EU's tougher late payment rules 'could harm business'

Malta's credit management association and the Chamber of SMEs agree the new rules could be damaging to businesses. PHOTO: SHUTTERSTOCK.COM

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European Commission proposals to clamp down on late payments have been criticised by the Malta Association of Credit Management (MACM) as being too strict.

The association said the Commission's plans, which include forcing companies to settle their bill within 30 days, would be harmful to the economy and businesses, especially small- to medium-sized enterprises.

It said the proposals could damage business relationships and encourage companies to find other suppliers outside of the EU. The MACM also thinks the proposals conflict with the principles of free trade and credit management.

Last year, the Commission said it wanted to revise late-payment measures and proposed several changes to the existing rules in a bid to protect suppliers from "unfair payment terms", which it said especially affected smaller businesses.

While agreeing with the Commission's desire to curb late payments, which the association said caused "cash flow problems leading to bankruptcies, loss of jobs [and] financial uncertainties", it warned the latest proposals could lead to other problems.

"MACM is of the strong opinion that freedom of contract should remain, and imposing a 30-day credit term is to the detriment of the economy, commerce, trade and businesses, especially SMEs," it said.

The association called for the provision of EU-funded "credit management training programmes" and warned the revised late-payment interest rate, which if introduced now would stand at 20.5 per cent, was "hefty and... may lead to less trade".

When contacted, MACM director general Josef Busuttil said while the association was "totally against late payments", it believed the measures were addressing the symptoms of the problem rather than the cause.

"The answer is education and to teach businesses how important it is to secure cash flow and effectively manage credit arrangements," he said, describing the changes to late-payment fees as actually working against SMEs.

"What companies need are the tools and training to properly assess and manage credit," Busuttil said, adding that all other credit management associations around the EU also objected to the move.

He noted that while significantly late payments might prove especially damaging to businesses dealing withconsumables, businesses such as agricultural equipment suppliers, for example, benefitted from longer payment terms due to their longer business cycle.

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Busuttil stressed the MACM was comprised of businesses from all sectors of the economy, including self-employed persons, and that membership was open to any business providing lines of credit to other companies and not just credit management enterprises.

What do SMES think?

Speaking to Times of Malta, Chamber of SMEs CEO Abigail Mamo said despite late payments being problematic for businesses, there was "no easy solution" for the issue.

While admitting late payments were a perennial problem in Malta, and in extreme cases even leading to bankruptcy, Mamo warned that imposing heavyhanded measures could be harmful to businesses.

She said it was important for companies to be given the freedom to make their own crediting arrangements, particularly in the cases of long-standing partnerships, and echoed the MACM's warnings that companies hit by late payment interest might choose to take their business elsewhere.

Calling for any changes to be gradually introduced, Mamo said the chamber would be reaching out to its members to ask them what changes they would like to see to late payment legislation in Malta.

"We're seeing if there's a way we can strike a good balance between protecting businesses and allowing flexibility," she said.

However, with the EC proposing to change crediting rules through a regulation instead of a directive, which will leave member states with little room to decide how to implement the changes, this could be a difficult aim to achieve.

What is proposed?

The European Commission would like to see changes to the way late payments are dealt with in Europe and has called the existing legislation "inadequate" and backed up by "insufficient" enforcement measures.

Should the proposed changes be adopted, business-to-business payments will need to be settled within 30 days instead of 60, the fee per late transaction will rise from €40 to €50 and late payment interest will kick in automatically, eliminating any grace period.

Interest will be fixed at eight percentage points above the European Central Bank rate, which currently stands at 12.5 per cent.

Member states will also need to provide credit management and financial literacy training, including digital payment tools for SMEs.

Crucially, the Commission is planning on pushing through the changes as a regulation rather than a directive, meaning they would have to be fully adopted by all member states. Directives instead set out the EC's aims while leaving it up to each country to decide how to achieve them.

Only four out of 10 businesses in the EU are paid on time and late payments are estimated to account for one in four bankruptcies, according to the Commission.

And for each day of late payment clawed back, European companies could save around €158 million, the EC thinks.

Companies are estimated to spend up to around two weeks each year chasing up late payments, ranging from five days in Germany to over 15 days in Spain, according to a study referenced by the EC.

As such, European lawmakers think that by tackling this issue, over 27 million man-hours could be saved across the bloc each year, equivalent to an estimated €5.84 billion.

Industry sources told Times of Malta that the country's hospitality sector was "notorious" for late payments.