Flax and hemp: common organisation of the markets CMO (amend. Regulation (EEC) No 1308/70)

1999/0237(CNS) - 20/05/2008 - Follow-up document

The Commission presents this report on flax and hemp pursuant to Article 15(3) of Council Regulation (EC) No 1673/2000. The report is required to assess the impact of processing aid on producers, the processing industry and the market for textile fibres. The Commission must examine the possibility of extending processing aid for short flax fibre and hemp fibre and the 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.

The report notes that the 2003 reform continued the shift from product to producer support through the introduction of a decoupled Single Payment Scheme. This was done in order to encourage competitiveness and market orientation and at the same time increase the transfer efficiency of income payments. The Health Check review poses the question whether coupled support, despite the overall orientation towards full decoupling, is still pertinent.

The additional processing aid for processors of flax grown in traditional areas was introduced by the Council as a transitional measure, and is scheduled to be abolished. The aid has contributed to competitiveness of flax cultivation in these regions (in particular in Belgium and the Netherlands), but it should not be continued from the 2009/2010 marketing year in view of its transitional character (to allow for gradual adjustment of the sector) and its application in three Member States only.

The objective of the temporary processing aid for short flax and hemp fibres is to encourage the development of new (industrial) products and potential outlets. The Commission questions whether years of support for short fibres have been most effective in encouraging such development. The use of short flax fibres has only slightly increased since 1999. Besides the traditional outlet for specialty papers, only use as composite material in the car industry shows significant growth.

Comparing the gross margins for hemp production with those for alternative crops shows that without aid for short fibre, margins would be narrower, specifically taking into account that hemp production is more labour intensive than alternative crops. This may lead to some reduction in the area under hemp.

The Council decided in 2000 to phase out the aid for short fibres, which has been extended for three additional years only to allow an assessment in the context of the overall Health Check review. Project support through Rural Development or research programmes may be a more cost efficient way to stimulate development of competitive renewable products. On the basis of these developments and considerations, the **specific processing aid for short fibres should not be continued from the 2009 /2010 marketing year.**

Continuing processing aid for long flax fibres could contribute to maintaining employment and economic activity in production regions. However, maintaining processing aid is not in accordance with the principles of the 2003 CAP reform. In addition, continued high cereal prices would most likely entail a reduction in production and a loss of environmental benefits and employment, which, despite this specific aid, raises questions regarding its effectiveness.

Therefore **full decoupling and integration of the aid in the Single Payment Scheme appears to be the best solution**. Similar to the earlier integration of support for hemp and flax growers in the Single Payment Scheme, decoupling would integrate the processing aid budget into this system. This option would allow for considerable simplification compared to the relatively complex current regime.

Decoupling introduces flexibility in choice for producers. Farmers will continue to produce where it is profitable, and adapt their production to the market or change to alternative products where it is adequate, while they are still obliged to keep land in good agricultural and environmental condition, in line with cross-compliance rules. Overall, decoupling leaves the producer at least as well off as before, and most likely better off as a result of production flexibility and market orientation.

In view of the gross margins of alternative crops and the higher costs and risks of flax production, it is estimated that the area under flax will decrease. And without processing aid the smaller processors especially would face serious difficulties, specifically in the traditional production regions. For this reason, gradually phasing out processing aid for long flax fibres, together with the possibility to apply Article 69 of Regulation (EC) No 1782/2003, seem appropriate to allow restructuring and modernisation of the industry.