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Report Highlights:

Though the history of hemp production is long, the modern industry dates back only nine years, but in this short time China has become the largest producer of hemp fiber in the world growing nearly half the world's supply. While two provinces have implemented regulations that allow production for Cannabidiol (CBD) under strict control in recent years, CBD production remains illegal in the rest of the country. While there is considerable market potential for U.S. exporters, significant regulatory challenges first need to be addressed.

Section I Hemp

Although hemp production was banned in China from 1985 to 2010, industrial hemp has been produced in China for thousands of years. In recent years, the hemp industry has exploded and is set to grow even further. While there is no official production data, China is reportedly the largest producer of hemp fiber in the world and grows nearly half the world's supply. In the near term, production is expected to increase quickly with two provinces recently liberalizing production of Cannabidiol (CBD) and a third expected to do so soon. Marijuana production is still strictly banned with no indications of liberalization anytime soon.

Section II Hemp Production

Hemp has been produced in China for thousands of years with a long history of both fiber and seed production. It is the largest producer of hemp in the world, producing over half of the world's supply. Media reports fiber sales of up to \$1.2 billion in 2018. Multiple media outlets also report that China accounts for 11 percent of the \$800 million global CBD market behind Europe and the United States.

In 1985, China banned the production of hemp after it joined the U.N. Convention on Psychotropic Substances. Production has only been legal again since 2010, but the industry has taken off rapidly in just nine short years.

While hemp is planted across China, production is concentrated in Heilongjiang, Yunnan, Anhui, and Gansu provinces. With the vast majority of production in far northeast Heilongjiang and far southwest Yunnan.

Similar to the definition in the 2018 U.S. Farm Bill, China defines "industrial hemp" (hereafter "hemp") as cannabis varieties with a total tetrahydrocannabinol (THC) content of less than 0.3 percent.

There is no official data for China's hemp cultivation and production. Industry estimates China's hemp planted area at around 66,700 hectares in 2019, among which, over 50 percent is fiber hemp. Industry estimates China's hemp market value at RMB7.5 billion (\$1.7 billion USD) in 2017, among which, fiber accounts for about 75 percent, food for roughly 7 percent, CBD extracting for about 5 percent, and other uses for 13 percent. Traditionally planted hemp is used for fiber and seed production only. China's drug laws comply with The United Nations Single Convention on Narcotic Drugs of 1961 which stipulates that it does not apply to the cultivation of the cannabis plant produced exclusively for industrial purposes which includes fiber and seed. According to industry sources, hemp cultivation in provinces other than Yunnan and Heilongjiang for fiber and seed use is unregulated. Flower and leaf cultivation for CBD production is only currently allowed in the aforementioned provinces where production is tightly regulated.

According to industry sources, China's hemp yield is relatively low. For fiber production, the yield is 1.5-2 tons/hectares (ha); for seed production, the yield is 1.2-1.5 tons/ha; for leaf and flower production, the yield is about 1.5-2 tons/ha. The CBD content of China's hemp varieties is around 1-1.5 percent, much lower than U.S. and Canadian varieties.

In July 2018, China's Ministry of Agriculture and Rural Affairs (MARA) released "Hemp Planting Seeds Standard (NY/T3252-2018)", which came into effect on December 1, 2018. The Standard includes three parts: 1) Definition of Hemp Variety; 2) Seed Quality; and 3) Technical Code of Practice for the Production of Conventional Variety Seed. The Standard regulates the production, sales, and administration of hemp seeds. However, the industry has stated that this is a voluntary standard which they asked the government to develop, but the standard is legally binding. Hemp is not in China's Plant New Variety Protection List, which means new hemp varieties cannot apply for Plant Variety Protection. The hemp industry is concerned that the low quality of hemp seed is one of the major bottlenecks for China's development.

Hemp is considered a beneficial rotational crop in China, and farmers are already rotating with many crops, including soybean, tobacco, wheat and corn. Subsequent crops have less weed pressure and it can increase yields 10-20 percent.

Section III Labeling Requirements

There are no labeling requirements specific to hemp products. Pursuant to the 2015 Food Safety Law, all pre-packaged food must be labeled with the following information:

- Name, specification, net content, and date of production
- Table of ingredients or formulation
- Producer name, address, and contact information
- Shelf life
- Code of product standard(s)
- Storage requirements
- Generic name of the food additives as used in the national standard
- Production License Number
- Other information as required for specific products, such as infant formula and products derived from agricultural biotechnology

Section IV Packaging and Container Regulations

There are currently no specific packaging and container regulations for hemp products.

Section V Hemp/Cannabinoid Regulations

Although, China has no national level laws or regulations that specifically regulate hemp, some provinces developed local rules to regulate hemp cultivation and processing. Yunnan and Heilongjiang province allow hemp cultivation and processing for CBD production under strict government

supervision. Jilin is expected to soon be the third province with an ambition to become the largest producer of hemp in the next several years.

- In October 2009, Yunnan province released the Yunnan Province Hemp Cultivation and Processing License Regulation (please refer to Appendix I for the full translation of the document), which allows hemp plantation and processing in Yunnan since January 1, 2010. Industry reports that Yunnan has issued seven Hemp Flower and Leaves Processing Licenses.
- In May 2017, Heilongjiang province amended its Anti-Drug Regulations (please refer to Appendix II for the translation of hemp related articles of the Regulations) to allow hemp cultivation, and implement special administration on hemp cultivation, processing, and sales.
- In March 2018, Jilin province listed the amendment of its "Anti-drug Regulations" in the local legislation plan of the year, and the "hemp administration" was formulated as a separate chapter to regulate the definition, breeding, cultivation, processing and sales of hemp. It has been stipulated to strengthen the supervision under the premise of orderly liberalization. Therefore, Jilin is expected to be the third province in China to allow hemp cultivation and processing after Yunnan and Heilongjiang.

Hemp research is legal for medical purposes or food supplements. Hemp seed has been listed in China's Ingredients Can Be Used for Both Food and Drugs list since 1987. According to the latest version of the Inventory of Existing Cosmetic Ingredients in China (China IECIC 2015), four hemp products (listed below) can be used in cosmetics in China. CBD is considered as extract of cannabis leaf and flower and can be used in cosmetics in China. However, the Government of China has not approved CBD to be used in food and medicine.

Table 1. Hemp Products Allowed to Be Used in Cosmetics

Serial Number	Chinese Name	English Name
01777	大麻仁果	CANNABIS SATIVA FRUIT
01778	大麻籽油	CANNABIS SATIVA SEED OIL
01779	大麻槿茎粉	HIBISCUS CANNABINUS STEM POWDER
03122	大麻叶提取物	CANNABIS SATIVA LEAF EXTRACT

According to the Catalogue of Plant-derived Foods that Needs Risk Analysis When It is Imported for the First Time as Well as Countries or Regions that Have Had Such Export Trade to China, no country can export hempseed (H.S. code 1207.9999) or hemp plants (H.S. code 1211.9039.30) to China. Presently, CBD does not have a specific Chinese H.S. code.

Table 2. HS Chapters and Headings

Product	HS Code	Use	Remarks
Hempseed	1207.9999	Planting/Crush	Hempseed does not have a specific H.S. code. 1207.9999 is for all unlisted oilseeds.
Hemp flower/plant material	1211.9039.30	Of a kind used primarily in Chinese herbs	
Hemp Oil	1515.9090.90	Vegetable Oil	Hemp oil does not have a specific H.S. code. 1515.9090.90 is for all unlisted vegetable oil.
Hempseed Cake/Meal	2306.9000	Animal Feed	Hemp Cake/Meal does not have a specific H.S. code. 2306.9000 is for all unlisted oil cake/meal.
Hemp Extract - Cannabinoids	2907.2990.90	Pharmaceutical/Health Supplements	CBD does not have a specific H.S. code. 2907.2990.90 is for all unlisted polyphenols, phenol-alcohol.
Hemp Fiber Raw	5302.10	Textiles	
Hemp Fiber Processed	5302.90	Textiles	

In China, cannabis is strictly controlled. Internationally, China complies with the provisions of the United Nations Single Convention on Narcotic Drugs of 1961 on control of cannabis. Domestically, the "Anti-Drug Law of the People's Republic of China" lists cannabis as a drug together with opium, heroin, methamphetamine, morphine, cocaine, and other narcotics that that can cause addiction. The "Anti-Drug Law" stipulates that the state regulates the cultivation of the original plants used to produce narcotic drugs and prohibits the illicit cultivation of opium poppy, coca plants, cannabis plants and other original plants regulated by the state used to refine into medicine. Cannabis and Cannabis Resin and Extracts and Tinctures of Cannabis are also on China's List of Narcotic Drugs. [Regulation on the Control of Narcotic Drugs and Psychotropic Drugs](#) stipulates that the drug regulatory and agricultural departments of the State Council formulate an annual planting plan for the original plant according to the annual production plan for narcotics. The enterprises that plant the original plants are determined by these departments. Other entities and individuals are not allowed to plant original plants of narcotic drugs.

Industrial hemp for fiber and seed is exempt from Chinese law controlling cannabis plants for other purposes. Cannabis plants other than industrial hemp are subject to control and must be approved by authorities before planting.

Section VI Regulatory Source

Anti-Drug Law of the People's Republic of China is mainly enforced by the Ministry of Public Security of China while regular hemp cultivation is governed by the Ministry of Agriculture and Rural Affairs. In Yunnan and Heilongjiang, the provincial government is the primary regulator.

Section VII Other Requirements, Regulations, and Registration Measures

None.

Section VIII Market Potential

While China is currently not a major import market for hemp, potential exists if regulatory barriers can be addressed. This potential is several years away from coming to fruition. Importation of CBD is banned and only a negligible amount of fiber was imported in 2018. Nonetheless, the industry envisions this changing rapidly as the national government recently approved CBD for cosmetic use. Industry sources indicate that the majority of China's CBD production is exported to the United States. In 2018, China imported only a small amount of hemp fiber (US\$53,540), mainly from South Korea and Belgium.

Reportedly, several processing facilities were built in Yunnan and Heilongjiang provinces in anticipation of producing CBD oil for export to the United States. Then in 2015, the national government allowed CBD for cosmetic use. Industry reports after this decision, these facilities shifted focus to producing CBD for the domestic Chinese cosmetic market. However, industry estimates that the domestic supply of hemp flower and leaves will not be able to meet the demand until at least 2023. Currently, interest has shifted to importing chopped, dried U.S. hemp flower and leaves or concentrated CBD powder for further processing in China.

Regulations and processes for importation are unclear and no clear process exists for applying for an import license. A major challenge is testing incoming shipments. After shifting in transit, some areas of the container may test well above the 0.3 percent level for THC even though the overall container is below the threshold.

While the history of hemp in China is long, the modern industry is still an emerging crop. The production and value chain have grown rapidly but reliable data and regulatory information is non-existent or difficult to obtain.

Appendix 1

Yunnan Province Hemp Cultivation and Processing License Regulation

Article 1 In order to strengthen the supervision and management of hemp cultivation and processing, these regulations are formulated in accordance with the authorization of the Yunnan Province Anti-Drug Regulations (hereinafter referred to as the “Regulations”) and the actual situation.

Article 2 Hemp as referred to in these Regulations refers to the cannabis plant and its extract products with a THC content of less than 0.3% (by weight of dry matter). Hemp flower and leaf processing extracts of products containing more than 0.3% of THC, applicable to drug control laws and regulations.

Article 3 Units or individuals engaged in hemp cultivation and processing in the administrative region of this Province shall, in accordance with the Anti-Drug Regulations and this Regulation, obtain hemp cultivation licenses and hemp processing licenses. Units or individuals that violate drug laws and regulations shall not engage in the cultivation and processing of hemp.

Article 4 Hemp cultivation includes scientific research cultivation, seed reproduction cultivation, industrial raw material cultivation, horticultural cultivation and folklore self-use cultivation. Hemp scientific research cultivation, seed reproduction cultivation and industrial raw material cultivation are subject to licensing system in accordance with the law; horticultural cultivation and folklore self-use cultivation are subject to filing system. Hemp processing includes flower and leaves processing, stalk processing, and hemp seed processing. The hemp flower and leaves processing are subject to licensing system in accordance with the law.

Without permission, no unit or individual may engage in hemp scientific research cultivation, seed reproduction cultivation, industrial raw material cultivation, and hemp flower and leaves processing. Folklore self-use cultivation is only suitable for hemp cultivation for self-produce and self-use farmers in minority areas or remote mountainous areas.

Article 5 The public security organization at or above the county level shall be responsible for the examination and approval, supervision and management of hemp cultivation licenses and hemp processing licenses.

Article 6 Where an application for hemp cultivation license is engaged in scientific research, the following conditions shall be met:

- (1) having a project for scientific research cultivation;
- (2) There are more than 3 professional and technical personnel engaged in scientific research cultivation;
- (3) having tetrahydrocannabinol testing equipment and testing personnel;
- (4) having safe storage facilities for hemp seeds;
- (5) There are management systems for testing, storage, and accounting.

Article 7 Where an application for hemp cultivation license is engaged in scientific research, the following documents shall be submitted to the provincial public security bureau:

- (1) An application form for hemp cultivation licenses;
- (2) The approval documents for scientific research cultivation projects issued by the competent

- department of the project or the higher authorities;
- (3) Business license or unit registration certificate;
 - (4) Qualification certificates for professional technicians and testing personnel for scientific research cultivation;
 - (5) List and photos of inspection equipment and storage facilities;
 - (6) Texts of management systems such as inspection, storage and account.

Article 8 Where an application for hemp cultivation license is engaged in seed reproduction, the following conditions shall be met:

- (1) having legally registered hemp breeding varieties;
- (2) having a registered capital of no less than 1 million yuan or starting funds;
- (3) There are more than 3 professional technicians engaged in seed reproduction cultivation;
- (4) There are tetrahydrocannabinol testing equipment and testing personnel;
- (5) There are hemp seed safe storage facilities;
- (6) There are no non-hemp plants within three kilometers of the cultivation site;
- (7) There are management systems for testing, storage, and accounting.

Article 9 Where an application for hemp cultivation license is engaged in seed reproduction, the following documents shall be submitted to the provincial public security bureau:

- (1) An application form for hemp cultivation licenses;
- (2) Record certificate of hemp variety rights;
- (3) Business license or unit registration certificate;
- (4) Qualification certificates for professional seed reproduction cultivation technicians and testing personnel;
- (5) List and photos of inspection equipment and storage facilities;
- (6) Texts of management systems such as inspection, storage and account.

Article 10 Where an application for hemp cultivation license is engaged in the cultivation of industrial raw materials, the following conditions shall be met:

- (1) Hemp seeds are provided by licensed seed reproducing units or individuals;
- (2) The cultivation area is not less than 100 mu;
- (3) The cultivation location is more than one kilometer away from the tourist scenic spot and the highgrade highway;
- (4) There is a management system for accounts.

Article 11 Where an application for hemp cultivation license is engaged in the cultivation of industrial raw materials, the following documents shall be submitted to the county-level public security bureau at the planting site:

- (1) An application form for hemp cultivation licenses;
- (2) Business license or unit registration certificate;
- (3) A seed supply contract signed with a licensed seed reproducing unit or individual;
- (4) Cultivation land agreement or land use certificate;
- (5) Annual planting plans for product types, production and sales;
- (6) Text of the account management system.

Article 12 Where an application for hemp processing license is engaged in hemp flower and leaf

processing, the following conditions shall be met:

- (1) having a registered capital of not less than 20 million yuan or a scientific research institution for pharmaceuticals, food and chemical products compiled by a public institution;
- (2) Plans for raw material sources, raw material use, product types, and product processing;
- (3) There are special testing equipment and facilities and places for storage and processing;
- (4) There are management systems for testing, storage, and accounting.

Article 13 Where an application for hemp processing license is filed, the following documents shall be submitted to the county-level public security bureau at the processing site:

- (1) An application form for hemp processing licenses;
- (2) Business license or unit registration certificate;
- (3) Lists and photographs of testing equipment, storage and processing facilities, and proof of use of processing sites;
- (4) Plan texts of raw material sources, raw material use, product types, and product processing;
- (5) Texts of management systems such as inspection, storage and account.

Article 14 The public security bureau shall make a licensing decision within 15 days from the date of accepting the application for hemp cultivation or processing license. Where a decision to grant a licensing is made, the corresponding licensing shall be issued within 5 days; if a decision is made not to license, the applicant shall be notified in writing and the reasons shall be explained.

Hemp cultivation licenses and hemp processing licenses should indicate the product types and methods of cultivation, processing and transportation.

Article 15 Hemp cultivation licenses and hemp processing licenses are valid for two years. If the validity period needs to be extended, the application shall be made to the public security bureau that made the permission decision 30 days before the expiration of the validity period; the public security bureau shall make a decision on whether to grant the continuation before the expiration of the validity period.

Article 16 The licensee engaged in hemp cultivation shall establish a cultivation account and truthfully record the following items:

- (1) The location, acreage and dates;
- (2) The name, source and dosage of the variety;
- (3) The types of planting products, date of harvest and quantity;
- (4) Storage, sales and transportation;
- (5) Other important matters.

The licensee engaged in hemp flower and leaf processing shall establish a processing account and truthfully record the following items:

- (1) Sources of raw materials for processing and test reports;
- (2) Production types, quantity, process techniques and date;
- (3) Treatments of flower and leaves residues and the responsible personnel;
- (4) the transportation and sales of the products;
- (5) Other important matters.

The planting account and processing account shall be kept for more than three years and shall accept the check from the public security organization.

Article 17 Licensees engaged in the cultivation for hemp scientific research shall conduct safety tests on

the selected varieties to ensure that they meet the standards and prevent the loss and spread of cannabis materials with more than 0.3% of tetrahydrocannabinol; If it is lost and spread, it shall promptly report to the public security bureau.

Licensees engaged in the hemp seed reproduction should carry out safety tests during planting periods and use special identification marks for the seeds that meet the standards; eradicate non-hemp plants within three kilometers of the planting sites; For those plants unable to be eradicated, it shall be reported to the public security bureaus in a timely manner, and the public security bureaus shall eliminate the plants.

Licensees engaged in the cultivation of hemp raw materials shall promptly destroy the unused flowers and leaves and eliminate non-hemp plants or report to the public security bureaus in accordance with the provisions of the preceding paragraph.

Licensees engaged in hemp cultivation shall not supply hemp flowers and leaves to units or individuals that have not obtained processing license.

The licensee engaged in the processing of hemp flowers and leaves shall carry out special storage, special person keeping and special account records of the flowers and leaves raw materials and their extracts, timely destroy the processing residues to prevent the loss of flowers, leaves and their residues; in case of lose, it shall be reported to the public security bureau in a timely manner.

Article 18 A licensee engaged in hemp scientific research cultivation shall report the project research result to the public security bureau that made the permission decision in writing

The licensee engaged in the processing of hemp flowers and leaves shall report the processing, production, storage and transportation management, and technology transfer to the public security bureau that made the permit decision every six months. Where a trade secret is involved, the public security bureau shall keep it secret.

Article 19 The public security bureau shall take the following measures to supervise and inspect the licensee's activities in hemp cultivation and processing:

- (1) Investigate and understand the hemp cultivation and processing situation from relevant personnel;
- (2) On-site inspect hemp cultivation, processing and storage;
- (3) Check, copy, and excerpt the contracts, account books, ledgers, warehousing vouchers, shipping orders and test reports;
- (4) Extract and test related samples and products.

The public security bureau may detain relevant materials and articles and temporarily seize the relevant places according to law if illegal activities are founded during supervision and inspection.

Article 20 If a licensee engaged in hemp cultivation and processing violates this Regulation, in one of the following situations, the public security bureau shall order it to make corrections within a time limit, and may impose a fine of not less than 3,000 yuan but not more than 30,000 yuan; if it is not corrected within the time limit, suspend or revoke its license:

- (1) Failure to implement various management systems;
- (2) failure to establish and record the accounts in accordance with the regulations;
- (3) failure to eradicate non-hemp plants within three kilometers of the plantation site;
- (4) Failure to report the loss and spread of cannabis material higher than 0.3% of tetrahydrocannabinol;
- (5) Failure to report the research situation of the cultivation project or the technology transfer;
- (6) failure to use seeds as required;
- (7) failure to destroy the residues of the unused flowers and leaves in time;

- (8) failure to transport hemp planting seeds, hemp seeds (fruits), flowers and leaves and their exacts with the types and methods specified in the license;
- (9) Providing hemp flowers and leaves to units or individuals that have not obtained a processing license;
- (10) Rejecting supervision and inspection by public security bureaus.

Article 21 If the hemp cultivation or processing is carried out without license, the public security bureau shall take measures to stop it and may impose a fine of not less than 5,000 yuan but not more than 30,000 yuan; if it constitutes a crime, it shall be investigated for criminal responsibility according to law. If the farmer sells self-use cultivated hemp to others, the public security bureau shall order it to make corrections and may impose a fine of 1,000 yuan or less.

Article 22 Anyone who engages in hemp horticulture or folklore cultivation shall file a record with the county-level public security bureau at the planting place. The public security bureau that accepts the record may conduct supervision and inspection in accordance with the provisions of Article 19. If the hemp horticulture or folklore self-use cultivation is not filed in accordance with the regulations, the public security bureau shall order it to make corrections and may impose a fine of not more than 500 yuan.

Article 23 These Provisions shall come into force on January 1, 2010.

Appendix II

Heilongjiang Anti-Drug Regulations

Chapter IV Hemp Management

Article 24 The people's government at or above the county level shall plan, guide, supervise and manage the variety selection, cultivation, sales and processing of hemp, and strengthen the publicity and education of relevant knowledge such as the difference between hemp and drug cannabis.

For the selection and introduction of hemp variety, the unit shall apply to the provincial agricultural administrative department for variety identification.

Varieties that have been identified to meet the requirements can be planted, sold, and processed.

Article 25 Units or individuals engaging in hemp cultivation or breeding shall file with the public security bureau of the county-level within 10 working days after planting, provide the evidences of identified seeds or variety source, and describe the planting acreage, planting region, and purpose. Units or individuals engaging in hemp flower, leaf and seed sales shall, within 10 working days after the sale, file with the public security bureau of the county-level at the place of sale, indicating the source of sales, the quantity of sales, the area sold, the purchaser, etc. And submit the purchaser's business license or personal identification documents, copies of sales contracts and other supporting materials. Units or individuals engaging in hemp flower, leaf and seed processing shall, within 10 working days after processing, file with the public security bureau of the county-level at the processing site to explain the source of raw materials, the amount of processing, and the processing loss.

Article 26 Units or individuals who plant, sell or process hemp shall establish a supervision and management system, strengthen daily inspections. The by-products of flowers, leaves and seeds, such as clam shells, suede, etc., whose dry matter THC content is greater than that of hemp standard should be treated in a harmless manner and must not be discarded or sold to prevent them from flowing into illegal channels.

Scientific research institutes and universities with testing conditions can provide technical services for the detection of tetrahydrocannabinol content for administrative agencies and units or individuals engaging in hemp cultivation and processing.

If hemp is lost, it shall be immediately reported it to the public security bureau.

Attachments:

No Attachments.