Annex 2 – Wholesale examples

This is a **non-exhaustive list** of examples from the wholesale sector where negotiations on payment terms are beneficial:

Securing supplier and customer relationships

Negotiating payment terms enables wholesalers to build and secure supply and customer relationships and pre-finance businesses in the supply chain. Offering supplier credit, e.g., in building materials wholesaling, can give an entrepreneurial customer (e.g., crafts, trade, commerce, industry, restaurants and hotels) up to 90 days to pay for materials or enable traders and builders to serve their customers.

Wholesalers always also have a financing function as service providers, especially for small and medium-sized customers of downstream economic levels from retail, trade as well as the hotel and catering industry.

In the construction-related wholesale trade

The example of the installation of heat pumps illustrates the problems of the new regulation on late payment. A wholesaler sells three heat pumps for €80,000 each to a tradesperson (delivery time of 18 months). The tradesperson will install the heat pumps at his/her customers' premises but cannot install them within 30 days. For repair or maintenance, there must be a very precise schedule to be able to install and pay for these heat pumps. On a building site, there are often unforeseen changes, so schedules cannot be adhered to. With strict payment terms, tradespersons can no longer take the risk of installing high-priced products because it weakens their liquidity or leads to insolvency if the customer does not make his payment.

In textile wholesale

Buyers of regional sheep's wool from their own production in the textile industry would also face major financing problems due to a statutory payment period of 30 days. The use of regional wool is only just starting up again. It usually takes months until the wool has been collected, sorted, and washed by the shepherd. To ensure that there is always enough washed wool available for production, the stock must always be replenished. This long production route must be financed. However, the production company with high machine costs and storage costs for washed wool is quickly overburdened, as financing by banks is only available to a limited extent. In this case, too, extended payment agreements help to ensure continuous production.

In cash-and-carry and delivery wholesaling

The agreement of payment terms with suppliers is a crucial element of business negotiations in this industry, especially for goods that are sold over a long period of time, such as non-food items and especially seasonal items (e.g., items around Christmas & Easter). For such products, suppliers deliberately grant long payment periods because the products have to be delivered and stocked by retailers weeks and months before the corresponding holidays due to logistical and pro-duction constraints. The proposal would massively drain liquidity from the industry, which will lead to a significant increase in debt and a deterioration of financing conditions.

Wholesalers would be deprived of the possibility to grant their own business customers (predominantly SMEs) longer payment terms. This would particularly burden small restaurants and small food retailers (e.g., kiosks), as they rely on in-creasing their liquidity through longer payment terms. Due to the one-sided burden shifted to retailers, the proposal will have significant consequences for end consumers in terms of prices, product availability and choice, and thus will undoubtedly also have a negative impact on inflation in the EU.

In international commodity trading

In international commodity trading, the trader, in addition to arranging purchases and sales and logistics, also takes on the financing of transactions to a significant extent. This is particularly the case outside Europe, where payment terms of up to 90 days (in Asia, Africa, and the Middle East) or up to 120 days (in Latin America) are the rule rather than the exception.

This also strengthens the trade position if the supplier does not want to or is not able to offer longer payment terms for political, economic, or strategic reasons.

Limiting the payment term to 30 days is counterproductive in international trade because it would ensure that traders based in the EU, in contrast to competition outside the EU, would no longer be able to present the payment terms requested or required by the customer as an essential part of the business. This would lead to a substantial decline in business.

The planned application of this regulation also to transactions with customers outside the EU distorts competition in foreign trade for the reasons mentioned and threatens the existence of the company.

In recycling wholesale

Metal recycling companies grant their customers significantly longer payment terms - between 60 and 90 days. These customers are companies with a long production process such as steelworks, foundries, or forges. A payment term of 30 days is not economically justifiable for these companies.

In tyre wholesale

Seasonal products, such as summer and winter tyres, would be negatively affected by a rigid 30-day payment term. To be able to produce continuously, there is also a mutually beneficial agreement in the tyre trade. The producer of the tyres can ensure continuous production by delivering the finished tyres to the tyre wholesaler before the seasonal sale. The producer saves his storage space, the wholesaler can fill his warehouse. A longer payment term makes this possible so that the wholesaler can deliver to his customers on time for the start of the season.

In agricultural trade

Due to the broad definition of entrepreneur in the draft, farmers are also likely to fall within the scope of application. In agriculture, it is common to work with the instrument of the current account, as financial obligations often arise seasonally for all participants in the chain. By placing mutual claims in a current account relationship, liquidity bottlenecks can be bridged, more flexibility created, and bureaucracy reduced. With a mandatory 30-day payment period, this procedure - which is advantageous for all parties involved - could no longer be maintained. This could cause payment difficulties for all parties involved.

The contractual relationship between the farmer and the agricultural trader often represents years of cooperation based on trust. The farmer purchases the necessary inputs (seed, crop protection, fertiliser and, if necessary, feed) from the agricultural trader, usually in autumn to spring. Income is generated on the arable farm mainly through the sale of the harvest in summer, and through the direct payments from the Common Agricultural Policy at the end of the year. This means that the balance is negative for large parts of the year to the detriment of the farmer and is only balanced out by the sale of the harvest raw materials. The agricultural trader in turn sells the farmer's harvest to his contractual partners (mills, etc.). The payment to the farmer is entered in the current account at a time when the agricultural trader has not yet been paid by his customer. The farmer delivers grain on 1 August, the 30-day period ends on 30 August. However, the agricultural trader does not sell the goods until September, so it does not help him if his customers also have to pay after 30 days.

These processes are developed between the parties involved. Small and medium-sized agricultural trading companies in particular do not balance their accounts every month or every 30 days, especially since purchases and sales are not made every month. To comply with the obligation in the proposed regulation, balancing accounts monthly would be required and payments made, which could be a problem given the large amounts that would have to be paid. Irrespective that up to now, this was a mutually agreeable arrangement.