



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 16.3.2006
COM(2006) 125 final

2006/0043 (CNS)

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

on the flax and hemp sector

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1673/2000, as regards the processing aid for flax and
hemp grown for fibre, and Regulation (EC) No 1782/2003, as regards hemp eligible
for the Single Payment Scheme**

(presented by the Commission)

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the flax and hemp sector

Article 15(2) of Council Regulation (EC) No 1673/2000 on the common organisation of the markets in flax and hemp requires the Commission to submit a report, and if necessary proposals, to the European Parliament and the Council. The report “*shall include an assessment of the impact of processing aid, in particular on*

- *the position of producers as regards areas sown and prices paid to them,*
- *market trends for textile fibres and the development of new products,*
- *the processing industry.*

The report shall indicate, in the light of alternative production, whether the industry is able to function with the guidelines laid down. It shall also examine the possibility of putting on to a permanent footing, beyond the 2005/2006 marketing year, processing aid per tonne of short flax fibre and hemp fibre and additional aid per hectare of flax.”

The objective of this report is to answer these questions. In this context, the Commission took into account the analysis and the results in the evaluation report on the flax and hemp sector, finished in October 2005.

1. DEVELOPMENTS IN THE FLAX AND HEMP SECTOR

The last reform of the common market organisation for flax and hemp grown for fibre took place in 2000. It introduced aid for processing flax and hemp straw intended for fibre production. That aid is granted to the processors, while the producers of flax and hemp straw benefit from the general support scheme for arable crops. The intention was to avoid speculative cultivation, which increased under the previous scheme, and to promote the production of long flax fibres by granting a higher amount of aid for them. The results have been very positive: subsidy-driven production has disappeared and production of long flax fibres has risen significantly. The current budget of the CMO for flax and hemp totals only approximately EUR 20 million.

The aid granted to authorised primary processors is based on the quantity of specific fibres actually obtained from straw covered by a sale/purchase contract.

The amount of the aid is:

- (1) for long flax fibre:
 - EUR 160 per tonne for the 2002/2003 to 2005/2006 marketing years;
 - EUR 200 per tonne from the 2006/2007 marketing year onwards;

- (2) for short flax and hemp fibre (containing not more than 7.5% impurities and shives):
- EUR 90 per tonne for the 2001/2002 to 2005/2006 marketing years.

Under certain conditions, Member States are also allowed to grant aid for short flax fibres containing between 7.5% and 15% of impurities and shives and for hemp fibres containing between 7.5% and 25%.

The processing aid is granted within a maximum guaranteed quantity (MGQ) per marketing year of 80 823 tonnes for long flax fibre and 146 296 tonnes for short flax and hemp fibres. These amounts are apportioned between the Member States as national guaranteed quantities (NGQ). Transfers of quotas between long flax fibres and short fibres are allowed, applying a coefficient of equivalence that keeps the operation budget-neutral.

In order to support traditional long flax fibre production in certain areas of the Netherlands, Belgium and France, additional transitional processing aid is granted to authorised primary processors.

1.1. Flax

1.1.1. Areas sown and production

The EU holds a central position in world flax production. After the last enlargement the Community now accounts for more than 20% of the area under flax worldwide (about 500 000 ha according to FAO). In 2004 the flax-growing areas were concentrated in five main producing countries: France (65%), Belgium (15%), Poland (7%), the Czech Republic (4.4%) and the Netherlands (3.6%).

Since 2001 the area under flax has stabilised at around 120 000 ha in EU-25, close to the level before subsidy-driven production practices began (in 1999 the areas sown totalled 233 000 ha).

The areas under flax have increased significantly in France (up by 25 000 ha), in particular in Normandy, and in Belgium/northern Wallonia (increase of 6 500 ha). In the Netherlands the flax-growing areas have grown to a limited extent (by 500 ha).

The long-term trend in flax straw production displays marked variations. Production reached 775 000 tonnes in 2004, of which 86% were grown in France and Belgium. The share taken by the new Member States remains marginal on around 10% of the total (80 000 tonnes produced in 2004). Despite the decrease in the total cultivated area after the reform, straw production shows an upward trend (up by 192 000 tonnes between 1999 and 2004), confirming the disappearance of speculative cultivation.

As for fibre production, between 2000 and 2004 the volume of long flax fibres in EU-15 increased from 93 500 tonnes to 136 500 tonnes (60%) and short flax fibres from 41 000 tonnes to 60 000 tonnes (65%)¹.

Short flax fibres are generally the co-product of long flax fibre production. The evaluation report points out that there are no processing plants dedicated exclusively

¹ The quantities of fibre produced do not necessarily match those receiving the processing aid

to production of short flax fibres in the EU apart from a few units with very limited trading activity, i.e.:

- two pilot units in the United Kingdom;
- two plants manufacturing pulp for special papers in France outside the support scheme (in view of the impurity rates);
- one unit in Germany with an output of less than 150 tonnes per year.

In the new Member States the market outlets for flax fibres remain the textile industry and traditional applications in rope manufacture. Short flax fibres are not produced in specialised plants but are co-products of long fibre manufacture. Only in Slovenia is flax cultivated with a view to producing short flax fibre (about 100 tonnes were produced in 2004, compared with 400 tonnes in 2001).

It is worth noting that the quality of the long flax fibres varies considerably between the Member States.

1.1.2. Prices

According to the evaluation report, flax straw prices in France averaged around EUR 248/tonne in 2001 and 2003, but climbed to EUR 272/tonne in 2002.

On the long flax market, despite strong export demand prices suffered a decrease related to the appreciation of the euro against the US dollar. The price for long flax fibres fell by 30% during the period from 2000/2001 to 2003/2004 before stabilising at EUR 1 600/tonne in 2004.

Regarding prices of short flax fibres, between July 2001 and July 2004 a sharp fall of 25 to 30% was reported in Belgium, France and the Netherlands. However, prices are very variable, depending on the economic destination of the fibre:

- special paper industry: EUR 170/tonne,
- textile fibres: EUR 345/tonne,
- non-woven materials: EUR 400/tonne,
- composite materials: EUR 500/tonne.

As a general rule, the gross margin per hectare widened between 1999 and 2003. Even though the 2000 reform led to a fall in subsidies, good market trends and good yields have compensated for this reduction.

Before the reform most producers received one quarter of the aid per hectare under fibre flax and the remaining 75% was paid to the processor. As a result of the reform the farmers' share of the subsidies has increased to more than 60%. Thus producers' incomes have become less dependent on price fluctuations.

1.1.3. Market trends and processing industry

European **long flax fibre** production is mainly used in the textile industry. The outlet shares seem to have remained stable over the last few years between clothing (50%), household linen (20%) and home fashion (13%), with the rest being used to manufacture products like ropes and filters (17%).

Last year almost 70% of long flax fibres were exported – mainly to China (50%). Demand for long flax fibres has been driven by the expansion of the Chinese spinning industry and exports to China grew on average by 20% a year between 1999 and 2003. Other trading partners included Russia and some of the new Member States (Poland, the Czech Republic and Lithuania).

The high demand from China seems to have prompted European (in particular French) producers to favour quantity to the detriment of quality.

It is difficult to quantify exactly the final destination of flax fibres after further processing in non-EU countries. A number of semi-finished and finished textile products containing European flax fibres are re-exported from China, especially to Europe and the United States. Imports of flax clothes from China into the EU grew by 50% a year from 1999 to 2003.

EU exports of manufactured textile products to the USA fell by 10% for tissue and by 25% for clothes between 1999 and 2003.

The turnover of the long flax fibres sector stabilised at around EUR 200 million over the period 2000–2004 (EUR 183.7 million in 2003) as a result of an increase in the quantities sold coupled with a steady fall in prices.

In the case of **short flax fibres**, the textile industry absorbed around 40% of production for pure flax tissues or multi-fibre materials with cotton or synthetic fibres. The main developments on this market since 1999 have been the decline in European spinning and the increase in exports to China and especially Hong Kong.

Since 1999 the market for short fibres has adapted to new technical applications. Production of fibres used for this purpose grew almost four times between 1999 and 2003, from 4 800 to 18 500 tonnes, equivalent to 9% and 25% respectively of all short fibres.

The share taken by the paper industry outlet, including cigarette paper and technical papers, remained stable in terms of volume, but its share of total fibre production fell from 45% to 34%. Volumes remained stable at 25 000 tonnes per year but suffered from growing competition from wood fibres. In spite of the low prices, the paper industry remains an attractive outlet for short flax fibres as it can absorb large volumes and does not demand high-quality fibres.

The new technical applications for short flax fibres account for 25% of production, of which only a small part (2.5%) is intended for making non-woven materials like geotextile felts, agricultural mulching or insulation panels. Production of composite materials for the car industry is the most advanced new market (particularly in Germany), using 16 500 tonnes (23% of all short flax fibres). For this purpose, flax fibres are processed in thermoplastics thanks to their low weight and good resistance to shocks. This market is considered promising if, on the one hand, prices of flax fibres stay stable and, on the other, prices of exotic fibres (sisal, kenaf, jute, etc.) do not fall significantly. The guarantee of regular supplies of fibres is a strong constraint for the industry, and therefore the competition from exotic fibres is serious. The German automobile industry decided to diversify its supplies of fibres when, in 2001, flax production in Europe fell due to bad weather conditions.

On the basis of the average prices, the total value of the market for short flax fibres can be estimated at around EUR 25 million. Textile uses constitute the main source of revenue (EUR 10 million) followed by composite materials for the car industry (EUR 8.5 million). The paper industry generates only EUR 4.2 million. Non-woven materials account for EUR 0.7 million.

Capacity for secondary processing of short flax fibres has expanded substantially since the reform due to better use of existing capacity and the construction of a number of cleaning units.

1.2. Hemp

1.2.1. Areas sown and production

The EU takes a relatively important share of world hemp production with 15 000 ha (29% of the 52 000 ha sown around the world according to FAO). The areas under hemp have remained relatively stable since 2001, but still account for a negligible share of arable crops. They are far lower than in 1998 when subsidy-driven production hit a record 40 000 ha.

Hemp-growing is concentrated mainly in six Member States accounting for 90% of the area under hemp in EU-25 in 2004: France (54%), Germany (11%), the UK (9%), Poland (6%), Italy (6%) and Spain (4%). The new Member States account for 11% of the area under hemp in EU-25 (Poland 6%, Hungary 3% and the Czech Republic 2%). However, it is worth pointing out that in Hungary the area under hemp used to be very high in the 1980s (more than 60 000 ha in 1987, 55% higher than in the whole of the EEC).

Production of hemp straw in the EU is highly variable, which is related to the fluctuations in the areas under cultivation, especially in France. From 2000 to 2004, hemp straw production averaged around 86 000 tonnes (with a maximum of 101 000 tonnes in 2003, coinciding with the maximum area under cultivation of 18 000 ha).

Hemp fibre production shows an upward trend and climbed to 28 000 tonnes in 2000 and around 31 000 tonnes in 2004².

1.2.2. Prices

Before the 2000 reform the aid per hectare of hemp was paid in full to farmers. With the reform, both the total support and the aid paid directly to the farmer decreased. However, the purchase prices paid by processors to producers increased: in Germany straw prices almost doubled after the reform (from EUR 80 to EUR 145 per tonne); in the United Kingdom they rose by 22% (from £90 per tonne in 2001 to £110 in 2004). In France over the last three years hemp processors have been passing on the increase in straw prices through sales of their fibres to the paper industry. In this country straw prices increased from EUR 60 to EUR 72 per tonne after the reform.

² The quantities of fibre produced do not necessarily match those receiving the processing aid

There are big differences between the prices of fibres used in the special paper industry (on average EUR 371/tonne in 2003) and those for technical applications (EUR 500/tonne for non-woven materials and EUR 600/tonne for plastic compounds). Between 1999 and 2003 prices of fibres for the paper industry increased sharply (by 27%). This is mainly explained by the arrangement between processors and the paper industry to compensate for the reduction in the Community aid. However, even though the paper industry accepted to pay higher prices to hemp fibre processors, it seems that in the long run the competition from wood fibres, which are three to four times cheaper, could seriously affect this market, including the market for special papers.

1.2.3. Market trends and processing industry

After a reduction in use in the paper industry in 2001 and 2002, this market outlet bounced back in 2003 to the volume of fibres used in 1999: 86% of total hemp fibre production (20 700 tonnes).

Composite materials for the car industry rose from 1 770 tonnes to 2 470 tonnes (about 10%) whereas 824 tonnes were used in non-woven materials for construction and insulation. The insulation materials market has not achieved the expected growth due to an unfavourable price difference and lower technical performance than the competing fibres. It remains fairly stable in terms of volume.

The turnover of the hemp fibres market is close to EUR 10 million. Most of this (EUR 7.7 million) was generated by the paper industry. The composite materials industry generates EUR 1.2 million and non-woven materials EUR 0.4 million. Taking into account developments on the market, the reduction in the amount of aid has not affected the competitiveness of hemp fibre prices against the main competing products (short flax and wood fibres). This can be explained by three main reasons:

- stability of margins, thanks to sales of co-products, which account for about 50% of processors' revenue;
- hemp fibres (like short flax fibres) match certain specific demand, for example the tobacco industry wants a stable composition in its paper supplies;
- a well organised paper industry: certain hemp processors concluded exclusive sale contracts with paper manufacturers.

Growth of production capacity for hemp fibres has been modest, leading to saturation of the main production units (especially in France), which now plan further investments in order to match the expansion of the new markets (technical fibres). Present production capacity for hemp fibres stands at 35 000 tonnes; in future the projected increase could be as high as 23 000 tonnes.

The main scutching capacity for hemp straw is situated in more or less ten sites in France, the UK, Germany and the Netherlands. Scutching capacity in EU-15 totalled around 107 000 tonnes of straw in 2004/2005.

1.3. Conclusions on development of the sector

Almost 90% of the total turnover of EUR 216.5 million for flax and hemp fibres in 2003 came from the “textiles” outlet. “Special and technical papers” accounted for 8%, “composite materials” for 4% and “non-woven materials” for 1%.

1. Textiles: since the reform, the textiles outlet has grown significantly, in line with demand from China.

The processing aid has had a smaller impact downstream from the European textile industry (spinning and exports). Its main contribution lies in agriculture upstream: the aid maintains the gross margin per hectare which has kept flax and hemp crops attractive.

2. Paper: the market for special and technical papers is a major outlet for European hemp fibres and a by no means negligible outlet for short flax fibres.

It is worth pointing out that, contrary to long flax fibres which mainly supply industries outside the EU, hemp and short flax fibre production sustains European industry, which is frequently located close to the areas where those fibres are produced.

3. Composite materials: this outlet, even if of limited value and volume, has shown a big increase since 2000, especially for short flax fibres. It is important to note that the processing aid has made a by no means negligible contribution to those new applications by supporting the expenses for research and development and business expansion. Removal of the present aid scheme at this juncture could threaten the very existence of this outlet.

4. Non-woven materials: this is a minor outlet for hemp and short flax fibres. The main market is for the production of insulation panels. Its growth is limited because products based on natural fibres are more expensive and of lower technical quality than competing fibres.

The processing aid for long fibres, along with the favourable market situation created by the demand from China, has contributed to a spectacular boom in flax production. This increase is mainly linked to the expansion of the processing capacity of existing enterprises, and the aid has permitted some investments in equipment, research and promotion.

As for hemp, the positive impact of the aid on the financial balance of undertakings has allowed an increase in the purchase price for hemp straw plus investments in R&D and in new outlets. The aid has also brought stabilisation (or a small improvement) of supplies to the downstream industries, both for paper and for the new outlets (aid constitutes a stabilising factor, which ensures industries of the durability of their supplies).

2. ASSESSMENT OF THE PROCESSING AID

The information available on the results of the 2000 reform in the EU-15 Member States is limited by the fact that it takes 22 months to process straw into fibre and that definitive figures are not obtained until more than two years after the start of the marketing year concerned.

Moreover, 2001/2002 cannot be considered a representative marketing year because production was seriously affected by unfavourable weather conditions.

The new Member States have not yet received any processing aid. However, processors in these countries are investing in order to adapt their plants to the EU legislation.

Under these circumstances, only limited conclusions can be drawn on the effectiveness of the processing aid system. It is difficult to examine whether or not the aid for short fibres and the additional aid per hectare of flax should be extended beyond the 2005/2006 marketing year. However, certain conclusions can be drawn on the basis of the data available and information from operators.

2.1. Importance of the aid for downstream industries

The processing aid has allowed the fibres sector to develop and led to stabilisation of the main outlets.

Regarding **flax**, market outlets for long fibres grew substantially over the period 2001–2004. However, this trend could take a different direction if there is a drop in demand from China and/or in prices, unfavourable exchange rate, etc. In the present favourable situation, it is difficult to estimate the role of the aid itself because the market is very profitable.

In the case of **hemp**, special papers are the main outlet. New technical applications (composite materials) have not yet reached the large-scale development phase. Removal of the aid at this juncture could jeopardise further development of this outlet. Other outlets, like insulation panels, have likewise not developed as initially expected due to their less competitive prices in comparison to competing fibres such as fibreglass and other synthetic fibres.

2.2. Aid for short fibres

Implementation of the current CMO would spell the disappearance of the processing aid for short fibres from the 2006/2007 marketing year.

In the case of **short flax fibres**, the effect of the processing aid cannot be singled out since nearly all the volumes produced are co-products of long fibre scutching and the area of land growing flax intended specifically for short fibre production remains marginal.

For **hemp producers**, removal of the aid would entail a proportional reduction in prices. In such a case the margin for hemp producers would be squeezed considerably and would be significantly narrower than the margin obtained from cultivation of other alternative arable crops. Note that hemp cultivation is more labour-intensive than other field crops. A significant reduction in the area under hemp and a consequent fall in supplies of hemp straw to the primary processing industry would be expected.

The table set out below compares the margin per hectare obtained from various crops in France and Germany and shows the loss of competitiveness of hemp-growing without transfer of an estimated 80% of the processing aid to the farmer:

	France			Germany		
	Hemp	Wheat	Rapeseed	Hemp	Barley	Maize
Margin (EUR/ha)	554	442	490	486	553	499
Average yield (t fibre/ha)	1.95	–	–	1.67	–	–
Aid transferred (EUR) – 80%	140	–	–	120	–	–
Margin without aid (EUR/ha)	414	442	490	366	553	499

Note: Figures are illustrative and do not allow immediate comparisons between countries in view of the different methods of calculation.

The economic impact of the removal of the aid on the short flax fibres industry would be mitigated by the increase envisaged in the aid for long fibres. Only specialised processing units, which make up a negligible part of the sector, would be directly affected by a reduction in income.

By contrast, in the case of hemp, removal of the aid could affect the financial balance of processors for which the aid makes up an important part of their net profit. The survival of processors focusing exclusively on fibre intended for new technical applications could be jeopardized, while “mixed” units producing fibres for special papers and new outlets would return to their traditional activity (paper industry). In addition, the traditional outlet (paper) could be threatened in the medium term by cheaper substitute products or by relocation of production.

Extension of the support for short flax and hemp fibre production for the next two marketing years is therefore advisable with a view to allowing the industry to consolidate the new markets for these fibres. In addition, such an extension will allow more time to assess the functioning of the CMO in the new Member States properly.

2.3. Additional aid

If the aid of EUR 120 per ha for regions in the Netherlands and Belgium is removed, the gross margin for flax will be lower than the margin for wheat and barley. Since the workload for this crop is heavier than for cereals, this crop will no longer be competitive and a big reduction in the area under flax in the Polders region can be expected.

A similar comparison for the areas in France and in Belgium qualifying for aid of EUR 50 per ha does not point to the same conclusions. Instead, removal of the additional aid will not have such a dramatic effect on producers’ income levels. However, some uncertainty exists about the future of production – especially during years with bad weather conditions.

It is important to note the strong annual variations in income from flax in contrast to most other crops. It needs to be underlined that the aid has made it possible to mitigate the effects of relocation to other regions with lower land prices and better suited agricultural structures.

Economic analyses show that the aid of EUR 120 per ha for flax produced in the Netherlands and in the Belgian Polders has been useful in maintaining or even slightly increasing the areas under flax there. However, these studies do not determine what would be the appropriate level of aid for these areas. The proposal is to maintain the current level of aid for a period of two years.

2.4. Level of impurities

As for the level of impurities, this measure dates back to the second half of the 1990s that is the period marked by major speculation. The objective was to introduce an obligation to proceed with costly cleaning of the fibres and thereby to discourage the production of fibres of very low quality which were not even intended for the market.

However, in short fibres for papers a high level of impurities is in fact necessary for the further processing. The cost of cleaning is so high that it equals or even exceeds the added value of the products.

In the case of the textile industry, a low level of impurities is required. However, since the selling prices are higher, the processors have an interest in cleaning the fibres.

In technical fibres, a low level of impurities is required for certain outlets.

Therefore, in practice most Member States use the derogation from the maximum level of impurities. Under the system it is necessary to calculate a reduction of aid based on the level of impurities, which creates an administrative burden, but is the only way to guarantee fair distribution of the aid.

As outlets for short fibres are developing and are not yet very stable, it is advisable to extend the current provisions, including the reduction of aid in proportion to the impurity level.

3. SUMMARY AND CONCLUSIONS

This report has been drawn up in response to the Council's request for an assessment of the impact of the aid for processing flax and hemp straw into fibre, introduced by the last reform of the common market organisation for this sector which entered into force on 1 July 2001.

In the light of the analysis carried out, a roll-over of the existing aid scheme for a certain period should be proposed. This would give time to gain more experience, which is particularly needed in the case of the new Member States. The aid for short fibres and the additional aid for flax cultivation in certain traditional growing areas should therefore be extended under the current conditions.

EXPLANATORY MEMORANDUM

Article 15(2) of Council Regulation (EC) No 1673/2000 on the common organisation of the markets in flax and hemp lays down that:

“In 2005 the Commission shall submit a report to the European Parliament and the Council on processing aid, if necessary accompanied by proposals.

The report shall include an assessment of the impact of processing aid, in particular on

- the position of producers as regards areas sown and prices paid to them,*
- market trends for textile fibres and the development of new products,*
- the processing industry.*

The report shall indicate, in the light of alternative production, whether the industry is able to function with the guidelines laid down. It shall also examine the possibility of putting on to a permanent footing, beyond the 2005/2006 marketing year, processing aid per tonne of short flax fibre and hemp fibre and additional aid per hectare of flax, as referred to in Article 4.”

The overall assessment of the present organisation of the flax and hemp sector³ seems positive and points to the conclusion that the current common market organisation is working well. The most significant consequence of the introduction of the processing aid for fibres has been that it has eliminated speculative production. The reform undertaken in 2000 has led to a significant reduction in Community expenditure and stabilisation of the budget at about EUR 20 million. In addition, the reform has resulted in growth of the economically viable outlets and generally safeguarded or, in some cases, improved producers' income over the period concerned.

The processing aid has supported EU production of flax and hemp fibres, materials which have a positive impact on environment (preservation of biodiversity). Moreover, the CMO processing aid has helped to preserve and create jobs in traditionally producing regions and other areas and to support investments in R&D to improve processing methods and develop new products containing vegetable fibres.

It is difficult to evaluate the full impact of the 2000 reform and the exact role of the processing aid on the EU-15 Member States production. Only the figures for the 2002/2003 and 2003/2004 marketing years are definitive and can be considered representative, since the 2001/2002 harvest was severely affected by bad weather.

Among the new Member States which acceded to the European Union on 1 May 2004, six of them are producers of flax fibres and three producers of hemp fibres. The data currently available do not allow detailed analysis of production trends and implementation of the system in those new Member States.

Under these circumstances, a two-year extension of the system in force during the 2005/2006 marketing year is proposed. Therefore, until the 2007/2008 marketing year the aid for long flax fibre would remain at the current level of EUR 160 per tonne and the aid for short flax

³ See evaluation report finished in October 2005: “Evaluation de l’organisation commune de marché dans le secteur du lin et du chanvre». http://europa.eu.int/comm/agriculture/eval/index_fr.htm.

and hemp fibres would be kept at EUR 90 per tonne. As for the national guaranteed quantities, the present levels would continue to apply.

As regards the maximum content of impurities and shives, considering that most Member States make use of the derogation from the 7.5% limit and that certain end-uses require a high level of impurities, the current system should be maintained in order to permit the Member States to grant aid for short flax fibre containing a maximum of 15% of impurities and shives and hemp fibre containing a maximum of 25%.

The additional aid granted to primary processors of long flax fibre in certain traditional production areas of the Netherlands, Belgium and France would remain unchanged, that is aid of EUR 120 per hectare in zone I and of EUR 50 per hectare in zone II, as laid down in Regulation (EC) No 1673/2000.

This extension of the current system will allow a more in-depth analysis based on experience gathered in the mean time and will also leave sufficient time to complete an overall impact assessment in order to evaluate the possibility of simplifying this aid scheme by means of its integration in the general framework of Council Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers.

On the occasion of the revision of the regime of flax and hemp grown for fibre, it is convenient to amend Council Regulation (EC) No 1782/2003 in order to make the cultivation of hemp compatible with uses other than just for the production of fibres.

According to Article 52 of the above mentioned Regulation, land under hemp is eligible under the Single Payment scheme if the hemp variety has a THC content not exceeding 0.2% and the raw production is used for textile fibre processing. The second condition, which originates from the previous relationship between the arable crops regime and the aid to the fibre industry, is not anymore necessary under the Single Payment scheme, and in addition to that, this condition prohibits de facto the use of hemp for other industrial uses e.g. for energy purposes.

Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 1673/2000, as regards the processing aid for flax and hemp grown for fibre, and Regulation (EC) No 1782/2003, as regards hemp eligible for the Single Payment Scheme

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the third subparagraph of Article 37(2) thereof,

Having regard to the proposal from the Commission,

Having regard to the opinion of the European Parliament⁴,

Whereas:

- (1) Article 15(2) of Council Regulation (EC) No 1673/2000 of 27 July 2000 on the common organisation of the markets in flax and hemp grown for fibre⁵ lays down that the Commission presents a report to the European Parliament and the Council on processing aid, if necessary accompanied by proposals. On the basis of the report, it is appropriate that the current system continues to be in force up to and including the marketing year 2007/2008.
- (2) The processing aid for short flax fibre and hemp fibre containing not more than 7,5% impurities and shives applies until the 2005/2006 marketing year. Nevertheless, in view of the favourable trends on the market for this kind of fibre under the current aid scheme and in order to contribute to consolidating innovative products and their market outlets, application of this aid should be extended until the end of the 2007/2008 marketing year.
- (3) Regulation (EC) No 1673/2000 provides for an increase in the level of processing aid for long flax fibre from the 2006/2007 marketing year onwards. Since the processing aid for short fibres is maintained until the 2007/2008 marketing year, the processing aid for long flax fibre should be limited to the present level until the 2007/2008 marketing year.
- (4) In order to promote the production of high-quality short flax and hemp fibres, the aid is granted to fibres containing a maximum of 7,5% of impurities and shives. However, the Member States may derogate from this limit and grant processing aid for short flax fibre containing a percentage of impurities and shives of between 7,5% and 15% and

⁴ OJ C ..., ..., p. ...

⁵ OJ L 193, 29.7.2000, p. 16. Regulation as last amended by Regulation (EC) No 393/2004 (OJ L 65, 3.3.2004, p. 4).

for hemp fibre containing a percentage of impurities and shives of between 7,5% and 25%. Since this possibility is open only until the 2005/2006 marketing year, it is necessary to give the Member States the possibility to derogate from that limit for two more marketing years.

- (5) In order to continue to ensure reasonable production levels in each Member State, it is necessary to extend the period in which the national guaranteed quantities apply.
- (6) Additional aid has been supporting the continuation of traditional production of flax in certain regions of the Netherlands, Belgium and France. In order to continue enabling gradual adaptation of farm structures to the new market conditions, it is necessary to extend this transitional aid until the 2007/2008 marketing year.
- (7) The Commission should submit a report to the European Parliament and the Council in sufficient time before the beginning of the 2008/2009 marketing year in order to assess whether the present system needs to be adapted or should continue.
- (8) Council Regulation (EC) No 1782/2003 of 29 September 2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers and amending Regulations (EEC) No 2019/93, (EC) No 1452/2001, (EC) No 1453/2001, (EC) No 1454/2001, (EC) No 1868/94, (EC) No 1251/1999, (EC) No 1254/1999, (EC) No 1673/2000, (EEC) No 2358/71 and (EC) No 2529/2001⁶ provides that only hemp grown for fibre is eligible for the Single Payment Scheme established under Title III of that Regulation. It is appropriate to make the cultivation of hemp for other industrial uses also eligible.
- (9) Regulations (EC) No 1673/2000 and (EC) No 1782/2003 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1673/2000 is amended as follows:

- (1) In Article 2, paragraph 3 is replaced by the following:
 - “3. The amount of processing aid per tonne of fibre shall be fixed as follows:
 - (a) for long flax fibre:
 - EUR 100 for the 2001/2002 marketing year,
 - EUR 160 for the 2002/2003 to 2007/2008 marketing years,
 - EUR 200 from the 2008/2009 marketing year onwards;
 - (b) for short flax fibre and hemp fibre containing not more than 7,5% impurities and shives: EUR 90 for the 2001/2002 to 2007/2008 marketing years.

⁶ OJ L 270, 21.10.2003, p. 1. Regulation as last amended by Commission Regulation (EC) No 2183/2005 (OJ L 347, 30.12.2005, p. 56).

However, for the 2001/2002 to 2007/2008 marketing years, the Member State may, with reference to traditional outlets, also decide to grant aid:

- for short flax fibre containing a percentage of impurities and shives of between 7,5% and 15%,
- for hemp fibre containing a percentage of impurities and shives of between 7,5% and 25%.

In the cases provided for in the second subparagraph, the Member State shall grant the aid in respect of a quantity which amounts to not more than the quantity produced, on the basis of 7,5% of impurities and shives.”

- (2) In Article 3(2), the second subparagraph is replaced by the following:

“The national guaranteed quantities for short flax fibre and hemp fibre shall cease to apply from the 2008/2009 marketing year.”

- (3) In the first paragraph of Article 4, “2005/2006” is replaced by “2007/2008”.

- (4) Article 12 is deleted.

- (5) In Article 15, the following paragraph is added:

- “3. The Commission shall submit a report to the European Parliament and the Council, if necessary accompanied by proposals, in sufficient time to allow the implementation of the proposed measures during the 2008/2009 marketing year.

The report shall assess the impact of processing aid on producers, the processing industry and the market for textile fibres. It shall examine the possibility of extending processing aid for short flax fibre and hemp fibre and additional aid beyond the 2007/2008 marketing year, as well as the possibility of integrating this aid scheme in the general framework of support for farmers under the common agricultural policy laid down by Regulation (EC) No 1782/2003.”

Article 2

In Regulation (EC) No 1782/2003, Article 52 is replaced by the following:

“Article 52 Production of hemp

1. In case of production of hemp, the varieties used shall have a tetrahydrocannabinol content not exceeding 0,2%. Member States shall establish a system for verifying the tetrahydrocannabinol content of the crops grown on at least 30% of the areas on hemp. However, if a Member State introduces a system of prior approval for such cultivation, the minimum shall be 20%.

2. In accordance with the procedure referred to in Article 144(2), the granting of payments shall be made subject to the use of certified seeds of certain varieties.”

Article 3

This Regulation shall enter into force on the seventh day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council
The President

FINANCIAL STATEMENT

1. BUDGET HEADING: 05 02 07 01		APPROPRIATIONS: EUR 24 million	
2. TITLE: Council Regulation amending Regulation (EC) No 1673/2000 – Processing aid for long and short-fibre flax and hemp			
3. LEGAL BASIS: Article 37 of the Treaty			
4. AIMS: To extend the arrangements in force for two years.			
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2006 (EUR million)	FOLLOWING FINANCIAL YEAR 2007 (EUR million)
5.0 EXPENDITURE CHARGED TO – THE EC BUDGET (REFUNDS/INTERVENTION) – NATIONAL ADMINISTRATION – OTHER	4,84	0	2,9
5.1 REVENUE – EC OWN RESOURCES (LEVIES/CUSTOMS DUTIES) – NATIONAL	–	–	–
	2008	2009	
5.0.1 ESTIMATED EXPENDITURE	4,84	1,94	
5.1.1 ESTIMATED REVENUE	–	–	
5.2 CALCULATION METHOD: Total expenditure for this item in 2005: EUR 20.045 million Total expenditure for this item in 2004: EUR 17.893 million Expenditure – current arrangements <u>2002/03 marketing year:</u> EUR 18.8 million, broken down as follows: Long flax fibres: 100 000 tonnes x EUR 160 = EUR 16 million Short flax fibres/hemp: 14 444 tonnes x EUR 90 = EUR 1.3 million Additional aid: EUR 1.5 million <u>2003/04 marketing year:</u> EUR 20.19 million Long flax fibres: 101 125t x EUR 160 = EUR 16.18 million Short flax fibres/hemp: 21 767 tonnes x EUR 90 = EUR 1 959 million Additional aid: EUR 2 million Estimates			
	MGQ long fibres/t	Aid	EUR million
Long flax fibres	80.823 x	200 =	16,16
Short flax fibres/hemp			0
Additional aid			0
Total			16,16
	Est. Quantities	Aid	EUR million
	102.124 x	160 =	16,34
	29.600 x	90 =	2,66
			2
Total			21,00
			4,84
6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET? YES NO			
6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET? YES NO			
6.2 IS A SUPPLEMENTARY BUDGET NECESSARY? YES NO			
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS? YES NO			
OBSERVATIONS: If the current trend continues, the foreseeable impact is EUR 4.84 million. However, if the MGQs for long and short fibres are reached, the impact would be EUR 11.94 million and total expenditure EUR 28.10 million.			