

ZENO-Indices

Is the 'German' car industry controlled by China?

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A few years ago, ZENO-Indices examined Daimler's shareholding structure and concluded that Chinese Ultimate Controlling Owners (UCOs) had built an important stake in the company while carefully remaining under the 10% threshold that would have warranted deep discussions with the German Federal Financial Supervisory Authority (or BAFIN):

- Li Shu Fu, a car manufacturer based in China held 9.7% of the shares.
- BAIC, another Chinese company active in the automotive industry, held 5% of Daimler.

We were told that BAIC was competing with Li Shu Fu in China, so there was little cause for concern.

At that time, we ran the ZEN0 Index to analyze Daimler's complex shareholding structure.* ZENOs vary between 0 (no control – i.e. for most small shareholders) and 1 (full control, for example but not only when a UCO holds 51% of the shares).

Our analysis revealed that Li Shu Fu was the main UCO with a ZEN0 Index of 0.5. Although the highest of all UCOs, the ZEN0 was in a medium zone where control could still be challenged by a coalition of other shareholders. We also noted the presence of other UCOs: a few passive funds and BAIC with a ZEN0 of 0.2 for a 5% shareholding.

The situation looked like this:

*The ZEN0 Index measures who (UCOs) potentially controls what (the targets), by how much, and through which channels. It is not an obvious matter as it is possible to control a company (directly or indirectly) with a minority stake (think of the GAFAM's CEOs).

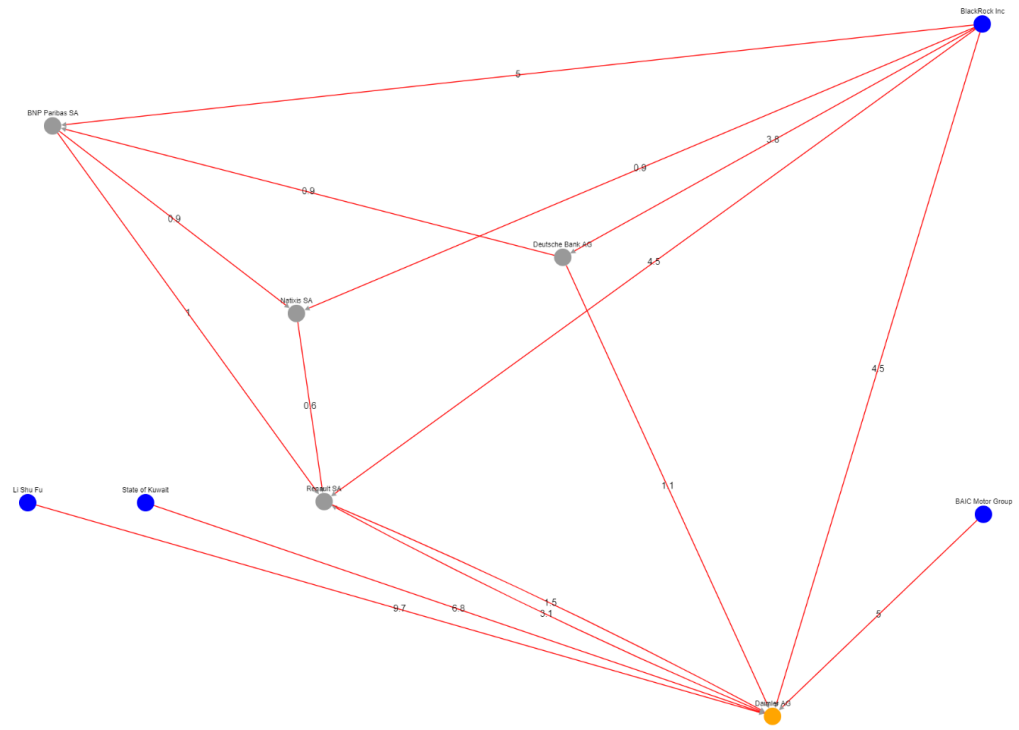
Current Target:
Daimler AG

Minimum participation percentage for target subsidiaries

Number of iterations

Zeno cutoff

- Li Shu Fu: 0.51**
 - State of Kuwait: 0.31
 - BlackRock Inc: 0.25
 - BAIC Motor Group: 0.24
- Reduced graph ▾



In all the graphs shown in this document, the numbers on each arrow indicate the percentage of shares held

It is often argued that Chinese companies could bow to government pressure and collude if asked. This assumption is discussed in other papers, including one using ZENO Indices and published at the Peterson Institute of International Economics in Washington DC (the paper analyzes who controls the mines of critical minerals).*

We made that assumption for Li Shu Fu and BAIC and found that “China” had a combined ZENO of 0.7 in Daimler, a substantial level of potential control but one that could possibly still be challenged. Unlikely but possible!

*<https://www.piie.com/publications/working-papers/green-energy-depends-critical-minerals-who-controls-supply-chains>

Recently, we re-examined the case of Daimler (now Mercedes-Benz) and learned that BAIC had increased its stake in Daimler by 4.98% (note: less than 5%!) to 9.98% (note: less than 10%!) since 2019. Mercedes seemed delighted, boasting on their website (13/12/2021) that "*Daimler AG's long-term shareholder and partner in China, Beijing Automotive Group Co Ltd (BAIC), announced that it has been holding an increased stake in Daimler of 9.98 percent since 2019. This underlines the successful partnership to continue long-term success for Mercedes-Benz in China.*"

We again calculated the ZENO Indices and found that both Li Shu Fu and BAIC now had a ZENO Index of 0.4: a little decrease for Li Shu Fu and a substantial increase for BAIC. Our research has shown that two UCOs competing for control is generally not a bad thing for governance, so all seemed good.

The situation looked like this:

Current Target:
Mercedes Benz Group AG

Minimum participation percentage for target subsidiaries

Number of iterations

Zeno cutoff

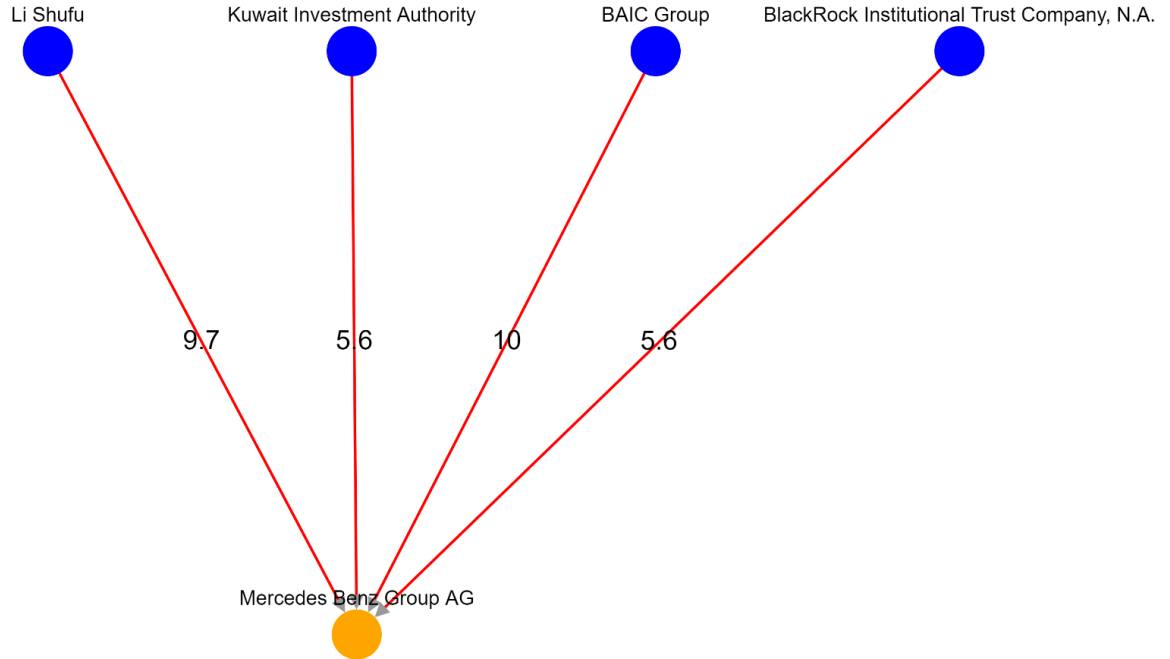
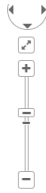
BAIC Group: 0.39

Li Shufu: 0.38

Kuwait Investment Authority: 0.21

BlackRock Institutional Trust Company, N.A.: 0.2

Reduced graph



Bottom line 1: the control exercised by each Chinese UCO in Daimler is substantial at ZENO = 0.4, but it can still be challenged.

Let us now assume that China forces a collusion (not necessarily all the time, but on occasion) **between both main UCOs Li Shu Fu and BAIC. The combined ZENO Index jumps from 0.7 to 0.8.**

Bottom line 2: one Chinese firm purchasing 4.98% of Daimler has essentially placed China's potential control on Daimler out of reach of a challenge by possible coalitions of other shareholders. With a combined ZENO of 0.8, and while respecting (just) the legal threshold of 10% ownership, full potential control is now firmly in the hands of China.

Conclusion. To answer the question in the title: other large players of the German car industry are still controlled by European hands. **It is just Mercedes-Benz!**