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TEXTS ADOPTED

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**P8\_TA(2019)0042**

**Combating late payment in commercial transactions**

**European Parliament resolution of 17 January 2019 on the implementation of Directive 2011/7/EU on combating late payment in commercial transactions (2018/2056(INI))**

*The European Parliament,*

- having regard to Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions<sup>1</sup>,
  - having regard to the report from the Commission to the European Parliament and the Council on the implementation of Directive 2011/7/EU (COM(2016)0534) and the accompanying staff working document (SWD(2016)0278),
  - having regard to its resolution of 26 May 2016 on the Single Market Strategy<sup>2</sup>,
  - having regard to its resolution of 15 September 2016 on access to finance for small and medium-sized enterprises (SMEs) and increasing the diversity of SME funding in a Capital Markets Union<sup>3</sup>,
  - having regard to the in-depth analysis entitled ‘Directive 2011/7/EU on late payments in commercial transactions: European Implementation Assessment’ published by the European Parliamentary Research Service in July 2018,
  - having regard to the European Payment Reports published by Intrum,
  - having regard to Rule 52 of its Rules of Procedure, as well as Article 1(1)(e) of, and Annex 3 to, the decision of the Conference of Presidents of 12 December 2002 on the procedure for granting authorisation to draw up own-initiative reports,
  - having regard to the report of the Committee on the Internal Market and Consumer Protection (A8-0456/2018),
- A. whereas payments are the bloodstream of businesses, and in viable and efficient business environments, prompt payments are conducive to enabling businesses to repay

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<sup>1</sup> OJ L 48, 23.2.2011, p. 1.

<sup>2</sup> OJ C 76, 28.2.2018, p. 112.

<sup>3</sup> OJ C 204, 13.6.2018, p. 153.

their liabilities in a timely manner and to expand, invest, create employment, generate broader economic growth and benefit the European economy in general;

- B. whereas most of the goods and services supplied and provided in the internal market between economic agents or between economic agents and public authorities are on the basis of deferred payments, in a system whereby the supplier grants its client a payment term for the invoice, according to what has been agreed between the parties, what is established in the supplier's invoice or in the relevant legal provisions;
- C. whereas making late payments is a persistent harmful practice that has a negative effect on the development of European companies, in particular SMEs, that do not have predictable streams of liquidity when late payment occurs;
- D. whereas small and medium-sized companies are particularly affected by default, negatively influencing their liquidity, complicating their financial management and affecting their competitiveness and profitability;
- E. whereas large businesses have more resources at their disposal than SMEs to protect themselves against late payments, e.g. via pre-payment, credit checks, debt collection, bank guarantees or credit insurance, and may also be better placed to take advantage of the global low interest rate environment to increase their investments and negotiating leverage;
- F. whereas under Directive 2011/7/EU (Late Payment Directive), public authorities bear a 'special responsibility'<sup>1</sup> in fostering a business environment supportive of timely payments;
- G. whereas the Late Payment Directive provides inter alia for payment periods for business-to-business (B2B) and public authority-to-business (PA2B) transactions, automatic entitlement to interest for late payment, a minimum of EUR 40 in compensation for recovery costs, and statutory interest of at least 8 % above the European Central Bank's reference rate;
- H. whereas, despite the general reduction in the average length of payment periods brought about by the Late Payment Directive, 6 in 10 businesses in the EU are still paid later in B2B transactions than what was agreed in the contract;
- I. whereas across company sizes, SMEs are the most likely to accept longer or unfair payment terms or may have them imposed on them by larger companies, owing to an imbalance of negotiating power and the fear of damaging business relations and losing a future contract;
- J. whereas, according to the Atradius Payment Practices Barometer, 95 % of SMEs report being paid late in Europe, which is a higher proportion than large companies, thus allowing the conclusion that SMEs tend to pay more quickly than large companies, but are paid later;
- K. whereas late payment affects all economic sectors, but is particularly pervasive in those with a prevalence of SMEs in the relevant value chain (e.g. construction, utilities and transport, professional services, manufacturing, food and drink, and

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<sup>1</sup> Recital 6 of Directive 2011/7/EU.

IT/telecommunications);

- L. whereas late payment still accounts for 1 in 4 bankruptcies in the EU;
- M. whereas late payments create additional costs for companies as they have to put resources into chasing late payers or pay interest on the credit contracted in order to continue business operations;
- N. whereas late payment or fear of being paid late is still one of the main obstacles to the participation of SMEs in public procurement contracts;
- O. whereas for each day of reduction in payment delays EUR 158 million could be saved in finance costs, and the additional cash flow could support 6,5 million additional jobs in Europe;
- P. whereas the Commission has launched infringement procedures against four Member States (Greece, Slovakia, Spain and Italy) regarding inadequate application of the Late Payment Directive and has referred Italy to the Court of Justice;
- Q. whereas certain Member States have launched initiatives to diffuse a prompt payment culture, through Prompt Payment Codes, industry-level voluntary engagement or stronger synergies with public procurement rules;
- R. whereas the Commission report on the implementation of the Late Payment Directive published in 2016 concluded that the fact that companies were aware of their rights under the Directive did not mean, however, that they were taking advantage of those rights, and that the lack of a common system for monitoring average payment periods, lack of clarity on some key concepts of the Directive and the market imbalance between bigger and smaller companies appeared to be the main factors preventing the effective application of the Directive;
- S. whereas late payment is a multi-faceted, complex problem caused by horizontal drivers, common across all sectors and all types of transaction (such as cash-flow issues, imbalances of power and size between companies, supply chain structure, administrative inefficiency, poor access to credit, lack of knowledge of invoice and credit management) and by the influence of external factors (i.e. the economic situation and national business culture), it is not possible to distinguish one solution that would solve all issues;
- T. whereas the proposal for a directive on unfair trading practices in business-to-business relationships in the food supply chain (COM(2018)0173) includes provisions on late payment for perishable goods and the designation by Member States of an enforcement authority to monitor compliance with the rules;
- U. whereas problems leading to late payment must be addressed through a combination of legal and voluntary measures, with targeted interventions involving the Commission, Member States and business associations; whereas such a combination would include preventive measures targeting issues arising before a transaction takes place and remedial solutions addressing issues after a transaction has been completed; whereas any intervention, whether regulatory or voluntary, should take into account the specificities of the economic sector concerned;

### ***Improving payment behaviour in the EU through a combination of legal and voluntary measures***

1. Believes that both the Late Payment Directive and national legislation on late payment should be better enforced, promptly and effectively, through compliance with the maximum time limits established for the payment of invoices and measures aimed at improving rules on payment terms and discouraging unfair practices; notes that these measures can be categorised according to their nature (legal or voluntary), scope (horizontal or sector-specific) and objective (preventive, remedial or change in business culture); considers that in parallel in some Member States, the legislation in place and the action on infringements has started to bring about a change in culture in public administrations across the EU, characterised by a general decline in payment delays;
2. Maintains that there is no one-size-fits-all approach to tackling the issue of late payments, as in some business-to-business sectors longer payment deadlines that in any case respect the provisions set out in Directive 2011/7/EU, can in some cases meet the needs of businesses, taking into account the specificities of each sector; stresses, however, that efforts should be made to move towards 30-day payment deadlines and that payment deadlines going beyond 60 days, as permitted by Directive 2011/7/EU, is a loophole that can enable the agreement of lengthy terms that could be damaging for companies themselves, especially for SMEs, while respecting the freedom of contract between undertakings on the market; stresses the importance of always ensuring a level playing field between enterprises in dominant positions and small operators;

### ***Preventive measures***

3. Believes that Member States should establish stricter payment terms; notes that some Member States have limited the standard payment term to 30 days, while only a few Member States have introduced maximum payment terms that the parties cannot deviate from; notes, furthermore, that at sector level the introduction of maximum payment terms is more common; considers that legislation setting out stricter payment terms would be effective in reducing their length to some extent and, provided that this is enforced, would create a level playing field between large and small companies; points out, in this context, that a more uniform and simplified set of rules could contribute to clarifying what creditors and debtors can expect in case of late payment and thereby improve the predictability of their economic activities;
4. Considers that the introduction of enhanced transparency concerning payment behaviour could discourage late payment; believes that access to this information can act as an incentive for public entities and businesses to improve their payment practices and uphold their monetary obligations; encourages the Member States to consider different possible forms of mandatory publication of information on payment behaviour, such as databases or registers, for both the private and public sectors;
5. Encourages the Member States to consider the setting up of mandatory systems providing information on good payment behaviour ('name and fame') and foster a culture of prompt payment in business relations, given the fact, inter alia, that paying on time has been demonstrated to be a smart business strategy as responsible payers can negotiate better deals and rely on trustworthy suppliers; asks the Commission to carry out a study on existing national systems providing information on good payment behaviour ('name and fame') of both businesses and public authorities, and explore the

feasibility of establishing common criteria for these systems at EU level;

6. Stresses the importance of providing entrepreneurs, in particular SMEs, with more information and education on credit and invoice management; recalls that effective credit management shortens the average collection period and therefore maintains an optimal cash flow, thus reducing the risk of default and increasing the potential for growth; believes that officials in public administrations should also receive training and that education and support may also make SMEs more likely to take advantage of Late Payment Directive remedies; notes that SMEs unfortunately often lack the capacity to invest in training and that there are currently no programmes at EU or national level focusing on enhancing businesses' knowledge of credit and invoice management; believes that more EU funds should possibly be directed towards the financial education of SMEs and therefore urges Member States' authorities to step up their efforts in providing further training for SMEs in credit management; considers, furthermore, that training and support should also include guidelines for recovery of overdue payments in cross-border transactions, and therefore calls on the Commission to continue integrating these guidelines and other useful information, such as the rights and instruments available to entrepreneurs in legal disputes with debtors, in the 'Your Europe' information portal and ensuring support for business through the European Enterprises Network;

### ***Remedial measures***

7. Calls on the Member States and business associations to consider the setting up of national and regional free and confidential mediation services (mediation, conciliation, arbitration and adjudication) accessible to all companies, as an alternative to court proceedings, to resolve payment disputes and maintain business relations, but also to educate the companies about their rights and remedies against late payment; stresses that such mediation services would be particularly useful for SMEs, which often do not have adequate financial means to engage in legal disputes and for this reason renounce their rights; calls, furthermore, on the Member States to give due consideration to the possibility of publicly funding independent ombudsmen responsible for investigating late payment and non-payment disputes, assisting small businesses in resolving late payment and non-payment disputes, advising on action in the event of payment arrears and recommending solutions, particularly to SMEs; calls for the Member States and the Commission to ensure effective access to justice in matters relating to the recovery of debts in cross-border transactions;
8. Calls on the Member States to enforce their national legislation and to encourage and improve stricter controls, for example among large companies, and the use of administrative sanctions that are effective, proportionate and dissuasive, thereby contributing to the improvement of payment behaviour; maintains that direct intervention from the public authorities, since it is they who enforce administrative sanctions, could help to overcome the 'fear factor' and relieve creditors of the responsibility to take action against debtors, as the authorities would directly enforce the law and take discretionary action against enterprises engaged in bad payment practices; believes that the value of administrative sanctions and their cumulative nature could deter companies from paying late, and underlines that this regime should be applied progressively depending on the company's level of compliance;
9. Points out that, despite the fact that the Late Payment Directive was adopted in February

2011, and despite the new mechanisms for the protection of entrepreneurs that some Member States have recently put in place, thousands of SMEs and start-ups across Europe go bankrupt every year while waiting for their invoices to be paid, including by national public authorities; urges the Commission and the Member States to consider mandatory forms of adequate compensation, such as offsetting, and other supporting measures, such as, for example, guarantee funds for SMEs and factoring for companies owed money by a public authority, so that they are not forced to go bankrupt because of it;

10. Stresses that companies' tax, fiscal and social security debts should be offset against any outstanding amounts owed by the public authorities;
11. Urges Member States to set up guarantee funds for SMEs that guarantee the bank debts of SMEs that are owed outstanding amounts by the public authorities;
12. Notes with great concern the situation in some Member States, where public authorities have greatly delayed payments for goods and/or services supplied to them by undertakings (with the health sector being one of the worst affected), included non-assignment clauses in supply contracts and prevented (through law) suppliers from enforcing their claims in courts, thereby leading these businesses into extreme financial difficulties or even bankruptcy; believes that in order to support businesses whose financial management is complicated by delayed payments from public authorities, the Member States should put in place faster and more efficient procedures for the refund of VAT and the recovery of amounts due, especially for SMEs;
13. Points out that prompt payment codes and charters and corporate social responsibility (CSR) measures, together with internal auditing and internal enforcement criteria, can contribute to creating a responsible payment culture and ensuring fair relationships and trust among businesses;
14. Maintains that certain concepts of the Directive, such as the term 'grossly unfair' in relation to payment terms in contractual agreements and commercial practices, and when contractual payment terms begin and end, should be clarified, through guidance issued by the Commission; notes also the emerging case law of the Court of Justice on the interpretation of certain concepts of the Directive (i.e. 'undertaking', 'commercial transaction' and 'grossly unfair' in Cases C-256/15 and C-555/14);
15. Considers it important to prevent the public sector deviating from the payment deadlines rules set in the Directive; calls, therefore, on the Member States and the Commission, in the light of the recent case law of the Court of Justice (Case C-555/14), to take the necessary steps to ensure that public authorities pay their suppliers on time and that creditors receive the automatic payment of statutory interest on late payments and compensation when payments are late without the need for overdue payment proceedings, and calls on the Commission to propose automatic interest computation;
16. Stresses that making payments quickly is extremely important for the survival and growth of businesses, particularly SMEs; notes that fintech and digital technologies are revolutionising the means and speed of payments; expects, therefore, a sharp increase in electronic invoicing and the gradual replacement of traditional types of payment with innovative types (e.g. supply chain financing, factoring, etc.), so that the creditor can be paid in real time as soon as the invoice is issued;

17. Notes with great interest the procedures put in place in certain Member States in the case of late payment by public authorities, whereby the central government may issue a warning to a local authority if the latter has not paid its suppliers on time and, should late payment persist, may pay the suppliers directly for the goods or services provided, suspending payment allocations to the non-compliant local authority's budget; considers that such a system, combining reliable monitoring of the public bodies' payment performances with an effective escalation plan, widely communicated when activated, seems to have produced results which deserve further analysis and should be passed on to Member States as an example of good practice;
18. Notes with concern the conclusions of the Commission report, which state that the main reason for creditor firms failing to exercise their rights under the Late Payment Directive is the fear of damaging good business relationships; believes, in this regard, that action should be taken to make it easier for SMEs to enforce the rights granted under the Late Payment Directive; calls, in this context, for further examination of the possibility, set out under Article 7(5) of the Late Payment Directive, for organisations officially representing undertakings to take action before Member States' courts on the grounds that contractual terms or practices are grossly unfair;
19. Applauds certain industry-level initiatives in some Member States under which participating corporations have drawn up a pledge detailing the concrete steps they will take to ensure their smaller suppliers are paid more quickly for the products or services they supply; notes that positive naming and shaming ('name and fame') could produce the intended results via self-regulation at industry level and provide substantial support for SMEs;
20. Stresses the importance of public procurement as a means of improving the functioning of the single market; calls for consideration of enhanced synergies between the Late Payment Directive and public procurement rules, in particular the possibility for contracting authorities to take action to enable the exclusion of non-performing contractors from future procurements if subcontractors are not paid in time by the main contractor when it is required to do so (Public Procurement Directive)<sup>1</sup>, more widespread use of the option laid down in Article 71(3) of the Public Procurement Directive of enabling direct payment to subcontractors under certain conditions, and making payment behaviour towards subcontractors one of the criteria on which to evaluate the financial capability of potential contractors in public tenders; calls on the Member States to ensure the transparency and traceability of payments by public authorities to contractors and sub-contractors, and of payments by the contractor to its sub-contractors or suppliers;

### ***Conclusions and recommendations***

21. Urges the Member States to take full responsibility in the exercise of payment on the part of the public administration and to improve their legislation ensuring proper implementation of the Late Payment Directive in all its parts, also by removing any domestic laws, regulations or contractual practices by the public sector that conflict with the aims of the Directive, such as enforcement and assignment bans for public sector

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<sup>1</sup> Article 57(4)(g) of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

receivables; reiterates in parallel that the Commission should do its utmost to try to ensure the full and adequate implementation of existing obligations;

22. Calls on the Member States and the Commission to foster ‘a decisive shift towards a culture of prompt payment’<sup>1</sup> by taking the most suitable measures, including issuing guidelines on best practices and, where necessary and appropriate, legislative initiatives, taking into account the abovementioned proposals, with the aim of creating a reliable business environment for companies and a punctual payment culture;
  23. Urges the Member States to make payment procedures more efficient, underlining in particular that verification procedures for checking invoices or the conformity of goods and services with the contractual specifications should not be used to extend payment periods artificially beyond the limits imposed by the Directive;
  24. Reminds the Member States and the Commission that prompt payment is an overarching requirement for viable business environments and that, as such, it should be mainstreamed into all policy and legislative initiatives affecting businesses (e.g. CSR, start-ups and platform-to-businesses relationships);
  25. Calls on the Member States and the Commission to use professional publications, promotion campaigns and any other instruments to increase awareness of the remedies against late payment among undertakings;
  26. Calls on the Commission to facilitate and promote access to appropriate funding lines for European entrepreneurs;
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27. Instructs its President to forward this resolution to the Council, the Commission and the Member States.

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<sup>1</sup> Recital 12 of Directive 2011/7/EU.