

**PROPOSAL OF THE
EUROPEAN INDUSTRIAL HEMP ASSOCIATION (EIHA)
FOR
THE REFORM OF THE FLAX AND HEMP PROCESSING SUBSIDY**

17 July 2002

The Situation

The current regulations and those planned for the next few years are creating great difficulty for the participants of the flax and hemp industry. Furthermore they are restricting the development of Europe's natural fibre industry.

- (a) The cost of controlling the present scheme and the huge bureaucracy surrounding it are extremely high for all the parties involved. This includes the primary processors, national authorities and the Commission.
- (b) Current plans are for the processing subsidy for short fibre/total fibre producers to end in the financial year 2005/6. Already after the financial year 2003/4 the aid paid for fibre with a shiv content of greater than 7.5% will cease to exist.

This development threatens the existence of many fibre processing companies, particularly those who have started operating in recent years. Many of these are new businesses that specialise in producing technical fibres for innovative applications such as composites and insulation. Many of these product lines have come through national and EU support programmes over the last twenty years amounting to ca. 100 million Euros. These programmes were funded as the experts agreed that these new applications have ecological advantages and they are sure to find expanding and future markets.

The potential ending of the processing subsidy has already led to insecurity in the markets. Particularly the automotive industry considers the security of its supply with Flax and Hemp fibres endangered by the cancellation of the subsidy. These companies are increasingly looking at Kenaf and Jute from Asia to supply their increasing need for natural fibres - although these fibres currently hold no technical or economic advantages over Flax or Hemp.

A positive signal from Brussel would be of great importance here.

- (c) The different development in the processing subsidies for long and short fibre producers lead to a distortion in market prices. The long fibre processors also produce short fibres (tow) as a by-product to their long fibre production. The higher subsidy for long fibres allow them to put their short fibre onto the market at a lower, more highly subsidised price than the pure short fibre producers. This of course leads to a destructive conflict between both parties.

- (d) The current regulation also leads to disparity within the industry: Authorised primary processors who produce particularly high grade fibres but on a low yield are paid less than those with a worse quality but with a greater yield - as long as they stay below the maximum residual shiv contents.

The proposal

This proposal has been developed in cooperation with a wide number of primary processors and Natural Fibre Associations (see list below). It tries to further improve the current regulations. The control and bureaucracy expense should be considerably reduced, more attention would be paid to the different interests of the primary processors and the fibre qualities. At the same time a more secure future will be provided to the short and total fibre producers.

THE PROPOSAL FOR THE REFORM OF THE PROCESSING SUBSIDY IN DETAIL

1. The processing subsidy shall only apply to the bast fibre content of the processed Flax and Hemp straw. It will not depend on the separation ability or decortication process of the primary processor.

The fibre amount therefore will be calculated as follows.

2. The respective Flax and Hemp straw will be weighed at entry to the primary processor. The dry matter of the straw will be determined on the basis of a common moisture correction. The average technically usable fibre content of straw is set at 30% for Flax and 27% for Hemp. The fibre amount that is processed in the facility results from mass, moisture correction and the average fibre content:

Processed fibre amount = mass x moisture correction x average fibre content

3. In order to control the fibre amount and to ensure an actual fibre production, stock accounting together with financial accounting has to be provided by the primary processor. This balance includes the areas under cultivation, the average straw yields per hectare, the weighed mass of the straw bales fed to the processing facility, as well as the fibre production amounts (including simple quality classifications), impurities and shiv content, seeds and the sales of the produced fibres.

4. PROCESSING SUBSIDY FOR LONG FIBRE PRODUCERS

The authorised primary processor of the traditional long fibre line gets 135 EUR/t for the processed fibre amounts calculated according to the method described under point 2.

Remark: At first sight, this amount seems to be lower than the processing subsidy of 200 EUR/t for long fibres that is currently planned to take effect from the financial year 2005/2006. However, it has to be taken into consideration that the current regulation only applies to the amount of long fibres that are produced with considerable losses, whereas in the new proposal the overall fibres that are present in the straw are taken into account. In addition no differentiation is made between long and short fibres (tow). For the latter the processing subsidy

was due to expire in the financial year 2005/2006.

The amount of 135 EUR/t in the reform proposal on hand was determined in such a way that is most comparable to the current regulation beginning from 2005/2006.

5. **PROCESSING SUBSIDY FOR SHORT FIBRE/TOTAL FIBRE PRODUCERS**

For the processed fibre amounts calculated according to the method described under point 2, processors of total fibre receive 70% of the amount received by the long fibre producers (see point 4); thus this would be 94.50 EUR/t (slightly more than the current subsidy amount).

With this regulation, the higher technical expense of the long fibre separation facilities is taken into consideration. At the same time it should resolve the (alleged) conflict between long and short/total fibre producers and avoid a distortion of the market.

In the future, merely the 100% value of the processing subsidy as determined under point 4 (here 135 EUR/t), would have to be reviewed regularly, based on the economic environment. The subsidy amount for the total fibre producers would be derived automatically from this review.

6. The processing subsidy, therefore, is independent of the quality of the produced fibre. It is exclusively dependent upon the amount of straw supplied to the primary processor and its fibre content.

Someone who produces higher quality fibre will get on balance a higher added value through the sale of his higher grade fibres. Moreover the higher quality, invariably linked with a lower yield, is no longer discriminated against by a relatively low amount of subsidy.

This is the most simple, fair and reasonable scheme.

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Signers (until 2002-07-17)

The Netherland

- Jacob Veld, HempFlax B.V. - EIHA member

United Kingdom

- John Hobson, Hemcore Ltd. - EIHA member

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- Bernd Frank, Badische Naturfaseraufbereitung (BaFa) GmbH - EIHA member
- Cord Grashorn, AGRO-DIENST GmbH - EIHA member
- Deutscher Naturfaserverband e.V. (German Natural Fibre Association)
- Naturfaserverbund Brandenburg e.V. (Natural Fibre Association Brandenburg)
- Fred Bohndick, Verarbeitungs- und Vertriebszentrum von nachwachsenden Rohstoffen GmbH (VERNARO)