Evaluation study of the hemp and flax CMO

Speech by

Christian RENAULT (A.N.D. International)

Study written by

B. Bordeau (AND-I), W Bottaro (EY), J Charroin (AND-I)

M Esnault (EY), C Renault (AND-I), L Roques (EY).

International

ERNST & YOUNG

La Qualité par principe™

Introduction

- **Study made in 2005 (from January to August)**
- **Made by *Ernst & Young France* (methodology, European network) and *A.N.D. International* (Agriculture economics)**
- **Presentation of the main results of the study (already made twice, for the Fibres Committee and the COPA COGECA meetings)**
- **The whole report – in French - will be on line "soon", as well as summaries in other languages**
- **The EC position about the CMO evolution will be known in the beginning of 2006.**

International

Contains

1 - Objectives of the evaluation study

2 - A description of flax and hemp industry

3 - Markets

4 - Interest of flax and hemp crops

5 - Perspectives

International

1 - Evaluation study objectives

- To determine pertinence, effectiveness and efficiency of measures of the flax and hemp CMO
  - ✓ Specially since 2000 (new rules)
  - ✓ Following the 2000's regulation, European subsidies are to be over, during the exercise 2005-2006, for flax short fibres, hemp fibres and for flax cultivation in traditional areas (The Nederlands, Belgium, part of northern France).
- To constitute a analytical frame about the CMO, to help the Commission prepare the report for the Council.

International

2 – Key Figures (Flax and Hemp) 2003

- 122 000 ha flax + 18 000 ha hemp in UE 25
- 0,15% of main crops area in UE 15
- Flax :157 000 t long fibres and 84 000 t short fibres (UE 25)
- Hemp : 32 000 t short fibres (UE 25)

International

2 – Key Figures (Flax and Hemp) 2003

- Almost 800 jobs in agriculture (4 times as much as 1 ha wheat) in almost 10 000 farms
- 2 000 jobs (5 times as much as 1 ha wheat) in the first processing industry (UE15), in about one hundred companies
- Turnover : € 220 Millions (“two hypermarkets !”)
- 80% exported to third countries, without any questions

International

2 - Evolutions since 2001

- There are no speculative surfaces anymore.
- Fibre production rose by 60%.
- Exports to China are increasing by 10 Kt a year (Flax).
- “Technical markets” have risen by 20 Kt since 1999.
- Employment in agriculture and 1st processing industry rose by 14% a year.

International

Réf.

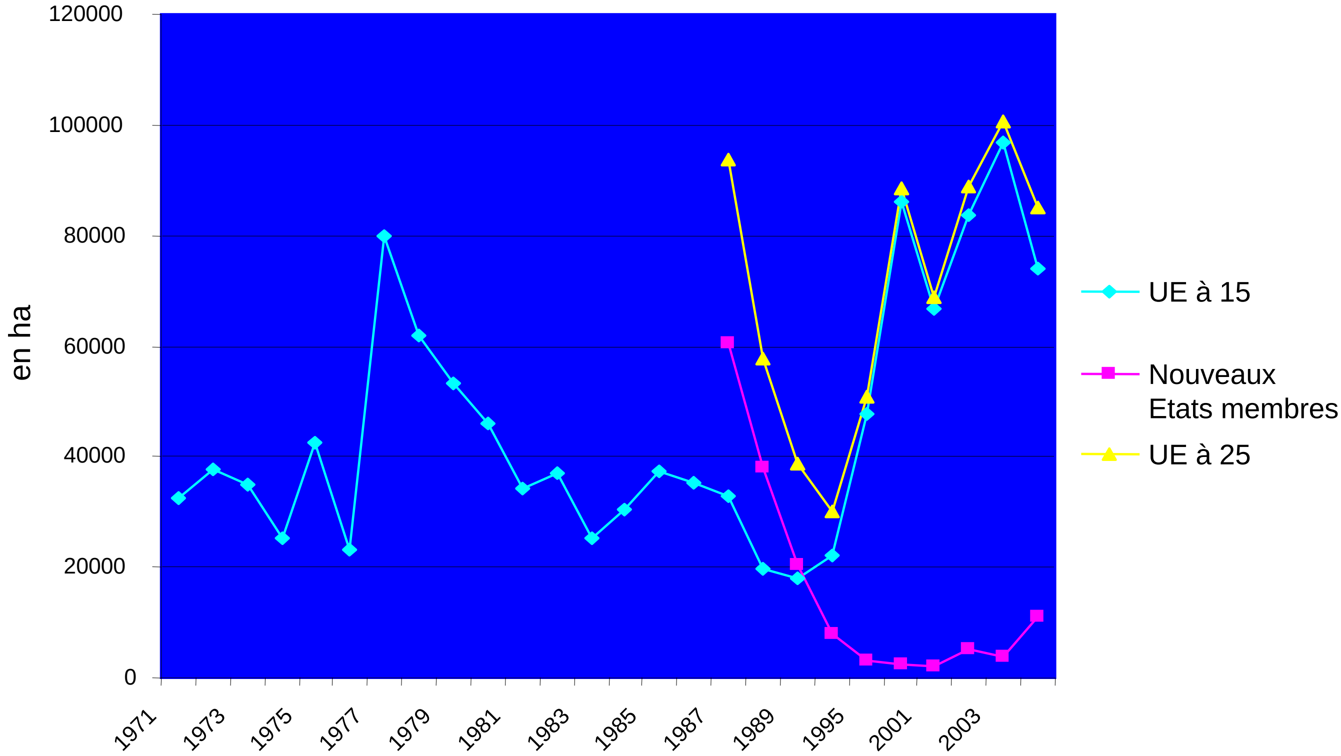
2 - Evolutions since 2001

- Companies and farmers perform a good profit level , with strong differences, depending on years and regions :
  - ✓ Western MS have better results
  - ✓ Flax goes better, except in 2001 (bad weather)
- Investment has been sharp (processing capacities rose by 40 Kt long fibres and 20 Kt short fibres (purification).
- 2nd processing : New projects have been managed, others are to be launched.
- UE expenses were reduced by 75% between 2000 and 2002 (from 210 to 51 Millions € – arable crop subsidies included)

International

Réf.

Evolution of the production of hemp and flax straws since1970 (tons)

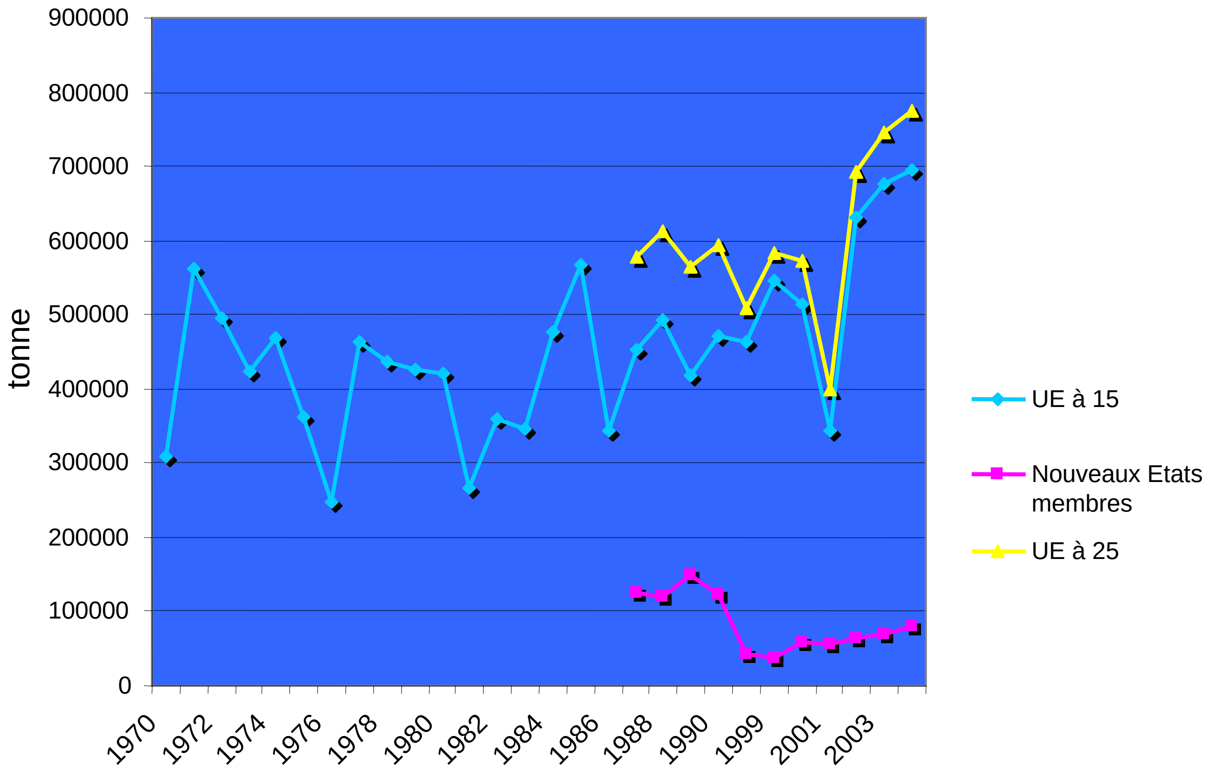


Sources: National Authorities DG Agri, Eurostat

International

Réf.

Evolution of the production of hemp and flax straws since1970 (tons)



Sources: National Authorities DG Agri, Eurostat

International

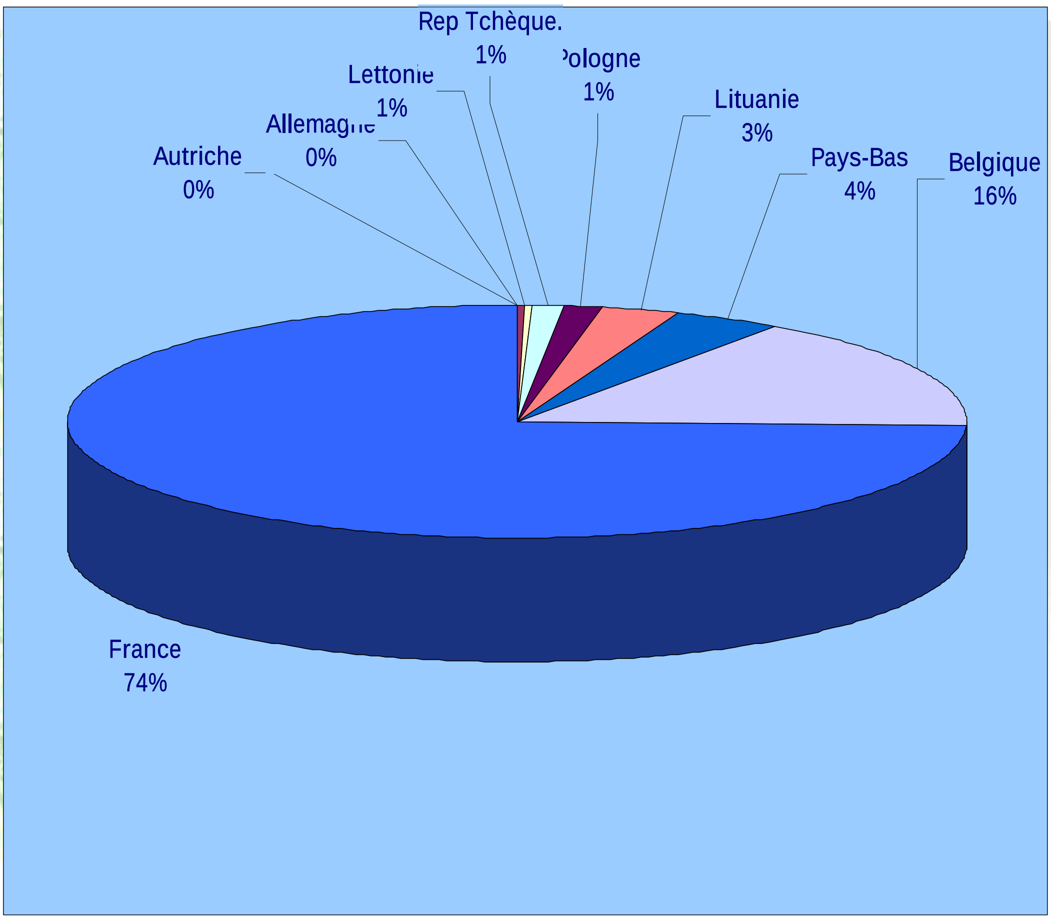
Réf.

2 - Production Localization

2003

Flax

long fibre



International

Réf.

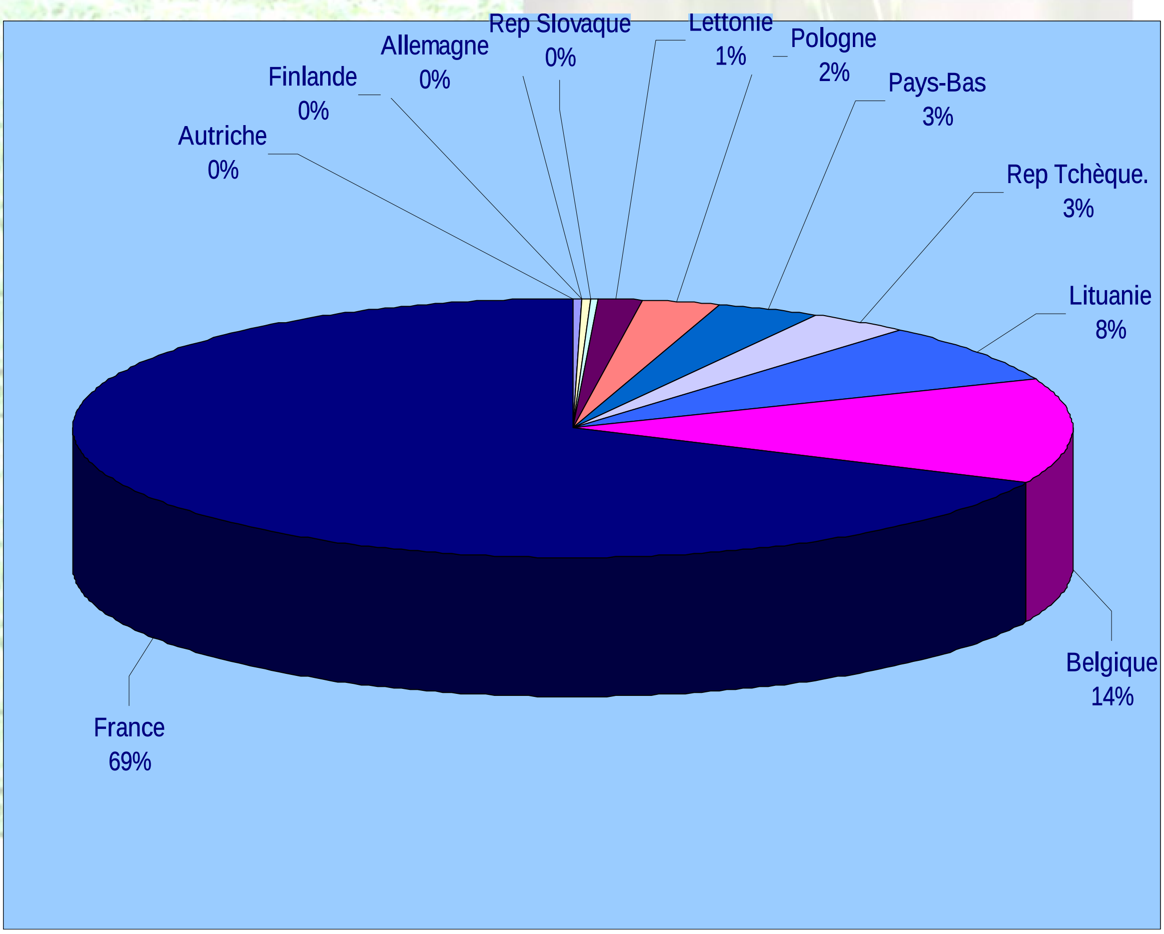
2 - Production Localization

2003

FLAX

short

fibre

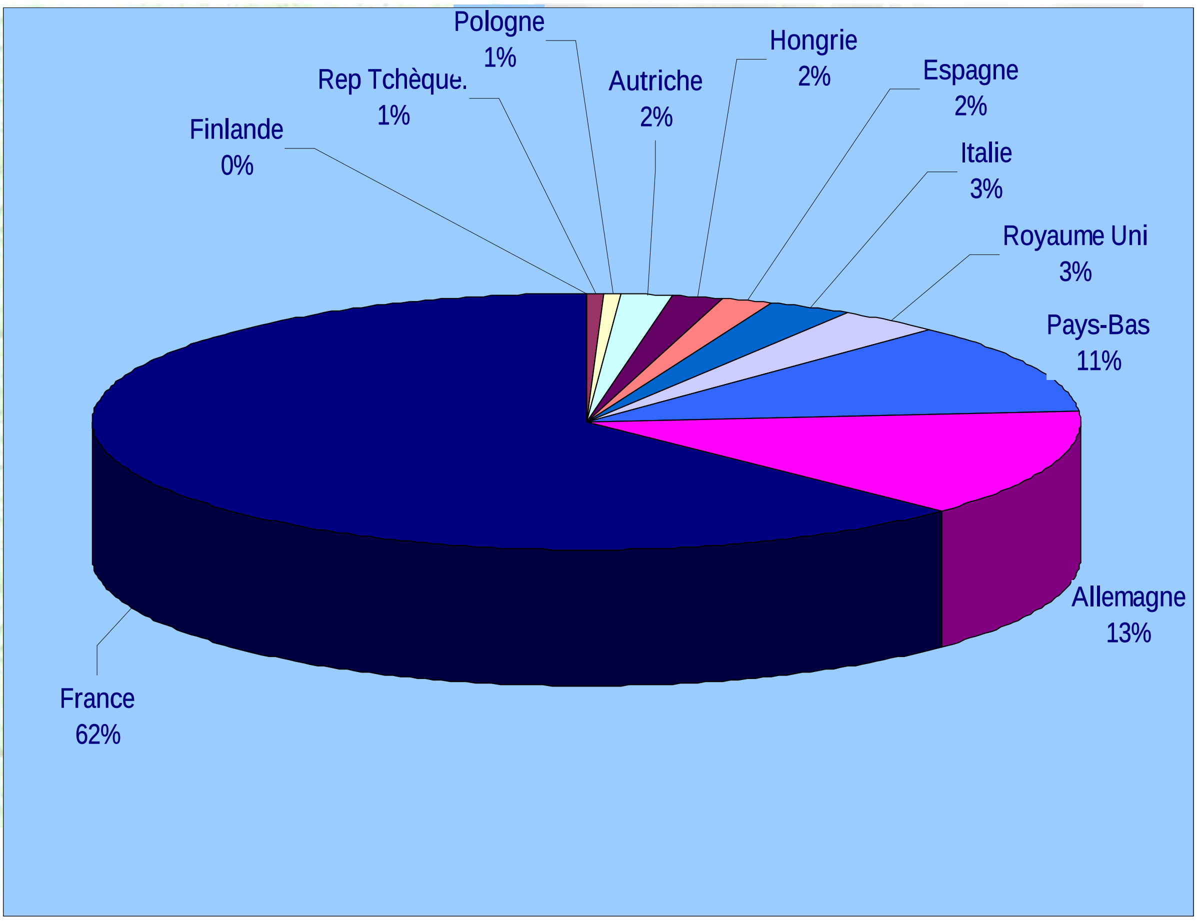


International

Réf.

2 - Production Localization

2003 Hemp Fibre



International

3 - Markets

- **Textile and paper are still the main markets**

MARKETS 2003	Volumes (t)	Prix (€/t)	Turnover (m€)	En %
Textile	**144 821**		**193,8**	**89%**
- dont fibres longues de lin	115 321	1 593	183,7	
- dont fibres courtes de lin	29 500	345	10,1	
Papiers spéciaux et techniques	**45 206**		**11,9**	**5%**
- dont fibres courtes de lin	24 500	170	4,2	
- dont fibres de chanvre	20 706	371	7,7	
Non tissés	**2 750**		**1,1**	**1%**
- dont fibres courtes de lin	1850	400	0,7	
- dont fibres de chanvre	900	500	0,4	
Composites	**19 400**		**11,7**	**5%**
- dont fibres courtes de lin	17 000	500	8,5	
- dont fibres de chanvre	2 400	500	3,2	
TOTAL	**212 177**		**218,5**	**100%**

> 90% export

70-80% export

75-85% export

- **New markets:**
  - **- Developing : nonwoven and composites for automotive industry ;**
  - **- Stagnation : insulating materials;**
  - **- Post R&D : injection plasturgy, building materials**

International

3 Markets

- **Textile markets**

Delocalization of spinning industry in China. This country has stimulated EU exports. China industry permitted a cost reduction that explains the growth of European and northern American markets for flax textile products (shirts).

- **Papers**

European Industry wants flax and hemp fibres. Main markets are in Asia. There are delocalization risks of this processing in the future.

- **Nonwoven and composites for automotive industry**

Almost mature markets with a high degree of competition

Customers (automotive) ask for strong guarantees on their purchases

- **Other products**
- Insulation markets still depend on tax incentives.
- Innovations and "heavy" investments in semi-finished products (compounds made out of natural fibres for injection plasturgy).

International

4 - Interest of flax and hemp crops

- Positive effects on environment
  - Less input / hectare than the others crops
  - Positive Life cycle assessment vs. substitution materials
  - Better sanitary impacts than synthetic fibres (glass)
- Positive effects on employment
  - Key crop in farms in the main areas of production
  - Rural jobs in first processing industry
  - Jobs in UE in second processing industry (paper, technical applications
- Export to third countries (fibres, semi finished products)

International

4 – CMO since 2000

- A sharp cut in expenses
- Effectiveness of NGQ system
- Effectiveness of integration in arable crops regime
- NMS' NGQ, less important than their potential
- Aid is important for economical security, it makes research and development investment easier
- Controls efficacy (THC)
- Subsidies to short fibres have to be continued..

International

5 – Perspectives

- China ?
- Plasturgy ?
- NMS ?

International