, the ECJ decision certainly increased the need of demonstrating that the presence in the tax havens is not driven by the sole purpose of tax and regulatory avoidance in the case of letterboxes.¹³ These two categories of employees, may be

¹²More specifically, this employment category is composed of administrative, commercial, personal services, surveillance and security employees.

¹³Consulting companies advertise offshore virtual presence in order to comply with substance require-

Figure 2: Effect for different employment categories



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

easier to locate in offshore virtual offices as remote work can be more feasible, contributing to the firm's substance requirements while not needing a constant physical presence.

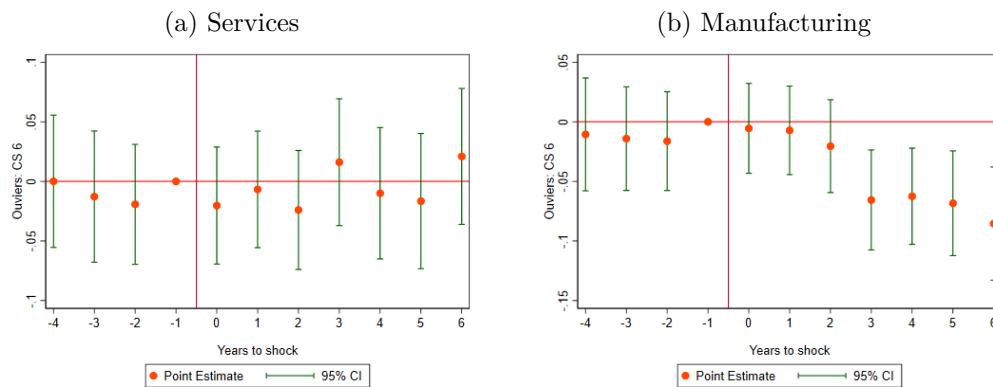
Second, as the ECJ ruling restricted the application of national CFC rules, it certainly allowed European MNEs to aggressively make use of the freedom of establishment principle in order to circumvent costly national regulations. As previously argued in [Lopez-Forero, 2021], in the context of corporate restructuring, where mass layoffs in France have to be accepted by a judge and are particularly expensive, MNEs may seek to make use of their affiliates in OFCs in order to justify mass layoffs and to reduce the costs that it entails -once it is accepted by the judge. The intuition behind this argument is that mass layoff procedures, are only accepted by the judge if the firm is in bad economic health and this can be justified in cases where the firm suffers a sustained decline in its sales. In this case, OFCs' opacity enables artificially reducing sales at home, as well as reducing profit, which in turn, reduces the cost of the mass layoff procedure. In this paper we bring evidence in this direction by inspecting the effect of the ruling on different variables that can be an indicator of the usage of tax havens to carry out mass layoffs in France, as in [Lopez-Forero, 2021]. These results are displayed in the appendix A.3, where we show that the ECJ decision had also a negative impact on the firm's value added, on its total sales and on the probability of carrying out the legal procedure that entails a mass layoff in France. Interestingly, the effect on profits is negative but only weakly significant after 2 years of the ruling. This absence of clear negative effect of the ruling on profits may be related to the fact that these firms were already benefiting from the tax haven usage and more importantly, to the fact that the mass lay-offs reduce total costs in France -which increases benefits reported in France.

Finally, the effect on blue collars (PCS 6) shows a negative trend but significance only shows up 4 to 5 years after the ruling -in line with the static effect which showed a negative but only weakly significant coefficient. Nonetheless, 60% of the 178 476 observations in our sample of firms with blue collars pertain to the services sector, while manufacturing, blue collars are the ones that are more likely to be off-shored to lower income countries. Therefore, we repeat the estimation for

ments. For instance, Confidus Solutions offers offshore services, where "the need for staff and physical premises may be met by the elegant and cost-effective solution of virtual office services". See: <https://www.confiduss.com/en/services/incorporation/location/tax-haven/>

blue collars by separating services and manufacturing and the corresponding regression estimates are displayed in Table 6 in the appendix. Results of this estimation are displayed in Figure 2, for services in panel (a) and manufacturing in panel (b), which suggest that the ECJ ruling did not have any impact on blue collars in the services sector. Whereas, the negative effect for blue collars in the manufacturing sector only shows up three years after the ruling but it is strong in magnitude (-9% six and seven years after the ruling) and statistically significant at the highest levels of acceptance. Hence, the simultaneous absence of effect for workers in services and the strong negative effect for those in the manufacturing explains the weak overall effect for blue collars in the static estimation both in the static (Table 2) and in the dynamic estimations (panel (d) in Figure 2 and in column (5) in Table 5 in the appendix).

Figure 3: Effect for Blue collars by sector (PCS 6)



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

3.3 Robustness

Table 3: Main descriptive statistics by type of firm

	Treated firms	Control firms	All
Value added	8 600	5 278	5 847
Total sales	32 062	19 557	21 699
Number of employees	129	79	88
Number of affiliates	0.39	0.56	0.53
MNE in low wage country	0.0057	0.0072	0.007
Export intensity	0.17	0.19	0.19
Wage bill	6 013	3 776	4 159
Higher intellectual professionals (PCS 3)	29	18	20
Intermediate professions (PCS 4)	33	22	24
White collars (PCS 5)	35	21	24
Blue collars (PCS 6)	63	34	39
N. obs.	43 007	208 036	251 043

Note: Sales and value added in thousand euro.

Source: FICUS-FARE et LIFI.

In this section, we provide a robustness check for our baseline estimation on a restricted sample where treated and control units are as comparable as possible. Even though our DiD exploits an exogenous decision from the point of view of the firms - where those present in a European tax haven before 2006 arguably did not locate there in anticipation of the future ECJ ruling - one might be concerned by the fact that control and treated units are arguably different in our sample. Indeed, Table 1 shows that treated and control units are very different, with the former being much larger than the latter.

We therefore repeat the analysis on a restricted sample where we cut 1% of the observations in our sample in both tails of the distribution in terms of value added, sales and number of foreign affiliates. The reason for this choice is that in the treated group some outliers are at the top of the distribution and in the control group some other outliers are at the bottom of the distribution. Table 3 shows that the two groups are now much more comparable if we drop these 9,681 observations, which is less than 4% of the total sample. Table 4 shows the estimation results for the static effect on the restricted sample, while results for the event-study are plotted in Figures

4-6 and displayed in Tables 7-8 in the appendix.

Table 4: Employment effects of the ECJ decision

	ln number workers (1)	ln PCS 3 (2)	ln PCS 4 (3)	ln PCS 5 (4)	ln PCS 6 (5)
CJE-treat \times <i>post2005</i>	-0.06 ^a (0.01)	-0.05 ^a (0.01)	-0.03 ^a (0.01)	-0.06 ^a (0.01)	-0.03 ^a (0.01)
1[MNE]=1	0.07 ^a (0.00)	0.06 ^a (0.00)	0.06 ^a (0.00)	0.05 ^a (0.00)	0.04 ^a (0.00)
MNE_lwc=1	0.01 (0.02)	-0.00 (0.02)	0.02 (0.02)	-0.02 (0.02)	0.02 (0.02)
Num. affiliates	-0.01 ^a (0.00)	-0.00 ^c (0.00)	-0.00 ^a (0.00)	0.00 (0.00)	-0.00 (0.00)
Export intensity	0.10 ^a (0.01)	0.06 ^a (0.01)	0.07 ^a (0.01)	0.04 ^a (0.01)	0.10 ^a (0.01)
Controls	Yes	Yes	Yes	Yes	Yes
Firm F.E.	Yes	Yes	Yes	Yes	Yes
Sector-Year F.E.	Yes	Yes	Yes	Yes	Yes
Observations	250942	216708	216404	212216	173160
Adjusted R^2	0.912	0.880	0.847	0.848	0.899

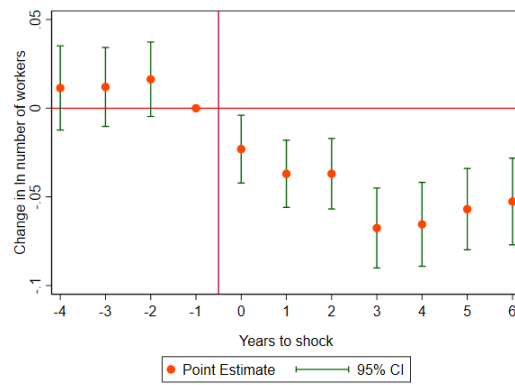
Note: Occupational categories are defined as follows: higher intellectual professionals (PCS 3), intermediate professions (PCS 4), white collars (PCS 5) and blue collars (PCS 6).

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

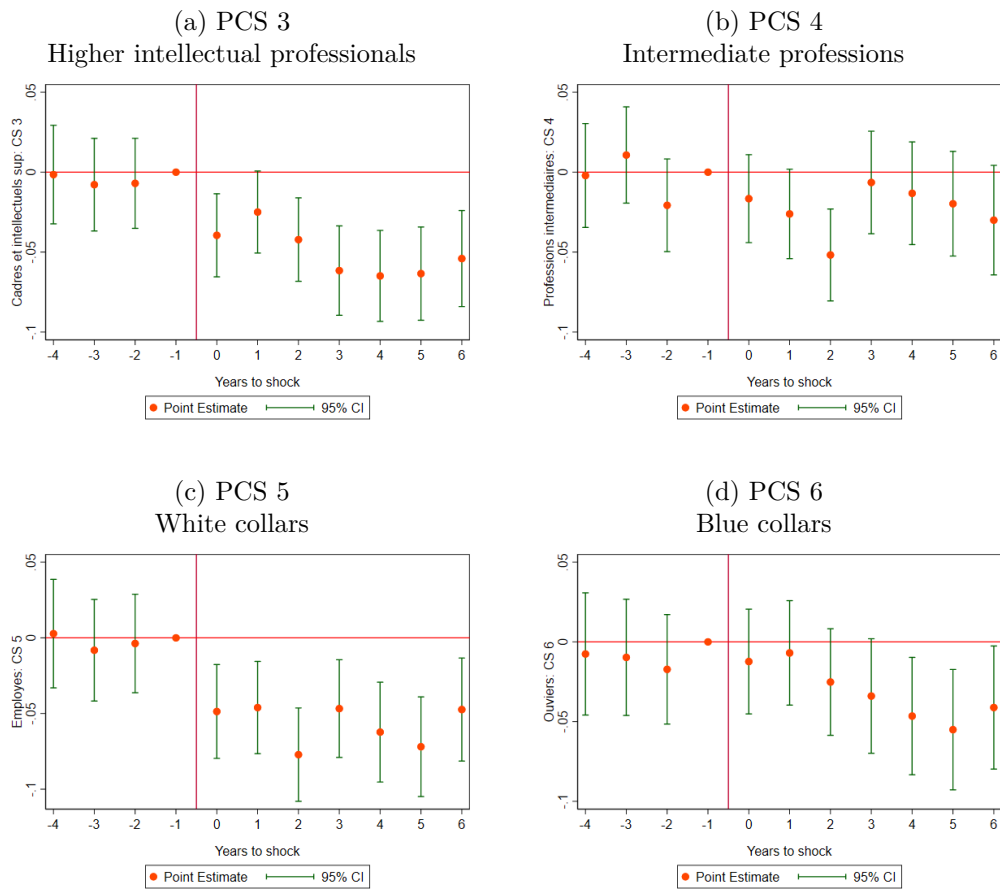
The main message that can be drawn from this exercise is that all the results on the restricted sample are consistent with the baseline results of the paper, as can be seen for the total number of workers in Figure 4, for each of the categories of workers in Figure 5, and for blue-collar workers disaggregated by sector in Figure 6. Not only are the baseline conclusions confirmed, but the effects on the restricted sample provide more precise coefficients and stronger magnitudes than the baseline results in section 3, as shown in Table 4. Thus, our results are strengthened by restricting the sample to more comparable firms, which is equivalent to eliminating about 4% of outlier observations.

Figure 4: Robustness on dynamic effect on total number of workers



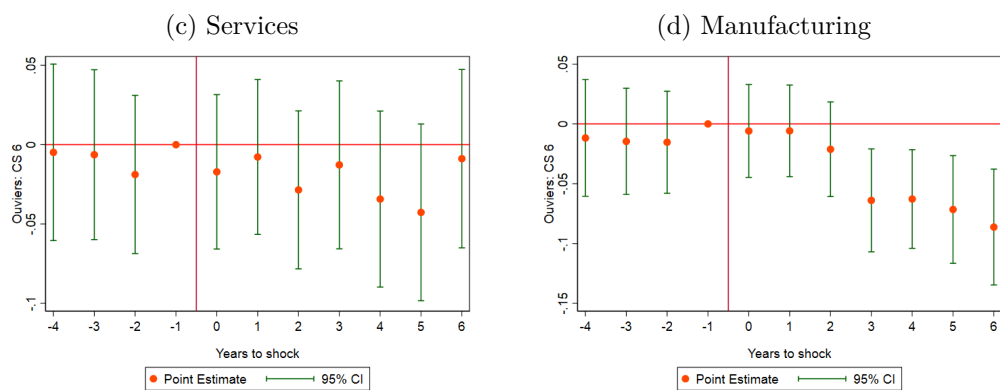
Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

Figure 5: Robustness on dynamic effect



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

Figure 6: Robustness on dynamic effect on blue collars by sector (PCS 6)



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

4 Conclusions

The effect of tax avoidance and in particular of financial opacity, enabled by offshore financial centers (OFCs) on employees has, with a few exceptions, been overlooked by the literature. The aim of this paper is to contribute to filling this gap by exploiting a decision of the European Court of Justice (ECJ) in 2006 with regard to Cadbury-Schweppes, which weakened the European national anti-tax avoidance rules – the controlled foreign company rules (CFC).

Our results provide causal evidence on how multinational enterprises' (MNEs) presence in tax havens translates into job cuts in France following the 2006 ECJ judgement on the Cadbury-Schweppes case. These findings are consistent with previous work by [Lopez-Forero, 2021] on the aggregate French labor share. Using French firm-level data over 2001-2014 we show that this weakening in European anti-tax avoidance rules generates a sharp decline in employment in France for European MNEs having a pre-judgement presence in a European tax haven. We show that treated MNEs lose about 6% of their local employment after the ECJ decision, and the effects are essentially concentrated in highly qualified workers and white collars (5% decline for each category).

Two plausible explanations for these findings are linked to a decline in the cost of opacity and to more stringent rules specifically affecting "wholly artificial arrangements" (i.e. pure letter boxes). In the first case, opacity in OFCs allows firms to circumvent not only rules related to taxes but also costly employment protection rules, in particular if they make mass layoffs expensive. In the second case, while the ruling weakened member States' ability to curb MNEs' abuse of their freedom of establishment in the EU, the ruling certainly set a more stringent application of national CFC rules for pure letterbox arrangements, increasing the need to justify a presence in a European tax haven in these specific cases.

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A Appendix

A.1 Event study tables

Table 5: Dynamic

	ln number workers (1)	ln PCS 3 (2)	ln PCS 4 (3)	ln PCS 5 (4)	ln PCS 6 (5)
1[MNE]=1	0.07 ^a (0.00)	0.06 ^a (0.00)	0.06 ^a (0.00)	0.05 ^a (0.00)	0.04 ^a (0.00)
MNE_lwc=1	0.02 (0.02)	0.03 ^c (0.02)	0.03 (0.02)	0.00 (0.02)	0.05 ^b (0.02)
Num. affiliates	-0.00 ^a (0.00)	0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Export intensity	0.11 ^a (0.01)	0.06 ^a (0.01)	0.06 ^a (0.01)	0.05 ^a (0.01)	0.11 ^a (0.01)
Lag 4	0.01 (0.01)	-0.00 (0.02)	-0.01 (0.02)	0.00 (0.02)	-0.00 (0.02)
Lag 3	0.01 (0.01)	-0.01 (0.01)	0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)
Lead 2	0.02 (0.01)	-0.01 (0.01)	-0.02 (0.01)	-0.00 (0.02)	-0.02 (0.02)
Lead 0	-0.02 ^b (0.01)	-0.04 ^a (0.01)	-0.02 (0.01)	-0.05 ^a (0.02)	-0.01 (0.02)
Lead 1	-0.04 ^a (0.01)	-0.02 ^c (0.01)	-0.03 ^b (0.01)	-0.04 ^a (0.02)	-0.01 (0.02)
Lead 2	-0.03 ^a (0.01)	-0.04 ^a (0.01)	-0.06 ^a (0.01)	-0.07 ^a (0.02)	-0.02 (0.02)
Lead 3	-0.06 ^a (0.01)	-0.06 ^a (0.01)	-0.01 (0.02)	-0.04 ^a (0.02)	-0.02 (0.02)
Lead 4	-0.07 ^a (0.01)	-0.07 ^a (0.01)	-0.02 (0.02)	-0.06 ^a (0.02)	-0.03 ^c (0.02)
Lead 5	-0.05 ^a (0.01)	-0.06 ^a (0.01)	-0.02 (0.02)	-0.06 ^a (0.02)	-0.04 ^b (0.02)
Lead 6	-0.05 ^a (0.01)	-0.05 ^a (0.02)	-0.03 ^c (0.02)	-0.03 ^c (0.02)	-0.02 (0.02)
Lead 7	-0.06 ^a (0.01)	-0.04 ^a (0.01)	-0.04 ^a (0.01)	-0.04 ^b (0.02)	-0.05 ^b (0.02)
Firm F.E.	Yes	Yes	Yes	Yes	Yes
Sector-Year F.E.	Yes	Yes	Yes	Yes	Yes
Observations	260662	223907	223078	218974	178476
Adjusted R^2	0.919	0.895	0.864	0.862	0.904

Note: Occupational categories are defined as follows: higher intellectual professionals (PCS 3), intermediate professions (PCS 4), white collars (PCS 5) and blue collars (PCS 6).

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

Table 6: Dynamic - Blue collars by sectors

	ln PCS 6 Manufacturing (1)	ln PCS 6 Services (2)
1[MNE]=1	0.05 ^a (0.01)	0.03 ^a (0.01)
1[MNE_lwc]=1	0.04 (0.03)	0.07 (0.04)
Num. affiliates	-0.00 ^b (0.00)	-0.00 (0.00)
Export intensity	0.14 ^a (0.02)	0.09 ^a (0.02)
Lag 4	-0.01 (0.02)	0.00 (0.03)
Lag 3	-0.01 (0.02)	-0.01 (0.03)
Lag 2	-0.02 (0.02)	-0.02 (0.03)
Lead 0	-0.01 (0.02)	-0.02 (0.03)
Lead 1	-0.01 (0.02)	-0.01 (0.02)
Lead 2	-0.02 (0.02)	-0.02 (0.03)
Lead 3	-0.07 ^a (0.02)	0.02 (0.03)
Lead 4	-0.06 ^a (0.02)	-0.01 (0.03)
Lead 5	-0.07 ^a (0.02)	-0.02 (0.03)
Lead 6	-0.09 ^a (0.02)	0.02 (0.03)
Lead 7	-0.09 ^a (0.02)	-0.01 (0.03)
Firm F.E.	Yes	Yes
Sector-Year F.E.	Yes	Yes
Observations	71116	107360
Adjusted R^2	0.908	0.871

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

A.2 Event study - Tables and robustness checks

Table 7: Robustness - Employment effects of the ECJ decision

	ln number workers (1)	ln PCS 3 (2)	ln PCS 4 (3)	ln PCS 5 (4)	ln PCS 6 (5)
1[MNE]=1	0.07 ^a (0.00)	0.06 ^a (0.00)	0.06 ^a (0.00)	0.05 ^a (0.00)	0.04 ^a (0.00)
MNE_lwc=1	0.01 (0.02)	-0.00 (0.02)	0.02 (0.02)	-0.02 (0.02)	0.02 (0.02)
Num. affiliates	-0.01 ^a (0.00)	-0.00 ^c (0.00)	-0.01 ^a (0.00)	0.00 (0.00)	-0.00 (0.00)
Export intensity	0.10 ^a (0.01)	0.06 ^a (0.01)	0.07 ^a (0.01)	0.04 ^a (0.01)	0.10 ^a (0.01)
Lag 4	0.01 (0.01)	-0.00 (0.02)	-0.00 (0.02)	0.00 (0.02)	-0.01 (0.02)
Lag 3	0.01 (0.01)	-0.01 (0.01)	0.01 (0.02)	-0.01 (0.02)	-0.01 (0.02)
Lag 2	0.02 (0.01)	-0.01 (0.01)	-0.02 (0.01)	-0.00 (0.02)	-0.02 (0.02)
Lead 0	-0.02 ^b (0.01)	-0.04 ^a (0.01)	-0.02 (0.01)	-0.05 ^a (0.02)	-0.01 (0.02)
Lead 1	-0.04 ^a (0.01)	-0.02 ^c (0.01)	-0.03 ^c (0.01)	-0.05 ^a (0.02)	-0.01 (0.02)
Lead 2	-0.04 ^a (0.01)	-0.04 ^a (0.01)	-0.05 ^a (0.01)	-0.08 ^a (0.02)	-0.03 (0.02)
Lead 3	-0.07 ^a (0.01)	-0.06 ^a (0.01)	-0.01 (0.02)	-0.05 ^a (0.02)	-0.03 ^c (0.02)
Lead 4	-0.07 ^a (0.01)	-0.06 ^a (0.01)	-0.01 (0.02)	-0.06 ^a (0.02)	-0.05 ^b (0.02)
Lead 5	-0.06 ^a (0.01)	-0.06 ^a (0.01)	-0.02 (0.02)	-0.07 ^a (0.02)	-0.06 ^a (0.02)
Lead 6	-0.05 ^a (0.01)	-0.05 ^a (0.02)	-0.03 ^c (0.02)	-0.05 ^a (0.02)	-0.04 ^b (0.02)
Lead 7	-0.06 ^a (0.01)	-0.05 ^a (0.01)	-0.04 ^b (0.02)	-0.05 ^a (0.02)	-0.07 ^a (0.02)
Firm F.E.	Yes	Yes	Yes	Yes	Yes
Sector-Year F.E.	Yes	Yes	Yes	Yes	Yes
Observations	250942	216708	216404	212216	173160
Adjusted R^2	0.912	0.880	0.847	0.848	0.899

Note: Occupational categories are defined as follows: higher intellectual professionals (PCS 3), intermediate professions (PCS 4), white collars (PCS 5) and blue collars (PCS 6).

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

Table 8: Robustness Dynamic - Blue collars by sectors

	ln PCS 6 Manufacturing (1)	ln PCS 6 Services (2)
1[MNE]=1	0.05 ^a (0.01)	0.03 ^a (0.01)
MNE_lwc=1	0.03 (0.03)	0.01 (0.04)
Num. affiliates	-0.00 (0.00)	-0.00 (0.00)
Export intensity	0.13 ^a (0.02)	0.08 ^a (0.02)
Lag 4	-0.01 (0.02)	-0.00 (0.03)
Lag 3	-0.01 (0.02)	-0.01 (0.03)
Lag 2	-0.02 (0.02)	-0.02 (0.03)
Lead 0	-0.01 (0.02)	-0.02 (0.02)
Lead 1	-0.01 (0.02)	-0.01 (0.02)
Lead 2	-0.02 (0.02)	-0.03 (0.03)
Lead 3	-0.06 ^a (0.02)	-0.01 (0.03)
Lead 4	-0.06 ^a (0.02)	-0.03 (0.03)
Lead 5	-0.07 ^a (0.02)	-0.04 (0.03)
Lead 6	-0.09 ^a (0.02)	-0.01 (0.03)
Lead 7	-0.09 ^a (0.02)	-0.05 ^b (0.03)
Firm F.E.	Yes	Yes
Sector-Year F.E.	Yes	Yes
Observations	69307	103853
Adjusted R^2	0.902	0.861

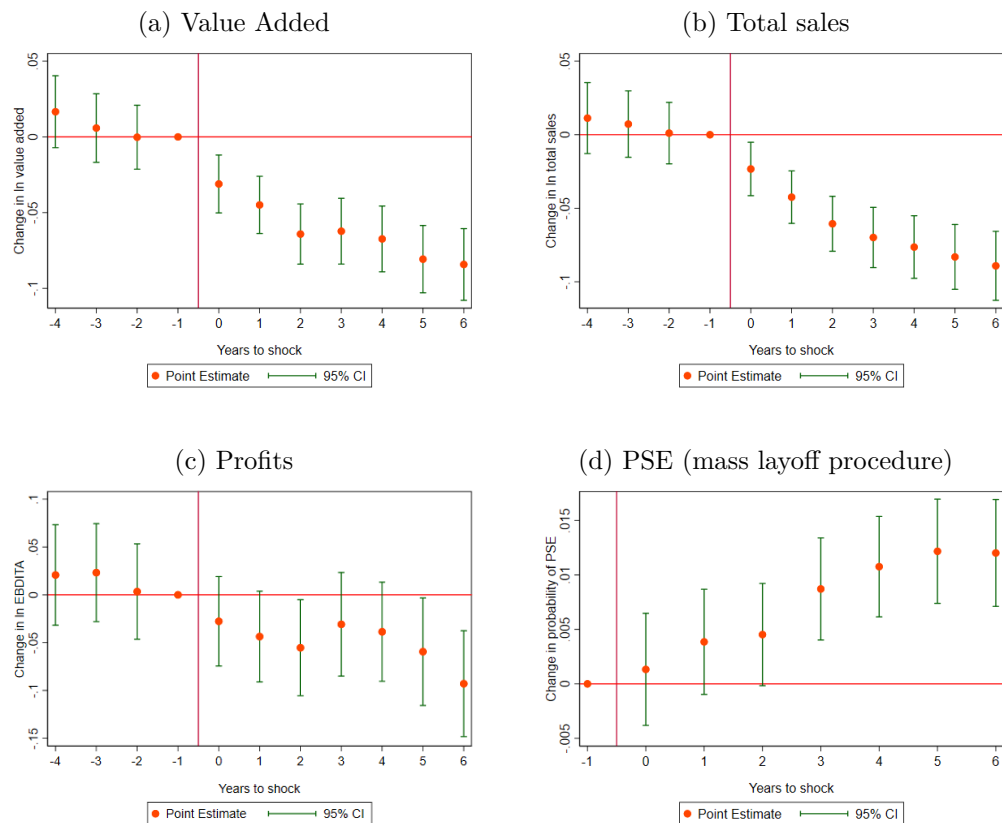
Note: Restricted sample.

Robust standard errors in parentheses

^c $p < 0.10$, ^b $p < 0.05$, ^a $p < 0.01$

A.3 Mechanisms

Figure 7: Dynamic effect on ECJ ruling on additional variables



Notes: Plot of estimated coefficients of year dummies indicating the distance to the event of interest: ECJ 2006 judgment on Cadbury Schweppes case.

A.4 Additional data

In order to test whether the ECJ decision had an impact in French mass layoff procedures, *plan de sauvegarde de l'emploi* (PSE), as in previous work in [Lopez-Forero, 2021], we make use of the D@ccord database. The main drawback of this database is that it only starts in 2005, which is the year before the ECJ ruling. Hence, we report the dynamic effect of the ruling in mass layoff procedures, but we are not able to provide any evidence on the absence or existence of pre-trends, as [Lopez-Forero, 2021] does.

D@ccord, from the Ministry of Labour (DARES), is a Statistical database on firms' collective agreements. "The d@ccord NG database of company collective agreements is based on information provided in a deposit slip and in texts filed in the territorial units of the Direcctes (Regional Directorate for Business, Competition, Consumer Affairs, Labour and Employment). The administrative services of the Ministry of Labor identify and record certain characteristics of company agreements. Pursuant to Articles L.2231-5 to L.2231-7 of the French Labour Code, in order to be valid, a company collective agreement must be filed at the end of the opposition period with the Direccte of the place of signature. It must also be filed with the clerk of the industrial tribunal. The purpose of these registrations is to produce receipts which confirm the act of filing but do not in themselves validate the legality of the agreement (in particular the measures specified). The data entered per departmental service is transmitted to DARES (Directorate for Research, Studies and Statistics) every three months." The relevant information that is used from this database is those collective agreements related to mass layoffs, PSE.