



Alyn Smith MEP

Member of the European Parliament for Scotland
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12 December 2014

Our Ref: AES/SPC-FSB-REP

When replying please reply to: Edinburgh

Dr Vince Cable MP
1 Victoria Street
London
SW1H 0ET

Dear Dr Cable ,

Re. Problems in the UK Supply chain

This week a survey was published by the UK Federation of Small Business which highlighted a number of major problems within the UK supply chain. Of the 2,500 members contacted almost one in five (17%) said they had faced supply chain bullying in one form or another in the past two years. They also noted how many of the problems stem from the very long payments surrounding these commercial transactions which can be 90 or even 120 days after delivering the goods.

The size of large major firms can enable them, through the threat of de-listing a small supplier from future business, to retrospectively change the terms of the contract. This can be done to avoid breaking a contract that they do not wish to pay. Such behaviour is clearly troubling and is not only damaging to small business but could enable the manipulation the financial reports of large firms. The recent Serious Fraud Office Investigation of Tesco shows that this is not merely idle speculation. Perhaps even more worrying are reports that suppliers are undertaking Retrospective discounting or 'balance sheet bonuses' where firms use their position to put pressure on firms to gain retrospective discounts on outstanding debts owed to a supplier.

An EU directive designed to combat late payment in commercial transactions (2011/7/EU) emphasized that: "late payment negatively affects liquidity and complicates the financial management of undertakings. It also affects their competitiveness and profitability when the creditor needs to obtain external financing because of late payment." The directive emphasized that payments should be made within 60 days and longer periods should only be allowed "if such extension is not grossly unfair to the creditor." In October of this year the Department of Business Innovation and Skills released a "user guide" on this EU directive which acknowledged this and argued that under UK law any payments for periods longer than 60 days must not be "unfair to the creditor".

It seems clear from the recent events that the current legal framework is resulting in payments that are unfair. I wish to know if the UK government is going to strengthen the law to reflect the spirit of the EU directive and mandate that large firms pay their debts in a prompt and fair way.

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Unfortunately, the Federation of Small Business report is just one in a series of accounts that have emerged recently showing how broken the current UK supply chain is. Will you also commit to opening a formal inquiring into supply chain practice with the aim of creating new legislation to protect small firms from bullying? The structure of the market is not only providing the tools to enable large firms to potentially bully small firms but also to manipulate their financial statements if they so wish. These are clearly loopholes that need to be closed to prevent abuse.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alyn Smith', with a stylized flourish at the end.

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