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REPORT FROM THE COMMISSION TO THE COUNCIL

**on production trends in the various Member States and the impact of the reform
of the common organisation of the market in flax and hemp grown for fibre
on the outlets and economic viability of the sector**

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1673/2000 on the common organisation of the markets
in flax and hemp grown for fibre**

(presented by the Commission)

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on production trends in the various Member States and the impact of the reform of the common organisation of the market in flax and hemp grown for fibre on the outlets and economic viability of the sector

1. INTRODUCTION

This report and the legislative proposals that accompany it are presented in accordance with Article 15(1) of Council Regulation (CE) No 1673/2000 of 27 July 2000 on the common organisation of the markets in flax and hemp grown for fibre¹, which lays down that:

“Not later than 31 December 2003, the Commission shall submit a report to the European Parliament and the Council, if necessary accompanied by proposals, on production trends in the various Member States and the impact of the reform of the common organisation of the market on the outlets and economic viability of the sector. It shall also examine the maximum content of impurities and shives applicable to short flax fibre and hemp fibre.

Should the need arise, the report shall serve as a basis for a re-apportionment of, and possible increase in, the national guaranteed quantities. In particular, the Commission shall take account of the level of production, processing capacity and outlets on the market.”

Article 15 also provides for a second report, to be submitted in 2005, on the operation of the system of processing aid for flax and hemp grown for fibre introduced by Regulation (EC) No 1673/2000.

2. THE REFORM ADOPTED IN 2000

In July 2000, the Council adopted a two-part reform of the flax and hemp sector. Firstly, the two products were incorporated into the general support arrangements applicable to the producers of certain arable crops. Secondly, processing aid was granted to authorised primary processors obtaining fibres from flax and hemp straw.

For long flax fibre, aid of EUR 160 per tonne of fibres will be granted until the 2005/06 marketing year, the amount then being increased to EUR 200 per tonne from 2006/07. A smaller amount of EUR 90 per tonne will be paid until 2005/06 for short flax fibre and hemp fibre containing not more than 7.5% impurities and shives, that limit having been chosen so as not to encourage the production of fibre aimed at low-value outlets. The Member State may, however, derogate from that limit, increasing it to 15% for short flax fibre and 25% for hemp fibre during the 2001/02 to 2003/04 marketing years in order to allow the processing industry to adjust to the new requirements.

¹ OJ L 193, 29.7.2000, p.16.

This processing aid is subject to a stabiliser mechanism consisting of two maximum guaranteed quantities, one for long flax fibre and the other for short flax fibre and hemp fibre, allocated among the Member States in the form of national guaranteed quantities (NGQs), each Member State having the possibility of making transfers between its two NGQs using a coefficient of equivalence intended to ensure the budgetary neutrality of the operation.

Additional aid is also granted up to the 2005/06 marketing year to authorised primary processors flax covering areas located in certain traditional production areas for long fibre. This aid varies between EUR 50 per hectare and EUR 120 per hectare, according to the area.

3. INFORMATION AVAILABLE

In order to allow the smooth operation of the aid scheme, while taking account of the special characteristics of the sector, the Commission fixed the period during which straw can be processed at 22 months. Consequently, when this report was written, the Commission had only provisional data on the first two years of application of the new arrangements, i.e. the 2001/02 and 2002/03 marketing years and initial forecasts for 2003/04. It should also be stressed that production during the 2001/02 marketing year was seriously affected by very unfavourable weather and cannot therefore be considered as being representative of production trends.

The information available does not therefore allow for a detailed analysis of production levels after the reform and of whether or not the NGQs have been set at the correct level. However, certain conclusions can be drawn on the basis of the provisional data available and information gathered from operators.

Firstly, the interest in traditional production of long flax fibre has continued and even increased. The average area sown to flax in the three countries mainly producing long fibre has increased from around 65 000 hectares before the reform to an average of around 90 000 hectares. The long fibre market has been profitable for several years and seems to be much less subject to cyclical recessions. Downstream, the reduction in the total production costs of the end product due to the major development of the spinning sector in China, a country to which European fibres are increasingly exported, has enabled flax to break into the market for middle-of-the-range clothing where the demand is more stable than the top-of-the-range market to which flax was previously restricted.

With regard to the production of short flax and hemp fibres, the situation is radically different to that before the reform: sowing with the sole aim of receiving a Community premium has disappeared. The total area in the Community used solely for the production of short flax fibre is no more than 5 000 hectare. As for hemp, the area appears to have stabilised at around 15 000 hectares in the Community as a whole.

The sector has seen important developments as regards the diversification of outlets. The use of short flax fibre and hemp fibre in insulating materials, which showed signs of a promising future a few years ago, seems to be gradually finding a market niche. The manufacture of composite materials from these fibres has now become a reality, still on a small scale but with interesting prospects: today, several very popular models of car include parts such as door panels or rear shelves manufactured from composite materials that contain flax or hemp fibre. Pallets, packaging materials and technical components are also markets that the sector is currently trying to break into by exploiting the technical and environmental qualities of short flax fibre and hemp fibre. There has also been progress with the use of shives and dust

produced during fibre production, such as in the production of furniture panels, mulch, animal litter and horticultural products.

However, the principal outlets, in terms of quantity, for both short flax fibre and hemp fibre have not changed: the paper industry, particularly for the production of fine and technical papers and for strengthening recycled paper, and the textile industry, where mainly short flax fibre is used, mixed with other fibres. It should be stressed that most short flax fibre and hemp fibre intended for these outlets has, after primary processing, more than 7.5% impurities, even though manufacturing processes sometimes require more effective cleaning at a later stage. These fibres are therefore eligible for aid under the derogation referred to above, which most of the producer Member States have decided to apply. It is clear that, at this stage, the continued activity of the primary processors producing these fibres would be compromised were processing aid not granted for fibres containing more than 7.5% impurities.

4. OPERATION OF THE ARRANGEMENTS

From their entry into force, the new support arrangements for flax and hemp grown for fibre have had clear positive effects on the sector. Inclusion in the arrangements for arable crops has brought simplification for farmers and put the two crops on an equal footing with competing crops. The new system of processing aid has allowed the maintenance or even an increase in production as a profitable economic activity and encouraged the whole sector to endeavour to fully exploit the products and by-products obtained, with positive results in terms of performance and competitiveness. For the future, the system of aid for producers has been incorporated into the system of single payments adopted under the reform of the common agricultural policy of June 2003.

At this stage, and in view of the lack of final data on production and of the rather short period that has elapsed since the new system of aid entered into force, it would seem sensible not to amend the system of processing aid before a more complete analysis can be carried out in 2005. That therefore means that the possibility for Member States to derogate from the 7.5% limit on impurities and shives laid down until the 2003/04 marketing year should be extended to 2005/06.

5. SUMMARY AND CONCLUSIONS

This report has been drawn up in response to the Council's request for an examination of the development of the production of flax and hemp for fibre after the reform of the common organisation of the sector, which entered into force on 1 July 2001.

The data currently available do not allow for a detailed analysis of production trends in the Member States or of whether or not the NGQs have been set at the correct level. However, on the basis of the information gathered, it can be concluded that the arrangements have had clear positive effects on the sector.

Under these circumstances, no amendments should be made to the existing system of aid before the more complete analysis to be carried out for the report planned for 2005 is available. That therefore means that the possibility for Member States to derogate from the 7.5% limit on impurities and shives laid down until the 2003/04 marketing year should be extended to 2005/06.

ANNEX

Member State	B	DK	D	E	F	I	NL	A	P	FIN	S	UK	Total
Area 2001/02 (ha)													
– flax	16 887	19	297	457	68 117	0	4 428	132	0	365	0	4 860	95 562
– hemp	0	7	1 901	789	7 010	155	969	848	0	113	0	3 303	15 095
Area 2002/03 (ha)													
– flax	15 316	0	299	55	68 434	6	4 053	171	0	192	0	177	88 703
– hemp	0	0	2 035	694	7 730	239	2 106	310	0	33	0	1 409	14 555
Fibre produced in 2001/02 (provisional)													
– long flax	8 269	0	76	0	35 118	0	2 429	0	0	5	0	0	45 896
– short flax	1 984	0	0	81	23 853	0	0	0	0	26	0	32	25 974
– hemp	0	0	0	1	8 224	0	0	0	0	0	0	822	9 046
Estimated fibre production in 2002/03													
– long flax	18 400	0	109	0	100 000	0	4 222	103	0	0	0	0	122 834
– short flax	10 350	0	167	13	61 500	8	2 438	171	0	270	0	95	75 013
– hemp	0	0	2 608	1 146	15 400	150	4 085	349	0	49	0	1 160	24 947
NGQ 2002/03 (1)													
– long flax	18 505	0	600	50	76 835	0	4 800	150	50	200	50	50	101 290
– short flax and hemp	0	0	12 140	20 000	15 071	180	5 550	2 500	1 750	2 250	2 250	12 100	73 791
Limit on impurities and shives (derog. 2002/03)													
– short flax	15 %		15 %	15 %	15 %		15 %	15 %		10 %		15 %	
– hemp			25 %	25 %	25 %		25 %	25 %		10 %		25 %	

(1) Where appropriate, after transfers in accordance with Article 3(5) of Regulation (EC) No 1673/2000.

EXPLANATORY MEMORANDUM

Article 15(1) of Council Regulation (CE) No 1673/2000 of 27 July 2000 on the common organisation of the markets in flax and hemp grown for fibre lays down that:

"Not later than 31 December 2003, the Commission shall submit a report to the European Parliament and the Council, if necessary accompanied by proposals, on production trends in the various Member States and the impact of the reform of the common organisation of the market on the outlets and economic viability of the sector. It shall also examine the maximum content of impurities and shives applicable to short flax fibre and hemp fibre.

Should the need arise, the report shall serve as a basis for a re-apportionment of, and possible increase in, the national guaranteed quantities. In particular, the Commission shall take account of the level of production, processing capacity and outlets on the market."

Article 15 also provides for a second report, to be submitted in 2005, on the operation of the system of processing aid for flax and hemp grown for fibre introduced by Regulation (EC) No 1673/2000.

The data currently available do not allow for a detailed analysis of production trends in the Member States or of whether or not the NGQs have been set at the correct level. However, on the basis of the information gathered, it can be concluded that the arrangements have had clear positive effects on the sector.

Under these circumstances, no amendments should be made to the existing mode of operation of the system of aid before the more complete analysis to be carried out for the report planned for 2005 is available.

However, the second subparagraph of Article 2(3)(b) of Regulation (EC) No 1673/2000 lays down that the Member States may, until the 2003/04 marketing year, derogate from the limit of 7.5% impurities and shives and grant aid for short flax fibre and hemp fibre containing a percentage of impurities and shives of less than 15% and 25% respectively. Regulation (EC) No 1673/2000 should therefore be amended to extend the possibility of making a derogation for two years, to the 2005/06 marketing year, which should consolidate the positive development the sector is experiencing.

As regards the countries that will accede to the European Union on 1 May 2004, six of them produce long flax and short flax fibre and three produce hemp fibre. The extension of the derogation from the 7.5% limit being proposed for two marketing years will give the new Member States the same opportunity as the existing Member States to adjust to the important changes the sector is undergoing.

Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1673/2000 on the common organisation of the markets
in flax and hemp grown for fibre**

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 Commission²,

Having regard to the opinion of the European Parliament³,

Having regard to the opinion of the European Economic and Social Committee⁴,

Having regard to the opinion of the Committee of the Regions⁵,

Whereas:

- (1) The second subparagraph of Article 2(3)(b) of Council Regulation (EC) No 1673/2000⁶ lays down that the Member States may derogate from the limit of 7.5% impurities and shives and grant processing aid for short flax fibre containing a percentage of impurities and shives of between 7.5% and 15% and for hemp fibre containing a percentage of impurities and shives of between 7.5% and 25%. However, advantage may be taken of this possibility only until the 2003/04 marketing year.
- (2) At the present time, the percentage of impurities and shives in most short flax fibre and hemp fibre obtained during primary processing exceeds the limit of 7.5%. In order to consolidate the positive development the sector is experiencing and to allow for further improvements in competitiveness, the possibility of Member States to derogate from that limit should be extended for two marketing years.
- (3) Regulation (EC) No 1673/2000 should be amended accordingly,

² OJ C ..., ..., p. ...

³ OJ C ..., ..., p. ...

⁴ OJ C ..., ..., p. ...

⁵ OJ C ..., ..., p. ...

⁶ OJ L 193, 29.7.2000, p.16. Regulation amended by Commission Regulation (EC) No 651/2002 (OJ L 101, 17.4.2002, p. 3).

HAS ADOPTED THIS REGULATION:

Article 1

In the second subparagraph of Article 2(3)(b) of Regulation (EC) No 1673/2000, “2001/2002 to 2003/2004” is replaced by “2001/02 to 2005/06”.

Article 2

This Regulation shall enter into force on the day following 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, on

For the Council
The President

FINANCIAL STATEMENT				
1. BUDGET HEADING: B1-140				APPROPRIATIONS: €26 million
2. TITLE: Council Regulation amending Regulation (EC) No 1673/2000 on the common organisation of the markets in flax and hemp grown for fibre.				
3. LEGAL BASIS: Article 37 of the Treaty				
4. AIMS: To extend by two years the possibility of derogating from the limit laid down for the authorised percentages of impurities.				
5. FINANCIAL IMPLICATIONS	12 MONTH PERIOD (EUR million)	CURRENT FINANCIAL YEAR 2003 (EUR million)	FOLLOWING FINANCIAL YEAR 2004 (EUR million)	
5.0 EXPENDITURE - CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTIONS) - NATIONAL AUTHORITIES - OTHER	-	-	-	
5.1 REVENUE - OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES) - NATIONAL	-	-	-	
	2005	2006	2007	2008
5.0.1 ESTIMATED EXPENDITURE	-	-	-	-
5.1.1 ESTIMATED REVENUE	-	-	-	-
5.2 METHOD OF CALCULATION: -				
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 WILL A SUPPLEMENTARY BUDGET BE NECESSARY?				YES / NO
6.3 WILL APPROPRIATIONS NEED TO BE ENTERED IN FUTURE BUDGETS?				YES / NO
OBSERVATIONS:				