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Information of the „European Industrial Hemp Association (EIHA)“ (www.eiha.org)

Paris/Bruxelles: Interesting proposals for a reform of the processing subsidies for flax and hemp

The regulation passed in Bruxelles in 2000 determines that the processing subsidies for short fibres will be cut from presently 90 EUR to zero in the financial year 2006/2007 and that the subsidies for flax long fibre will be raised from 160 to 200 EU per ton. Back then, it had furthermore been determined that the European Commission would put the whole system of subsidies and crop quotas for the cultivation and processing of flax and hemp to the test, i.e. having it evaluated by an independent party.

This has happened now and the European Commission has to deal with the question whether the old regulations will remain in effect, or whether one should follow the vote of the evaluators to revise crucial points. But one thing after another...

In the summer of 2004, the European Commission put the investigation "Evaluation of the Common Market Organisation for flax and hemp" out to tender, and three offer groups subsequently applied for this. The selection process unexpectedly dragged long, and as late as at the beginning of 2005, it was finalised that the evaluation order was placed with the French business consultant Ernst & Young (Paris) who then conducted this work together with the Parisian agrarian consulting company "AND International". For the most part, the work consisted of interviews with farmers, associations, fibre separation companies and processors all over Europe. The study represents the so far most comprehensive and most up-to-date survey and analysis of the flax and hemp industry in Europe.

However, the study unfortunately is not available up to now. Merely a short version in French is in circulation. According to the Commission, however, the study shall soon be available in full length in English and French. Nevertheless the most important results and, primarily, the reform proposals are intensively discussed in expert circles.

At the end of September 2005, the results of Mr. Renault (AND International), the EU Commission and the member state representatives were introduced for the first time in Bruxelles. The crucial points are:

- In the flax long fibre sector, the authors observe a strong dependence on the demand from China. If the demand should decrease, the flax long fibre sector will face sales problems that could destabilise the sector.
- There is fear that a discontinuation of short fibre processing subsidies would massively affect and destabilise the hemp sector, because the planned subsidy changes would fully take effect on hemp – in contrast to flax, hemp is almost exclusively processed in the whole fibre line, in which only short fibres and no long fibres are produced. Hence they recommend to keep the short fibre subsidy on its current level or to reform the whole subsidy system (see below).

At the same time, the study states interesting potentials for the use of short fibres, with the qualification that new innovative applications (e.g. composites) had developed slower in terms of volume than expected. These new sectors still need more time for their market development.

- The authors consider a different subsidy for short and long fibres as neither economically justified nor market oriented. They list a range of negative effects of the current regulation and come to the conclusion: "So all these reasons strongly suggest a fusion of the subsidies for long flax fibres and short fibres into one single subsidy for the processing of flax and hemp fibres. As the case may be, this subsidy could also be extended to other fibre plants."

In this context, it is also discussed to calculate the amount of the payable processing subsidy no longer based on the produced fibres, but on the separated straw. By this means, also the regulation could be cancelled that the produced fibres must have a hurd content of less than 25% in order to actually make subsidisation possible. (*Remark:* In many aspects, the proposals resemble the reform proposals that have already been put up for discussion by the "European Industrial Hemp Association (EIHA)" in the year of 2002; see www.eiha.org)

- With regard to cultivation quotas resp. national guaranteed areas, the authors suggest a more flexible system that is not geared to the cultivation data of the past, but towards the up-to-date market developments.

All in all, the results and proposals of the evaluators have to be considered as very positive for the technical short fibre industry, and thus particularly for the hemp industry. On this basis, an extension of hemp production could be tackled all over Europe, in order to supply the further growing industrial demand for natural fibres with domestic fibre plants to an increasing degree, and less with jute and kenaf imports from Asia.

In its first comments, also the flax long fibre industry agreed to the analyses and proposals, what is amazing at first glance, because according to the proposals, the subsidies for long fibres would significantly decrease. But obviously the mixed calculation with equal subsidies for long and short fibres seems to work out even also for the flax industry on the whole.

However, it is totally unclear whether the EU Commission will follow the vote of Ernst & Young. But in a meeting with the European farmer association COPA, Mr. Kolodziejak from the evaluation board of the EU Commission underlined that the board is willing to strongly support the European hemp branch because of the very positive environmental effects through hemp cultivation.

The aforementioned meeting took place on 7 October 2005 in Bruxelles at the invitation of COPA, bringing together Mr. Renault (AND International), representatives of the EU Commission and of European associations and companies. In a draft paper entitled „**Proposals of COGA and COGECA for opening up new development perspectives for the sector flax and hemp in the EU**”, the associations adopted a very positive position towards flax and hemp; “environmental benefits” and “development potentials” play a crucial role here.

The proposals of Ernts & Young for the subsidy reform are explicitly supported: “Hence COPA and COGECA propose the perpetuation of a processing subsidy without differentiation according to the length or nature of the fibre. They also make the suggestion to cancel the rebate system for impurities, as applicable to short fibres, and to replace it with a straw subsidy.”

So already up to now, the new reform proposals already gain broad support. However, the positions of the different member states in the Council of Ministers will be decisive in the end.

Apart from this, COPA and COGECA propose further interesting measures for the support of the flax and hemp industry:

- Tax privileges such as the reduction of the turnover tax for the use of natural fibres / products.
- Improvement / adjustment of the regulations in the field of environmental and waste management legislation.
- Improvement / adjustment of standards in the field of textiles, insulation materials, composites, specialty papers etc.
- Flax and hemp cultivation should be eligible in the framework of the agrarian environmental measures, in view of the low use of operating resources with these crops and their positive effect on the biological diversity and variety of landscapes.

Exciting times for the flax and hemp industry. We will keep you informed!

The next branch meeting of the hemp industry will take place in Germany: Third International Conference of the European Industrial Hemp Association, November, 28th - 29th 2005 in Hürth/Cologne; further information and registration on www.eiha.org.

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