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Proposal for a

COUNCIL REGULATION

**amending Regulation (EC) No 1251/1999 establishing a support system for producers
of certain arable crops to include flax and hemp grown for fibre**

Proposal for a

COUNCIL REGULATION

on the common organisation of the market in flax and hemp grown for fibre

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. INTRODUCTION

The common organisation of the market in flax and hemp set up by Council Regulation (EEC) No 1308/70¹ was mainly initiated to support a traditional regional rural activity centred around fibre flax, particularly in Belgium, France and the Netherlands. Since that time the sector, which mainly focused on the production of long fibre for textile use, has had problems adapting to profound changes in the market. In almost all the Member States, some new outlets have been found for short flax fibre and hemp fibre. In many cases, particularly in Spain, these products have mainly been grown, in their own right and at lower cost, in order to benefit from the relatively high level of production aid for long flax fibre.

The market organisation is based on a per-hectare aid scheme but makes no provision for intervention or a stabiliser. Imports are not subject to duties or quotas and there are no export refunds. The aid comprises:

- flat-rate aid per hectare of fibre flax, currently fixed at EUR 815.6/ha, differentiated according to six homogeneous production areas (based on historic seed yields) and to whether or not the straw is retted. Part of the aid (25%) is paid to the grower and part (75%) to the primary processor. However, growers who also perform the primary processing receive the entire amount,
- flat-rate aid per hectare of hemp, currently fixed at EUR 662.8/ha, paid in full to growers, on condition they use certified seed of hemp varieties with a THC (the psychotropic substance tetrahydrocannabinol) content of less than 0.3%. From 2001/02, that upper limit will be lowered to 0.2%,
- an amount, fixed at 0 since 1997/98, withheld from the aid for flax for promotion measures,
- private storage aid in the event of serious market disturbances,
- arrangements for the verification of the THC content and the use of imported hemp seed.

In 1996, the Commission proposed amending the regime by introducing a maximum guaranteed area and differentiating the aid per hectare, depending on the harvesting method used to obtain long-fibre or short-fibre straw. This proposal did not obtain the support of a majority of Member States. Since 1995, aid has been reduced by 7.5% for flax and 14.4% for hemp. Controls have been tightened considerably, in particular:

- areas under cultivation are now integrated into the IACS for arable crops,
- a minimum yield has been introduced,
- growers are required to conclude contracts with primary processors, who must give an undertaking to process.

The scheme has become extremely complex and the plethora of checks and administrative procedures makes it very difficult to manage. However, the measures taken have failed to halt

¹ OJ L 146, 4.7.1970, p. 1.

the increase in cultivated areas in recent years. Financially speaking, the portion of the Community budget assigned to fibre flax and hemp has increased from EUR 74 million in 1995 to EUR 158 million in 1999.

In view of this situation, the Commission announced in the 1999/2000 price package that it intended to present a reform proposal to enter into force for the 2000/01 marketing year. These proposals, based on the analysis that follows, are a result of that commitment.

2. DESCRIPTION OF THE FLAX AND HEMP SECTORS

2.1. Areas

In 1998, some 520 000 hectares were sown to fibre flax in the world. The major producer countries outside the EU are the Russian Federation, China and Belarus. Around 85 000 hectares were sown to fibre hemp in the world in 1998, and the main producers outside the union were North Korea and China.

Inside the EU, historically some 70 000 hectares used to lie under fibre flax and 7 000 under hemp. However, production was concentrated in very small areas where it was of great economic importance. Since 1994 the area under these crops has increased drastically.

In the 1999/2000 marketing year, almost 208 000 hectares of fibre flax have been sown. Areas have remained more or less stable in the traditional producer countries, but increased considerably in Spain (from 187 ha in 1993 to around 126 000 ha in 1999) and, to a lesser extent, in the United Kingdom (from 2 181 ha in 1993 to 20 000 ha in 1996 and around 15 000 in 1999). There has also been a fresh surge of interest in this crop in most other Member States.

More than 40 000 ha were sown to hemp in 1998, and estimates for 1999 place the figure at about 32 000 ha. In Spain, where the annual average was less than 700 hectares between 1986 and 1994, the area under hemp soared to almost 20 000 ha in 1998 and fell back to around 12 000 ha in 1999. There are many projects to develop this crop in most of the Member States.

2.2. Production and outlets

Fibre flax and hemp crops produce a harvest of straw, from which can later be obtained fibre and ligneous matter called shives and, in certain cases, seed. Long fibres require favourable growing conditions and are obtained from fibre flax harvested by pulling. Short fibres and tow can also be obtained in this way as by-products. If only short flax fibres and hemp fibre are required, the straw can be harvested by cutting.

The usual method for separating the fibre and the shives, carried out by a primary processor, is to scutch the straw. This process, which is generally mechanised, requires that the straw first be retted, i.e. subjected to the chemical action of rainwater over a period of several weeks. If the flax is not retted first, the subsequent scutching process is more difficult and therefore more costly. Of the fibres obtained by scutching, only long fibres can be used to produce sufficiently fine thread for use in clothing and quality household linen.

There is no significant trade in flax and hemp straw between the European Community and third countries, but there is much trade between the traditional producer Member States. By contrast, trade in flax fibre can sometimes be considerable. In 1998 more than 9 000 tonnes, often of medium to poor quality fibre, were imported, chiefly from Egypt and Lithuania. The Community supplies the whole world with high- and very high-quality long fibres, which are

difficult to produce elsewhere, and also exports low-quality fibre. In 1998, some 62 000 tonnes were exported, including 47 000 tonnes of long and 15 000 tonnes of short fibres, mainly to China and Eastern Europe, where they are spun, after which they often find their way back to Europe as thread and yarn.

There are currently three major outlets for flax and hemp fibre:

- Long flax fibre for textile use is the main traditional market. South of the Channel and the North Sea, cultivation takes advantage of the favourable natural conditions, which enable famously high-quality fibre to be produced. This sector is periodically threatened by the crisis in the European spinning industry, competition from other raw materials and fluctuations in fashion trends, and it remains dependent on a significant level of aid to absorb its high production costs (pulling the straw, scutching, etc.). Markets can be found for some short flax fibre in the lower-quality textile sector, or mixed with other fibres,
- Short flax fibre and hemp fibre are mainly used in paper-making pulp and the market is more or less unlimited provided the price remains close to zero. The cellulose from the shives that remains in the straw along with the fibres is virtually of more interest for this market than the fibres themselves. Although its production costs are higher, shive cellulose is in competition with other plant cellulose materials on the market. The product used for paper pulp was originally a by-product of the textiles market or of other applications with more value added. By virtue of the aid it has received, which often covers its costs, it has in some cases become an end product in its own right,
- Short (and sometimes long) flax and hemp fibre also have a whole range of other specialised applications, often in connection with the manufacture of recyclable industrial products. They can be used to make special types of paper, such as for banknotes or certain types of cigarette. They may also be a constituent in composite materials, moulded to form internal car body parts or pressed to form chipboard for making furniture, or even insulation materials for buildings. These last constitute a group of relatively disparate sectors that are enjoying a phase of rapid development. Some ideas have still not progressed beyond the technological research stage, but on the whole the products from these sectors are already in use in small-scale industrial applications, and research is in progress to find processes for improving productivity or refining certain features of the end products. Commercially viable applications for these products do exist, although they often use other plant fibres such as jute or sisal.

Shives are used as high-quality bedding for livestock, especially horses, on account of their high degree of absorbency. Since, by weight, shives constitute around 50% of hemp straw, bedding has become one of the primary applications for this product. Shives are also used in the manufacture of board for use in the construction industry. Waste, mostly in the form of dust, is frequently used in compost.

There are some applications for the seed produced from the crop, for example birdfeed and angling, and sometimes also human consumption or cosmetics, especially in oil form. In addition, there is a seed production sector which receives aid for producing sowing seed in addition to that for fibre flax or hemp.

The Commission has no official statistics for flax and hemp straw. However, it is possible to arrive at an approximate estimate on the basis of the areas declared by the Member States, assessments of areas actually in production and average yield ranges declared by operators and Member States. Even allowing for a considerable margin of error, it can be estimated that

approximately 70 000 tonnes of long fibres and 120 000 tonnes of short fibres are produced within the Community, of which 65% is from flax. An estimated 300 000 tonnes of shives are also produced.

2.3. Production costs and margins

In the absence of official data, a rough analysis can be made of certain economic results based on the information supplied to the Commission's departments by certain producers and processors of flax and hemp. These results are indicative of the figures involved for operators who seek to achieve real production.

As regards fibre flax, a distinction must be made between three types of product:

- The traditional long-fibre product, in relation to which the short-fibre product is a mere by-product. Production costs (between EUR 800 and EUR 1 000 per hectare) and processing costs (between EUR 900 and EUR 1 100 per hectare) are very high in this sector. However, revenue is also high (albeit prone to cyclical fluctuation), on account both of the high prices fetched by long fibres, which have a global reputation, and of the abundant straw yields (6 to 8 tonnes/ha). At the current level of aid, the gross margin for the producer varies between EUR 400/ha and EUR 700/ha. The margin for straw that has also been through the initial processing stage varies between EUR 450 and 1 200/ha (with aid to the value of between EUR 700 and 1 000/ha).
- Exclusively short-fibre varieties are produced at lower cost, at between EUR 500 and 700/ha - one reason for this is that the flax is cut and not pulled. At 2 to 3 tonnes/ha, the straw yields from such crops are quite low. Processing costs are likewise considerably lower, between EUR 250 and EUR 350/ha, but revenue is also very low as a result of the low sales price for short fibres, especially when used in the manufacture of ordinary paper. The products in this sector are therefore heavily dependent on aid amounting to around EUR 600/ha, which results in margins of between EUR 200 and EUR 400/ha for producers. Margins tend to be negative for the sector as a whole, even as low as –EUR 250/ha if operators actually have to bear the average real production costs themselves. There are, nevertheless, individual instances of high-quality short fibre being grown, with a margin of between EUR 100 and EUR 150/ha,
- The intermediate production model involves trying to obtain relatively high and increasing yields of between 4 and 6 tonnes/ha of cut or pulled flax. The production costs for the straw are between EUR 700 and EUR 900/ha, with processing costs ranging from EUR 650 to EUR 800/ha. The gross margins for producers vary between EUR 200 and EUR 500/ha, whereas those for the sector as a whole range between EUR 200 and EUR 600/ha, including aid at the rate of roughly EUR 600/ha. The products in this sector are intended mainly for technical applications, in the automotive or construction industries, for example.

For hemp, the results for the producer are determined largely by the straw yield, since production costs (EUR 650-800/ha) and sales prices for straw are relatively uniform throughout the EU. Thus, in the 8 tonne/ha areas, margins can be as much as EUR 600/ha, whereas in the 4 tonne/ha areas they are closer to EUR 300/ha. Processing costs are also comparatively constant. However, sales prices for fibre may vary somewhat depending on the outlet involved. It must be emphasised that shives constitute a major outlet in this sector, in terms not only of quantity but also of value: revenue from this product accounts on average for more than 40% of the total revenue of processors. As regards the sector as a whole, gross

margins vary between EUR 150 and EUR 750/ha, with producers receiving aid at the rate of EUR 660/ha.

Although the figures for fibre flax and hemp must be treated with a certain degree of circumspection, the gross margins for these two crops, taking account of the aid, are comparable to those for the competitor crops. However, for a similar gross margin, fibre flax and hemp have the particular feature of having high production costs, which are close to the amount of fixed aid per hectare. When sales prices for the products are low, producers can still make a considerable profit and even increase their margins, simply by restricting their production costs to the bare minimum. Fibre flax or hemp are thus grown, in some cases, for the chief purpose of receiving the Community aid.

2.4. Prospects for markets

2.4.1. Long flax fibre for the textile industry

This product involves relatively limited areas, in the order of 70 000 ha, with little scope for further expansion without a detrimental effect on quality and market price. We should continue to support the preservation of this traditional sector, as it guarantees both a diverse range of crops (in particular by means of its low-pollution methods of production), and a livelihood for rural small and medium-sized enterprises. Yields in the sector are high and subsidy-driven production rare. There is a high degree of integration between operators in the long-fibre sector across the three main producer Member States, and this justifies the need for common measures.

There is little possibility of reducing the total level of aid necessary by large amounts without endangering the survival of this activity. However, the scheme is unnecessarily complicated by the weighting system that modulates the aid for fibre flax between EUR 615/ha and EUR 960/ha, depending on whether the product has been retted and deseeded, and, more importantly, by reference to historical seed production figures that appear to be out of date.

2.4.2. Fibre flax and hemp for different technical applications

The markets for fibres used for special types of paper, composites and other new recyclable products (generally short fibres) are expanding but unstable.

The automotive industry has already begun manufacturing internal car bodywork panels from plant fibre material. Increasingly strict legislation on recyclability makes this a potentially large market. It currently uses flax and hemp alongside imported raw materials such as jute, sisal or kenaf, which are generally slightly cheaper and in more reliable supply, despite the distance of the supply sources.

As regards the construction industry, the price of flax, hemp and other recyclable raw materials is generally more than 50-100% above that of the mineral fibres that are most commonly used for insulation and chipboard. However, a considerable investment effort has been undertaken, and/or is still under way, with a view to replacing mineral fibres which sometimes pose a bigger health and environmental risk.

There are a range of limited local applications for the myriad other non-woven, fibre flax or hemp-based products, such as the manufacture of special papers (for banknotes, cigarettes, teabags, etc.) and medical fabrics. Geotextile applications are also being studied, and have in some cases already been implemented, for example, in horticulture.

It is currently very difficult to calculate the future size of all these new markets. In terms of size, the quantity of short flax and hemp fibre that could be absorbed by the market as a whole in the medium term may be between 50 000 and 120 000 tonnes.

An increase in the cultivated areas providing materials for the new applications from their current low base should be expected over the next years, although overall development will be relatively limited. At present these sectors rely on some aid in order to boost productivity both at crop level and in terms of processing the harvested material. However, certain operators and research institutes are of the opinion that, even if Community aid is sharply reduced, many products have the potential to rapidly become commercially viable.

2.4.3. Short flax fibre and hemp fibre for ordinary paper pulp

Fibre for pulp for ordinary or recycled paper is not commercially viable without aid to cover production costs and revenue for the producer. Given these conditions, the selling price can be almost zero and potential applications are almost without limit. However, the economic interest of such expenditure for the Community is very doubtful, since the paper pulp industry could obtain its supplies from other plant materials and the producers could achieve equivalent levels of income with less aid without having to bear the production costs. The existence of generous levels of aid for products that make virtually zero profit is an open invitation to subsidy-driven production. The ordinary paper pulp market should remain a market for by-products and not be encouraged as a market in its own right.

2.4.4. Seed and shives

In some cases, it is the shives that contribute the greatest value added to the fibre flax or hemp crop, in particular when the fibres produced are short. Bedding made from hemp shives is a quality product that is prized by horse-breeders, although it is still sold predominantly on local markets. Chipboard panels could be major application, provided prices remain very low.

The seed from fibre flax constitutes a by-product with a low value added, compared to the seed from oilseed flax. Hemp seed has one traditional but limited application as food for fish and birds. The oil from hemp seed can be used for specialist cosmetics applications. The use of hemp seed or the leafed parts of the plant for human consumption would, however, even in the absence of THC, contribute towards making the narcotic use of cannabis acceptable and, in any event, there is no nutritional justification for this.

None of these products should be encouraged in their own right by Community aid.

2.5. Considerations specific to hemp

Given the biological similarities between industrial hemp and that used to obtain psychotropic substances, the Commission's departments have made several inspections to ensure that aid is not being granted for illegal crops. It is safe to conclude that, although it will never be possible to completely eliminate the danger that hemp with a high THC content might be cultivated, the recent tightening of controls has reduced it to a negligible level.

Moreover, the International Narcotics Control Board (INCB, a United Nations body) states that: "while illicit cannabis cultivations (sic) have soared, a considerable market for food products and beverages produced with cannabis has developed in the European Union (...). The health effects of these products have not been adequately researched. (...) the wide and unrestricted availability of such products in shops, where cannabis candy bars can be sold to

minors without restriction, contribute to the overall benign image of cannabis, a drug under international control."²

It is therefore important to remain vigilant and step up controls to ensure that illegal crops do not tarnish the reputation of the sector producing hemp for fibre. To avert such dangers, the cultivation of hemp for fibre must be strictly controlled, which means the area cultivated will have to be restricted, and the uses to which it is put must not include human nutrition.

3. REFORM PROPOSAL

The major economic problems encountered in the common organisation of the market stem from the existence of aid levels per hectare which, for short fibres, are extremely high in relation to production costs and the value of the product itself. A major cut in aid levels, either directly or via the impact of a Maximum Guaranteed Area, would have the effect of eliminating the traditional producers or those whose products are economically viable, without necessarily doing away with subsidy-driven production. Such a measure would not, therefore, offer a solution by itself.

To circumvent such problems, per-hectare rates of aid for producers of flax and hemp grown for fibre should be brought down to the rates for competing arable crops. However, straw processing aid would be introduced to ensure continued production for those outlets judged to be worthy of support.

3.1. Area payments

With regard to direct aid to producers, the Commission proposes that flax and hemp grown for fibre be included in the arrangements provided for in Council Regulation (EEC) No 1251/1999 establishing a support system for producers of certain arable crops³.

Such a move would be in line with the aim of simplifying the common agricultural policy and would remove the causes of distortion which have been identified. To ensure a smooth transition to the level of support granted for cereals, the area payments for flax and hemp grown for fibre must be the same as those granted for linseed, which must themselves be aligned on those for cereals by the 2002/03 marketing year. At the same time, this would solve the problems caused by having different aid schemes for fibre flax and linseed varieties which can sometimes be awkward to classify.

As in the case of other direct aid, Council Regulation (EC) No 1259/1999 of 17 May 1999 establishing common rules for direct support schemes under the common agricultural policy⁴ will apply to flax and hemp grown for fibre, particularly Article 3 on environmental protection requirements and Article 7 on restriction of payments.

Under the arrangements in force for the 1999/2000 marketing year, the conditions for qualifying for aid are that the crop is harvested and that a minimum yield is obtained. These conditions are, however, dependent on the weather and require a special control mechanism which would be difficult to implement. In view of the alignment of the aid rates for fibre flax and hemp with the rates paid for the other arable crops, it would appear expedient to drop these

² OICS note of 12.3.1999.

³ OJ L 160, 26.6.1999, p. 1.

⁴ OJ L 160, 26.6.1999, p. 113.

conditions, which do not exist under Regulation (EC) No 1251/1999. However, it is desirable to avert the danger that the aims of the scheme might be circumvented, particularly so long as the per hectare payment is higher than that for other arable crops. Provision will have to be made for grant of the per-hectare aid for flax and hemp grown for fibre to be subject to certain conditions as regards cultivation, particularly the use of certified seed.

In addition, to enable the quantities eligible for straw processing aid to be checked, growers should be obliged to conclude sales contracts with authorised processors.

In the case of hemp, stringent controls must be introduced to ensure, in particular, that only seeds of varieties with a low THC content (keeping to the existing limits) are used. Moreover, it is proposed that a large percentage of producers be subject to on-the-spot checks each year to determine the THC content of the hemp grown on their plots.

Further, area payments should not be granted unless the entire production from all hemp plots is delivered to one or more authorised processors. The terms of approval should include an undertaking not to supply industry or commerce with hemp-based foodstuffs.

To ensure that these checks can be made efficiently, the Member States will have to fix a maximum area eligible for area payments for hemp for each production area, according to their ability to carry out the checks in good time. To be possible, such a scheme would have to be based on a system of prior authorisation to grow hemp eligible for area payments.

3.2. Straw processing aid

In theory, straw processing aid could be granted by hectare or by quantity produced. However, per-hectare aid does not promote productivity and, above all, treats all products equally, regardless of their intended use. Granting aid per tonne of produce eliminates the risk of subsidy-driven production but requires that the quantities concerned be verified more stringently. Since straw is more difficult to trace than the fibre that is obtained from it, aid should be granted to processors depending on how much fibre with specified characteristics they produce.

In the long-fibre textile flax production sector, there has traditionally been a high level of integration across the various producing regions. This sector requires a similar system of aid in all producer Member States, and thus a common organisation of the market. In order to survive, it needs processing aid at levels which will maintain the overall average subsidy close to its level in the 1999/2000 marketing year.

The level of processing aid granted per tonne of long fibres will therefore have to increase proportionately as the area aid received by the grower is reduced in accordance with the timetable provided for in Council Regulation (EC) No 1251/1999. It will also have to be adjusted according to the aid for short fibres produced at the same time. In view of the variations in straw and fibre yields, it is proposed that the aid be fixed at EUR 60/tonne for 2000/01 and gradually to increase that amount to reach EUR 200/tonne for the 2005/06 marketing year.

The market for short flax fibre and hemp fibre is much more fragmented. In any event, no processing aid should be paid for fibre with a high percentage of shives remaining. Products such as this, for which the straw processing costs are low, are most likely to be used in the ordinary paper pulp industry. In order to be a viable product, short, cleaned fibres require supplementary aid over and above the area aid, at least in the short term. Such support would improve the payback from investments already made or still under way. It would also

encourage the development of an environmentally-beneficial crop and new agricultural outlets that stand a chance of finding a lucrative industrial market in the longer term.

In the case of short flax fibre and hemp fibre, a transitional phase thus seems essential in order to adjust from the regime in force in 1999/2000, which provides for high levels of aid for all the crops concerned, to a future regime based on industrial market prices and inclusion in the arrangements applicable to arable crops. The processing aid would be granted for five years.

In view of the level of aid for long fibres and the variations in yields, the amount per tonne to be paid during the first year would have to correspond to an approximately unchanged average level of support per hectare of flax and hemp in favourable growing conditions. That amount would remain the same for five years despite the reduction in the area payment, and be abolished thereafter. It is therefore proposed to fix this aid at EUR 40/tonne during the 2000/01 to 2004/05 marketing years.

No straw processing aid would be granted where the necessary conditions have been artificially created.

3.3. Stabiliser mechanism

Area payments are subject to the rules on base areas laid down in Regulation (EC) No 1251/1999. Including flax and hemp grown for fibre in the support system for producers of certain arable crops would require an increase in the base areas under the terms of that Regulation. According to the information available to the Commission, on the basis of the reference period 1989-91, the base area would have to be increased by around 80 000 hectares, mainly in the traditional producer Member States, where the areas have remained more or less unchanged. The area currently under flax and hemp grown for fibre in the other Member States, except for Spain and the United Kingdom, accounts for less than 2% of the base areas still available and the areas under voluntary set-aside. The figure is close to 8% in Spain and 17% in the United Kingdom, because of the considerable increase in aid applications in recent years.

Since there are no specific Community restrictions on areas under flax and hemp grown for fibre, to prevent circumvention of the rules and keep expenditure within bounds it is vital to introduce a system of budgetary stabilisers for the processing aid. In view of the concomitance between the outlets for short flax fibre and hemp fibre, there should be a joint stabiliser for both products.

It is therefore proposed to set a Maximum Guaranteed Quantity for long flax fibre and another for both short flax fibre and hemp fibre. These two Maximum Guaranteed Quantities are to be allocated among the Member States as National Guaranteed Quantities.

The proposed National Guaranteed Quantities are based on:

- the average areas declared as having been cultivated during the last five marketing years, with figures rounded up. However, because of the sharp increase in areas and the other phenomena observed, these results have had to be adjusted, to take account of the trend in recent years and the areas which can be considered as actually in production according to existing statistics and other available data,
- average fibre yields according to the information supplied by operators and Member States,
- the grant of at least 50 tonnes per Member State.

To give the system some flexibility and allow for some transfers between activities relating to long flax fibre and other flax or hemp fibre, it is proposed to authorise reallocations between the national quantities of a single Member State, provided the economic interest and credibility of such operations is patent.

Since straw can be stored for a number of years and can be transported between processors, opportunities for abuse will have to be restricted. Strict controls on the quantities of the various types of fibre produced must be put in place. To minimise the risks, to qualify for the aid quantities must be smaller than a maximum per hectare under contract, fixed by the Member State concerned on the basis of its National Guaranteed Quantity and the hectares for which primary processors have concluded contracts with a view to buying straw.

3.4. Other measures

The promotion scheme for fibre flax provided for in Regulation (EC) No 1308/70 is financed by withholding a percentage of the aid. This system is not always suited to real needs and creates problems of period-assignment for the budget. The promotion measures already taken under the current scheme will run until 31 September 2001. Thereafter, promotion will be covered by the general harmonised framework in place for all agricultural sectors where such measures apply. The Commission has already made proposals to the Council regarding promotion in third countries⁵. Proposals for measures inside the Community are being examined.

The private storage system has scarcely been used since its introduction. During the 1989-92 crisis, the recovery of prices that ought to have been stimulated by the reduction in land under cultivation was slowed by the existence of large private stockpiles. Furthermore, this system would not be relevant in the proposed regime, which aims at stabilising fibre production and adjusting cultivated areas to market requirements. It is therefore proposed to abolish the private storage scheme in this sector.

It is difficult to check on the actual use of imported hemp seeds which are not in principle intended for sowing. The only practicable solution is to require that such seeds be denatured so that they can no longer germinate.

Since the proposed changes are radically different to the scheme in force during the 1999/2000 marketing year, the Commission should be authorised to take the transitional measures it deems necessary to ensure a smooth transition to the new scheme.

4. CONCLUSION

This legislative proposal cancels and replaces the Commission's proposal of 1996⁶, on which the Council was unable to reach a decision. Its purpose is to overhaul the common organisation of the market in flax and hemp grown for fibre with a view to adapting it to changing circumstances and to simplify the rules. The reform is structured around two proposals for Council Regulations, the first including the crops concerned in the general scheme applicable to arable crops and the second introducing supplementary assistance in the form of processing aid for flax and hemp straw.

⁵ COM(1998) 683, 14.1.1999.

⁶ COM(96) 44 final, 14.2.1996.

It is thus proposed to amend Council Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops in order to include flax and hemp grown for fibre and to adapt it to take account of the specific requirements of these crops. In particular, producers would be obliged to sell their straw under contract to authorised processors and restrictions and control measures would be introduced to prevent hemp from being grown illegally under the scheme.

It is appropriate to note here that the Commission intends shortly to present a proposal for reform in the rice sector which could also bring that crop within the scope of the arable crops scheme, thereby requiring a further amendment of Council Regulation (EC) No 1251/1999. Depending on how the discussions fare in the Council and the dates on which the Regulations concerned are adopted, it might be necessary to adjust the order and numbering of the Articles or paragraphs in this proposal. Once the Council has adopted the amendments to Regulation (EC) No 1251/1999 as regards flax, hemp and rice, the Commission will propose that the Regulation be consolidated.

In addition, at the same time, the Commission is presenting a proposal for a Regulation on the common organisation of the market in flax and hemp grown for fibre. It would include an aid scheme for processing flax and hemp straw. The aid would be granted according to the types of product obtained: long flax fibre on the one hand and short flax fibre and hemp fibre on the other. The aid for the latter type of fibre would be transitional, to facilitate the adjustments required to newly developed products and their intended industrial outlets. The proposal also includes a mechanism for stabilising expenditure, a requirement that straw be purchased under contract by authorised processors and trade arrangements.

The proposed measures should result in a substantial reduction in some areas declared as sown to flax and hemp and restrict eligibility for aid to farms with real and economically viable production of these crops. Expenditure is expected to amount to around EUR 80 million in 2000/01. It will gradually drop to around EUR 50 million in 2005/06, as the area payments are reduced and the aid for processing short flax fibre and hemp fibre is abolished.

The proposed measures will benefit the many small and medium-sized businesses in the sector. They will also contribute to improving the environment and complying with budgetary discipline. This set of measures will contribute to the general goal of uniform application of the rules governing agricultural production. They fall within the exclusive competence of the Community.

Since farmers need to be informed in good time of the provisions which will apply to the crops they grow, the Council will have to reach a decision on this proposal no later than the beginning of March 2000 so that it can be implemented in time for the 2000/01 marketing year, which starts on 1 July 2000. A Commission communication has been published in the Official Journal of the European Communities announcing to all operators in the sector that the Community institutions are discussing a draft reform of the common organisation of the market in flax and hemp.

Proposal for a

COUNCIL REGULATION

amending Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops to include flax and hemp grown for fibre

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Articles 36 and 37 thereof;

Having regard to the proposal from the Commission⁷,

Having regard to the opinion of the European Parliament⁸,

Having regard to the opinion of the Economic and Social Committee⁹,

Having regard to the opinion of the Committee of the Regions¹⁰,

Whereas:

- (1) The common agricultural policy aims to attain the objectives referred to in Article 33 of the Treaty, taking account of the market situation.
- (2) The flax and hemp sector has undergone profound changes since the entry into force of Council Regulation (EEC) No 1308/70 on the common organisation of the market in flax and hemp¹¹; in addition to the traditional production of long flax fibre for textiles, flax is now also being grown at lower cost purely for the production of short fibre.
- (3) The aid per hectare for short flax fibre and hemp, which is extremely high in relation to production costs and the value of the product itself, has prompted a certain amount of speculative production; the areas down to short-fibre flax and hemp have increased without any comparable increase in either output or real market demand for these products. The steps that have been taken to prevent this anomaly have not had the desired success but rather have further complicated the rules governing the sector.
- (4) In order to solve the problems facing the market in flax and hemp grown for fibre, the amount of aid granted to the growers concerned should be comparable to that for competitor crops. To that end, and with a view to simplifying the applicable

⁷ OJ C

⁸ OJ C

⁹ OJ C

¹⁰ OJ C

¹¹ OJ L 146, 4.7.1970, p. 1.

legislation, these crops should be included in the support system for producers of certain arable crops established by Council Regulation (EC) No 1251/1999 of 17 May 1999¹². Moreover, where there is a need to ensure continued production, Council Regulation (EC) No .../.... on the common organisation of the market in flax and hemp grown for fibre¹³ provides for aid for processing flax and hemp straw.

- (5) To ensure a smooth transition to the level of support granted for cereals and to solve the current problems caused by the existence of different aid schemes for fibre flax and seed flax, the payments for flax and hemp grown for fibre should be the same as those granted for linseed, which must themselves be aligned on those for cereals by the 2002/03 marketing year.
- (6) To avert the danger that the aims of Regulation (EC) No 1251/1999 might be circumvented, grant of the per-hectare aid for flax and hemp grown for fibre should be made subject to certain conditions as regards cultivation.
- (7) Specific measures should be laid down for hemp, to ensure that illegal crops cannot be hidden among the crops eligible for area payments, thereby disturbing the common market organisation for hemp. Provision must therefore be made for area payments to be granted only for areas sown to varieties of hemp known to have a low psychotropic content. In addition, the Member States should restrict the areas sown to hemp in each production area to ensure that compliance with the maximum levels of psychotropic substances can be closely monitored on the areas covered by payment applications. A system of prior approval should therefore be introduced to ensure that the maximum areas fixed by the Member States are not exceeded.
- (8) In order that the quantities eligible for straw processing aid under Regulation (EC) No .../.... can be checked, straw production must be linked to the area on which it is grown. Producers should therefore be required to conclude sales contracts with authorised straw processors providing certain assurances,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 1251/1999 is amended as follows:

1. Article 4(2) is replaced by the following:

"2. The calculation mentioned in paragraph 1 shall be made using the average cereals yield. However, where maize is treated separately, the "maize" yield shall be used for maize and the "cereals other than maize" yield shall be used for cereals, oilseeds, linseed and flax and hemp grown for fibre."
2. In the first subparagraph of Article 4(3), the words "for linseed" are replaced by "for linseed and flax and hemp grown for fibre".
3. The following is inserted after Article 5:

¹² OJ L 160, 26.6.1999, p. 1.

¹³ See page ... of this OJ.

"Article 5a

1. For flax grown for fibre, the area payment shall be made only where sales of straw are covered by contracts concluded with authorised primary processors.
2. For hemp grown for fibre, the area payment shall be made only where:
 - the varieties used have a tetrahydrocannabinol content not exceeding 0.2%. However, that limit shall be set at 0.3% for the 2000/01 marketing year,
 - the entire crop is sold under contract to authorised primary processors for uses other than human nutrition.
3. The Member States shall fix a maximum area eligible for area payments for hemp for each production area so that they can ensure verification of the tetrahydrocannabinol content of the crops grown on least 30% of the areas for which area payment applications have been made. To ensure that the maximum areas fixed are not exceeded, the Member States shall introduce a system of prior approval for the cultivation of hemp restricting sowing under this scheme to those areas."
4. Article 9 is amended as follows:
 - a) in the first paragraph, the following is inserted after the sixth indent:

"- with regard to flax grown for fibre, those relating to the arrangements for sales contracts with authorised primary processors as referred to in Article 5a(1),

- with regard to hemp grown for fibre, those relating to:

 - (i) the arrangements for sales contracts with authorised primary processors as referred to in Article 5a(3),
 - (ii) the specific control measures and methods for determining tetrahydrocannabinol levels.";
 - b) the first indent of the second paragraph is replaced by the following:

« - either make the granting of payments subject to the use of:

 - (i) specific seeds,
 - (ii) certified seed in the case of durum wheat and flax and hemp grown for fibre,
 - (iii) certain varieties in the cases of oilseeds, durum wheat, linseed and flax and hemp grown for fibre,

- or provide for the possibility for Member States to make the grant of payments subject to such conditions,"
5. Point IV in Annex I is replaced by the following:

CN code	Description
IV. FLAX	
ex 1204 00	Linseed (<i>Linum usitatissimum L.</i>)
ex 5301 10 00	Flax, raw or retted, grown for fibre (<i>Linum usitatissimum L.</i>)
V. HEMP	
ex 5302 10 00	Hemp, raw or retted, grown for fibre (<i>Cannabis sativa L.</i>)

Article 2

In accordance with the third subparagraph of Article 3(6) of Regulation (EC) No 1251/1999, the Member States shall submit to the Commission any revisions of their regionalisation plans needed to include the data on flax and hemp for fibre by 1 May 2000 at the latest.

Article 3

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

It shall apply from the 2000/01 marketing year.

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

Done at Brussels,

For the Council
The President

Proposal for a

COUNCIL REGULATION

on the common organisation of the market 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 Articles 36 and 37 thereof;

Having regard to the proposal from the Commission¹⁴,

Having regard to the opinion of the European Parliament¹⁵,

Having regard to the opinion of the Economic and Social Committee¹⁶,

Having regard to the opinion of the Committee of the Regions¹⁷,

Whereas:

- (1) The operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy to include, in particular, a common organisation of agricultural markets which may take various forms depending on the product.
- (2) The aim of the common agricultural policy is to attain the objectives set out in Article 33 of the Treaty. In the case of flax and hemp grown for fibre, in addition to the provisions on area payments in Council Regulation (EC) No 1251/1999 of 17 May 1999 establishing a support system for producers of certain arable crops¹⁸, rules are needed to govern the internal market, including aid to primary processors of flax and hemp straw.
- (3) In order to ensure that flax and hemp straw is actually processed, grant of the aid should be subject to certain conditions, in particular the authorisation of primary processors and the requirement that such processors purchase the straw under contract.
- (4) In order to prevent improper use of Community funds, no aid should be granted to primary processors who are found to have artificially created the conditions for

¹⁴ OJ C

¹⁵ OJ C

¹⁶ OJ C

¹⁷ OJ C

¹⁸ OJ L 160, 26.6.1999, p. 1. Regulation amended by Regulation (EC) No/... (see p. of this Official Journal).

receiving the aid, thereby enjoying an advantage that does not conform to the objectives of the support scheme for straw processing.

- (5) In view of the differences between the market for long flax fibre and the market for short flax fibre and hemp fibre, the aid should be differentiated according to which of the two types of fibre is obtained. In order to ensure that overall support is sufficient to maintain traditional production of long flax fibre in conditions similar to those provided for in Council Regulation (EEC) No 1308/70 of 4 July 1970 on the common organisation of the market in flax and hemp¹⁹, the aid granted to primary processors should be gradually increased to offset the gradual reduction in the aid per hectare paid to growers under Regulation (EC) No 1251/1999 and, ultimately, the abolition of the aid for short flax fibre. The aid for short flax fibre and hemp fibre granted to primary processors should be fixed at a level that will give new products and their potential outlets the time to reach equilibrium.
- (6) In order to prevent any fraudulent increases in the quantities eligible for aid, the Member States should fix maximum quantities on the basis of the areas covered by straw purchase contracts.
- (7) In order to keep down the expenditure incurred in applying this Regulation, a stabiliser mechanism should be introduced for both types of fibre obtained, i.e. long flax fibre and short flax fibre and hemp fibre. In order to ensure reasonable production levels in each Member State, a maximum guaranteed quantity should be set for both types of fibre, to be distributed among the Member States as national guaranteed quantities. However, national guaranteed quantities will be fixed for short flax fibre and hemp fibre only for the time needed to allow the new products to adjust to the market. The national guaranteed quantities should be fixed taking account of the most recent average areas under fibre flax and hemp, adjusted where necessary to reflect the areas actually in production, multiplied by average fibre yields.
- (8) To enable the Member States to make adjustments between the quantities thus obtained, conditions should be laid down governing transfers between the two national guaranteed quantities allocated to each. Any such transfers should be carried out on the basis of a coefficient to ensure budgetary equivalence.
- (9) The producer Member States must take the steps needed to ensure that the arrangements for granting the aid operate smoothly. Furthermore, because of the time needed to process all the straw harvested in one marketing year, provision should be made for advance payments as a verification measure.
- (10) Taken as a whole, the regime governing trade with third countries should make it possible to dispense with all quantitative restrictions and taxes levied at the Community's external borders. However, this mechanism may in exceptional circumstances prove defective. In such cases, so as not to leave the Community market without defence against disturbances which may ensue, the Community should be able

¹⁹ OJ L 146, 4.7.1970, p. 1. Regulation last amended by the Act of Accession of Austria, Finland and Sweden and by Regulation (EC) No 3290/94 (OJ L 349, 31.12.1994, p. 105).

to take all necessary measures without delay. All such measures must comply with the obligations arising from the World Trade Organisation agreements on agriculture²⁰.

- (11) In order to prevent illicit crops from disturbing the common organisation of the market in hemp for fibre, provision should be made for checks on imports of hemp and hemp seed to ensure that such products have a low tetrahydrocannabinol content. In addition, hemp seeds intended for uses other than sowing may be imported only if they have been denatured and can no longer germinate.
- (12) As the market in flax and hemp grown for fibre develops over time, the Member States and the Commission must exchange with each other all the information needed for the application of this Regulation.
- (13) Since the measures required for the implementation of this Regulation are management measures within the meaning of Article 2 of Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission²¹, they should be adopted by the management procedure laid down in Article 4 of that Decision.
- (14) Expenditure incurred by the Member States as a result of the obligations arising out of the application of this Regulation should be financed by the Community in accordance with Council Regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy²².
- (15) Although the common organisation of the market in flax and hemp as defined in Regulation (EEC) No 1308/70 has been amended a number of times, it nevertheless no longer reflects the deep changes that the sector has undergone. Regulation (EEC) No 1308/70 should therefore be repealed. Council Regulation (EEC) No 619/71 of 22 March 1971 laying down general rules for granting aid for flax and hemp²³, Council Regulation (EEC) No 620/71 of 22 March 1971 laying down outline provisions for contracts for the sale of flax and hemp straw²⁴, Council Regulation (EEC) No 1172/71 of 3 June 1971 laying down general rules on private storage aid for flax and hemp fibre²⁵, Council Regulation (EEC) No 1430/82 of 18 May 1982 providing for restrictions on the importation of hemp and hemp seed and amending Regulation (EEC) No 1308/70 in respect of hemp²⁶, Council Regulation (EEC) No 2059/84 of 16 July 1984 laying down general rules relating to the import restrictions on hemp and hemp seed and amending Regulation (EEC) No 619/71 in respect of hemp²⁷, which are based on Regulation (EEC) No 1308/70 and Regulation (EEC) No 619/71, are replaced by the new provisions in this Regulation and repealed.

²⁰ OJ L 336, 23.12.1994, p. 22.

²¹ OJ L 184, 17.7.1999, p. 23.

²² OJ L 160, 26.6.1999, p. 103.

²³ OJ L 72, 26.3.71, p. 2. Regulation last amended by Regulation (EC) No 1420/98 (OJ L 19, 4.7.1998, p. 7).

²⁴ OJ L 72, 26.3.1971, p. 4. Regulation last amended by Regulation (EC) No 713/95 (OJ L 73, 1.4.1995, p. 16).

²⁵ OJ L 123, 5.6.1971, p. 7.

²⁶ OJ L 162, 12.6.1982, p. 27. Regulation last amended by the Act of Accession of Austria, Finland and Sweden and by Regulation (EC) No 3290/94.

²⁷ OJ L 191, 19.7.1984, p. 6. Regulation last amended by the Act of Accession of Austria, Finland and Sweden and by Regulation (EC) No 3290/94.

- (16) The change from the arrangements in Regulation (EEC) No 1308/70 to those in this Regulation could give rise to difficulties which are not dealt with in this Regulation. In order to deal with that eventuality, provision should be made for the Commission to adopt the necessary transitional measures. The Commission should also be authorised to solve specific practical problems,

HAS ADOPTED THIS REGULATION:

Article 1

1. The common organisation of the market in flax and hemp grown for fibre shall comprise arrangements governing the internal market and trade with third countries. It shall apply to the following products:

CN code	Description
5301	Flax, raw or processed but not spun; flax tow and waste (including yarn waste and garnetted stock)
5302	True hemp (<i>Cannabis sativa L.</i>), raw or processed but not spun; tow and waste of true hemp (including yarn waste and garnetted stock)

2. For the purposes of this Regulation:
- (a) "farmer" means farmers as defined in Article 10(a) of Council Regulation (EC) No 1259/1999 of 17 May 1999 establishing common rules for direct support schemes under the common agricultural policy²⁸;
 - (b) "authorised primary processor" means a natural or legal person or a group of natural or legal persons, irrespective of the legal status conferred on the group and its members by national law, that has been authorised by the competent authority of the Member State in the territory of which are located his or its facilities for producing flax or hemp fibre or for processing other hemp products not used in human nutrition.
3. This Regulation shall apply without prejudice to the measures laid down in Regulation (EC) No 1251/1999.

Title I

Internal market

Article 2

1. Aid for processing the straw of flax and hemp grown for fibre shall be introduced.

²⁸ OJ L 160, 26.6.1999, p. 113.

The aid shall be granted to authorised primary processors on the basis of the quantity of fibre actually obtained from straw purchased under a contract concluded with a farmer.

No aid shall be paid to authorised primary processors who are found to have artificially created the conditions for receiving the aid, thereby enjoying an advantage that does not conform to the objectives of this scheme.

2. The amount of processing aid per tonne of fibre shall be fixed as follows:
 - (a) for long flax fibre:
 - EUR 60 for the 2000/01 marketing year,
 - EUR 120 for the 2001/02 marketing year,
 - EUR 180 for the 2002/03, 2003/04 and 2004/05 marketing years,
 - EUR 200 from the 2005/06 marketing year onwards,
 - (b) for short flax fibre and hemp fibre containing not more than 5% impurities and shives: EUR 40 for the 2000/01 to 2004/05 marketing years.
3. The quantities of fibre eligible for aid shall be restricted on the basis of the areas for which a straw purchase contract has been concluded.

The restrictions referred to in the first subparagraph shall be fixed by the Member States so as to comply with the national guaranteed quantities referred to in Article 3.
4. At the request of authorised primary processors, an advance shall be paid on the aid on the basis of the quantity of fibre obtained.

Article 3

1. A maximum guaranteed quantity of 75 500 tonnes per marketing year shall be established for long flax fibre. That quantity shall be apportioned as follows among the Member States as national guaranteed quantities:
 - 13 800 tonnes for Belgium,
 - 300 tonnes for Germany,
 - 55 800 tonnes for France,
 - 4 800 tonnes for the Netherlands,
 - 150 tonnes for Austria,
 - 200 tonnes for Finland,
 - 50 tonnes for each of the other Member States.

2. A maximum guaranteed quantity of 119 250 tonnes per marketing year shall be established for short flax fibre and hemp fibre containing not more than 5% impurities and shives. That quantity shall be apportioned as follows among the Member States as national guaranteed quantities:

- 10 350 tonnes for Belgium,
- 100 tonnes for Denmark,
- 6 300 tonnes for Germany,
- 18 700 tonnes for Spain,
- 61 350 tonnes for France,
- 100 tonnes for Italy,
- 5 550 tonnes for the Netherlands,
- 1 750 tonnes for Austria,
- 650 tonnes for Portugal,
- 1 000 tonnes for Finland,
- 1 150 tonnes for Sweden,
- 12 100 tonnes for the United Kingdom,
- 50 tonnes for each of the other Member States.

The national guaranteed quantities for short flax fibre and hemp fibre, reduced where applicable in accordance with paragraph 3, shall cease to apply from the 2005/06 marketing year.

3. Each Member State may transfer part of its national guaranteed quantity as referred to in paragraph 1 to its national guaranteed quantity as referred to in paragraph 2 and vice versa.

Transfers as referred to in the first subparagraph shall be carried out on the basis of an equivalence of one tonne of long flax fibre to five tonnes of short flax fibre and hemp fibre.

Processing aid shall be paid only in respect of the quantities referred to in paragraphs 1 and 2, respectively, adjusted in accordance with the first two subparagraphs of this paragraph.

Title II

Trade with third countries

Article 4

1. This Article shall apply without prejudice to more restrictive provisions adopted by Member States in compliance with the Treaty and the obligations arising from the World Trade Organisation agreements on agriculture.
2. All imports of hemp from third countries shall be subject to the issue of a licence provided the following conditions are met:
 - raw true hemp falling within CN code 5302 10 00 and coming from third countries must meet the conditions laid down in Article 5a of Regulation (EC) No 1251/1999,
 - seeds of varieties of hemp falling within CN codes 1207 99 10 for sowing must be accompanied by proof that the tetrahydrocannabinol level does not exceed that fixed in accordance with Article 5a of Regulation (EC) No 1251/1999,
 - hemp seeds other than for sowing, falling within CN code 1207 99 91, must have been denatured so they can no longer germinate.

Imports into the Community of the products specified in the first and second indents shall be subject to checks to determine whether the terms of this Article have been complied with.

Article 5

Save as otherwise provided in this Regulation or in provisions adopted pursuant thereto, the following shall be prohibited in trade with third countries:

- the levying of any charge having equivalent effect to a customs duty,
- the application of any quantitative restriction or measure having equivalent effect.

Article 6

1. If, by reason of imports or exports, the Community market in one or more of the products listed in Article 1(1) is affected by, or is threatened with, serious disturbance likely to jeopardise the achievement of the objectives set out in Article 33 of the Treaty, appropriate measures may be applied in trade with third countries until such disturbance or threat of disturbance has ceased.

The Council, acting by a qualified majority, on a proposal from the Commission, shall adopt general rules for the application of this paragraph and shall define the

circumstances and limits within which Member States may adopt protective measures.

2. If the situation mentioned in paragraph 1 arises, the Commission shall, at the request of a Member State or on its own initiative, decide upon the necessary measures, which shall be communicated to the Member States and shall be immediately applicable. If the Commission receives a request from a Member State, it shall take a decision thereon within three working days following receipt of the request.
3. The Commission's decision may be referred to the Council by any Member State within three working days of the day on which it was notified. The Council shall meet without delay. It may, acting by a qualified majority, amend or repeal the measure in question within one month following the day on which it was referred to the Council.
4. This Article shall be applied having regard to the obligations arising from agreements concluded in accordance with Article 300(2) of the Treaty.

Title III

General provisions

Article 7

Save as otherwise provided in this Regulation, Articles 87, 88 and 89 of the Treaty shall apply to the production of, and trade in, the products listed in Article 1(1).

Article 8

Measures for implementing this Regulation shall be adopted in accordance with the procedure laid down in Article 9(2) of this Regulation. These shall include, in particular:

- the conditions for authorisation of primary processors, specifically excluding processors of hemp products used in human nutrition,
- the conditions to be met by approved primary processors as regards straw purchase contracts,
- the criteria to be met, firstly, by long flax fibre and, secondly, by short flax fibre and hemp fibre containing not more than 5% impurities and shives,
- the conditions for the grant of aid and the advance payment,
- the conditions to be met for fixing the limits referred to in Article 2(3),
- the conditions for transfers between the national guaranteed quantities referred to in Article 3(3).

Such measures may also concern all the necessary inspection measures to protect the European Community's financial interests against fraud and other irregularities.

Article 9

1. A Management Committee for Flax and Hemp (hereinafter called the "Committee") shall be set up.
2. Where this paragraph is referred to, the management procedure laid down in Article 4 of Decision 1999/468/EC shall apply.

The period as provided for in Article 4(3) of Decision 1999/468/EC shall be one month.

3. The Committee may consider any question referred to it by its chairman either on his own initiative or at the request of the representative of a Member State.

Article 10

Regulation (EC) No 1258/1999 and the provisions adopted in implementation thereof shall apply to the products listed in Article 1.

Title IV

Transitional and final provisions

Article 11

Regulations (EEC) Nos 1308/70, 619/71, 620/71, 1172/71, 1430/82 and 2059/84 are hereby repealed.

Article 12

The Commission shall adopt, in accordance with the procedure referred to in Article 9(2):

- the measures required to facilitate the transition from the arrangements laid down in Regulations (EEC) Nos 1308/70 and 619/71 to those established by this Regulation,
- the measures required to resolve specific practical problems. Such measures - if duly justified - may derogate from certain parts of this Regulation.

Article 13

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

It shall apply from 1 July 2000.

Regulations (EEC) Nos 1308/70 and 619/71 shall continue to be applied in relation to the 1998/99 and 1999/2000 marketing years.

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

<p>1. BUDGET HEADING:</p> <p style="margin-left: 20px;">B1-10 B1-140</p>	<p>APPROPRIATIONS (Letter of amendment - 2000):</p> <p style="margin-left: 20px;">EUR 16 842 million EUR 173 million</p>			
<p>2. TITLE:</p> <p>(a) Proposal for a Council Regulation amending Regulation (EC) No 1251/1999 establishing a support system for producers of certain arable crops as regards flax and hemp grown for fibre;</p> <p>(b) Proposal for a Council Regulation on the common organisation of the market in flax and hemp grown for fibre.</p>				
<p>3. LEGAL BASIS: Articles 36 and 37 of the Treaty</p>				
<p>4. AIMS OF PROJECT:</p> <p>To reform the COM for flax and hemp through the adoption of two measures covering:</p> <p>(a) the inclusion of flax and hemp under the arable crops scheme set up by Regulation (EC) No 1251/1999 from the 2000/01 marketing year;</p> <p>(b) aid for the processing of fibre.</p>				
<p>5. FINANCIAL IMPLICATIONS</p>	<p>PERIOD OF 12 MONTHS (EUR million)</p>	<p>CURRENT FINANCIAL YEAR (2000) (EUR million)</p>	<p>FOLLOWING FINANCIAL YEAR (2001) (EUR million)</p>	
<p>5.0 EXPENDITURE</p> <p>- CHARGED TO THE EC BUDGET (REFUNDS/INTERVENTION)</p> <p style="text-align: right; margin-right: 20px;">B1-10 B1-140</p> <p>- NATIONAL BUDGETS</p> <p>- OTHER SECTORS</p>	<p>36.27 15.10</p>	<p>not applicable not applicable</p>	<p>73.57 9.30</p>	
<p>5.1 REVENUE</p> <p>—OWN RESOURCES OF THE EC (LEVIES/CUSTOMS DUTIES)</p> <p>—NATIONAL</p>	-	-	-	
	2002	2003	2004	2005
<p>5.0.1 ESTIMATED EXPENDITURE: B1-10 B1-140</p>	58.17 13.83	44.41 18.36	41.70 18.36	39.98 18.36
<p>5.1.1 ESTIMATED REVENUE</p>				
<p>5.2 METHOD OF CALCULATION:</p> <p>The details of the calculation are given in the Annex.</p>				
<p>6.0 CAN THE PROJECT BE FINANCED FROM APPROPRIATIONS ENTERED IN THE RELEVANT CHAPTER OF THE CURRENT BUDGET?</p>			<p>YES NO</p>	
<p>6.1 CAN THE PROJECT BE FINANCED BY TRANSFER BETWEEN CHAPTERS OF THE CURRENT BUDGET?</p>			<p>YES NO</p>	
<p>6.2 IS A SUPPLEMENTARY BUDGET NECESSARY?</p>			<p>YES NO</p>	
<p>6.3 WILL FUTURE BUDGET APPROPRIATIONS BE NECESSARY?</p>			<p>YES NO</p>	
<p>OBSERVATIONS: The total cost of the reform of the COM amounts to EUR 82.9 million in the 2000/01 marketing year (with savings of EUR 90 million compared to the present situation); when the system is up and running in the 2006 financial year, this will stand at EUR 51.4 million. This result entails a substantial reduction in budget heading B1-140, partly offset by an increase in requirements for Chapter B1-10.</p>				

ANNEX

ANNEX - METHOD OF CALCULATION

1. Expenditure on long fibres

Country	marketing year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	EUR/t	60,0	120,0	180,0	180,0	180,0	200,0
	MGQa	= EUR million					
Belgium	13800 t	0,8	1,7	2,5	2,5	2,5	2,8
Denmark	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Germany	300 t	0,0	0,0	0,1	0,1	0,1	0,1
Greece	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Spain	50 t	0,0	0,0	0,0	0,0	0,0	0,0
France	55800 t	3,3	6,7	10,0	10,0	10,0	11,2
Ireland	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Italy	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Luxembourg	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	4800 t	0,3	0,6	0,9	0,9	0,9	1,0
Austria	150 t	0,0	0,0	0,0	0,0	0,0	0,0
Portugal	50 t	0,0	0,0	0,0	0,0	0,0	0,0
Finland	200 t	0,0	0,0	0,0	0,0	0,0	0,0
Sweden	50 t	0,0	0,0	0,0	0,0	0,0	0,0
UK	50 t	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL	75500 t	4,53	9,06	13,59	13,59	13,59	15,10

2. Expenditure on short fibres

Country	marketing year	2000/01	2001/02	2002/03	2003/04	2004/05
	EUR/t	40,0	40,0	40,0	40,0	40,0
	MGQb	= EUR million				
Belgium	10350 t	0,4	0,4	0,4	0,4	0,4
Denmark	100 t	0,0	0,0	0,0	0,0	0,0
Germany	6300 t	0,3	0,3	0,3	0,3	0,3
Greece	50 t	0,0	0,0	0,0	0,0	0,0
Spain	18700 t	0,7	0,7	0,7	0,7	0,7
France	61350 t	2,5	2,5	2,5	2,5	2,5
Ireland	50 t	0,0	0,0	0,0	0,0	0,0
Italy	100 t	0,0	0,0	0,0	0,0	0,0
Luxembourg	50 t	0,0	0,0	0,0	0,0	0,0
Netherlands	5550 t	0,2	0,2	0,2	0,2	0,2
Austria	1750 t	0,1	0,1	0,1	0,1	0,1
Portugal	650 t	0,0	0,0	0,0	0,0	0,0
Finland	1000 t	0,0	0,0	0,0	0,0	0,0
Sweden	1150 t	0,0	0,0	0,0	0,0	0,0
UK	12100 t	0,5	0,5	0,5	0,5	0,5
TOTAL	119250 t	4,77	4,77	4,77	4,77	4,77

3. Total expenditure by financial year

Country	2001	2002	2003	2004	2005	2006
	= EUR million					
Belgium	1,2	2,1	2,9	2,9	2,9	2,8
Denmark	0,0	0,0	0,0	0,0	0,0	0,0
Germany	0,3	0,3	0,3	0,3	0,3	0,1
Greece	0,0	0,0	0,0	0,0	0,0	0,0
Spain	0,8	0,8	0,8	0,8	0,8	0,0
France	5,8	9,2	12,5	12,5	12,5	11,2
Ireland	0,0	0,0	0,0	0,0	0,0	0,0
Italy	0,0	0,0	0,0	0,0	0,0	0,0
Luxembourg	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	0,5	0,8	1,1	1,1	1,1	1,0
Austria	0,1	0,1	0,1	0,1	0,1	0,0
Portugal	0,0	0,0	0,0	0,0	0,0	0,0
Finland	0,1	0,1	0,1	0,1	0,1	0,0
Sweden	0,0	0,1	0,1	0,1	0,1	0,0
UK	0,5	0,5	0,5	0,5	0,5	0,0
TOTAL	9,30	13,83	18,36	18,36	18,36	15,10

Costs linked to increase in basic area

Member State	cereals yield (t/ha)	aid/ha			basic area (ha)	costs of basic area (EUR mill)		
		2000/01	2001/02	2002/03		2000/01	2001/02	2002/03
		EUR 88.26/t	EUR 75.63/t	EUR 63 /t				
	(1)	(2)=(1)*88,26	(3)=(1)*75,63	(4)=(1)*63,00	(5)	(6) =(5)*(2)	(7) =(5)*(3)	(8)
B (polders)	6,73	593,99	508,99	423,99	10.942	6,50	5,57	
DK (national)	5,22	460,72	394,79	328,86	480	0,22	0,19	
D (national)	5,6	494,26	423,53	352,8	1.532	0,76	0,65	
EL (national)	4,17	368,04	315,38	262,71	0	0,00	0,00	
E (national)	2,34	206,53	176,97	147,42	405	0,08	0,07	
F (average)	6,58	580,75	497,65	414,54	56.144	32,61	27,94	
IRL (national)	6,08	536,62	459,83	383,04	44	0,02	0,02	
I (national)	4,38	386,58	331,26	275,94	0	0,00	0,00	
L (national)	4,26	375,99	322,18	268,38	0	0,00	0,00	
NL (region 1)	6,77	597,52	512,02	426,51	5.152	3,08	2,64	
A (national)	5,27	465,13	398,57	332,01	1.530	0,71	0,61	
P (national)	2,25	198,59	170,17	141,75	0	0,00	0,00	
FIN (national)	2,89	255,07	218,57	182,07	104	0,03	0,02	
S (national)	4,14	365,40	313,11	260,82	5	0,00	0,00	
UK (national)	5,84	515,44	441,68	367,92	43	0,02	0,02	
				Total	76.381	44,03	37,73	

Estimated areas sown to flax and hemp

Member State	area in 1999/2000 (ha)	anticipated area (ha) in 2005/06	anticipated area (ha) in 2000/01	anticipated area (ha) in 2001/02	anticipated area (ha) in 2002/03	anticipated area (ha) in 2003/04	ar (t
	(9)	(10)	(11)=(9)-1/6[(9)-(10)]	(12)=(9)-2/6[(9)-(10)]	(13)=(9)-3/6[(9)-(10)]	(14)=(9)-4/6[(9)-(10)]	(15)
B (polders)	12.199	11.500	12.083	11.966	11.850	11.733	
DK (national)	55	100	63	70	78	85	
D (national)	4.572	4.500	4.560	4.548	4.536	4.524	
EL (national)	0	50	8	17	25	33	
E (national)	139.699	30.000	121.416	103.133	84.850	66.566	
F (average)	58.500	56.500	58.167	57.833	57.500	57.167	
IRL (national)	23	100	36	49	62	74	
I (national)	197	200	198	198	199	199	
L (national)	0	50	8	17	25	33	
NL (region 1)	4.440	5.000	4.533	4.627	4.720	4.813	
A (national)	625	1.500	771	917	1.063	1.208	
P (national)	0	1.000	167	333	500	667	
FIN (national)	956	1.000	963	971	978	985	
S (national)	1.327	1.000	1.273	1.218	1.164	1.109	
UK (national)	17.500	18.000	17.583	17.667	17.750	17.833	
Total	240.093	130.500	221.828	203.562	185.297	167.031	

Overrun in basic area

Member State	overrun in basic area	overrun in basic area	overrun in basic area	overrun in basic area	overrun in basic area	overrun in basic area
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
B (polders)	1.141	1.024	908	791	675	558
DK (national)	-418	-410	-403	-395	-388	-380
D (national)	3.028	3.016	3.004	2.992	2.980	2.968
EL (national)	8	17	25	33	42	50
E (national)	121.011	102.728	84.445	66.161	47.878	29.595
F (average)	2.023	1.689	1.356	1.023	689	356
IRL (national)	-8	5	18	30	43	56
I (national)	198	198	199	199	200	200
L (national)	8	17	25	33	42	50
NL (region 1)	-619	-525	-432	-339	-245	-152
A (national)	-759	-613	-468	-322	-176	-30
P (national)	167	333	500	667	833	1.000
FIN (national)	859	867	874	881	889	896
S (national)	1.268	1.213	1.159	1.104	1.050	995
UK (national)	17.540	17.624	17.707	17.790	17.874	17.957

Costs of overrun in basic area

Member State	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
B (polders)	0,68	0,52	0,38	0,34	0,29	0,24
DK (national)	0,00	0,00	0,00	0,00	0,00	0,00
D (national)	0,50	0,21	0,00	0,00	0,00	0,00
EL (national)	0,00	0,01	0,01	0,01	0,01	0,01
E (national)	24,99	18,18	12,45	9,75	7,06	4,36
F (average)	0,00	0,00	0,00	0,00	0,00	0,00
IRL (national)	0,00	0,00	0,01	0,01	0,02	0,02
I (national)	0,08	0,07	0,05	0,05	0,06	0,06
L (national)	0,00	0,01	0,01	0,01	0,01	0,01
NL (region 1)	0,00	0,00	0,00	0,00	0,00	0,00
A (national)	0,00	0,00	0,00	0,00	0,00	0,00
P (national)	0,03	0,06	0,07	0,09	0,12	0,14
FIN (national)	0,07	0,03	0,00	0,00	0,00	0,00
S (national)	0,16	0,06	0,00	0,00	0,00	0,00
UK (national)	3,03	1,30	0,00	0,00	0,00	0,00

Total costs of inclusion of flax and hemp under arable crops

Member State	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
B (polders)	7,18	6,09	5,02	4,97	4,93	4,88
DK (national)	0,22	0,19	0,16	0,16	0,16	0,16
D (national)	1,26	0,86	0,54	0,54	0,54	0,54
EL (national)	0,00	0,01	0,01	0,01	0,01	0,01
E (national)	25,08	18,25	12,51	9,81	7,12	4,42
F (average)	32,61	27,94	23,27	23,27	23,27	23,27
IRL (national)	0,02	0,02	0,02	0,03	0,03	0,04
I (national)	0,08	0,07	0,05	0,05	0,06	0,06
L (national)	0,00	0,01	0,01	0,01	0,01	0,01
NL (region 1)	3,08	2,64	2,20	2,20	2,20	2,20
A (national)	0,71	0,61	0,51	0,51	0,51	0,51
P (national)	0,03	0,06	0,07	0,09	0,12	0,14
FIN (national)	0,10	0,05	0,02	0,02	0,02	0,02
S (national)	0,16	0,07	0,00	0,00	0,00	0,00
UK (national)	3,05	1,32	0,01	0,01	0,01	0,01
Total	73,57	58,17	44,41	41,70	38,98	36,27