

# The Chinese Hemp Industry

*By Edward Woodford and Xiurui 'Iris' Cui*

## Overview

There has been increasing interest in hemp-derived CBD extract given its potential to serve as a high value cash crop for farmers as well as the range of potential uses. However, despite this interest the understanding of the global supply of CBD, especially from Asia, has been limited, leading many within the industry to wonder about the role China currently plays within the world of CBD without any formal understanding of the nature of cultivation, production, and sale of the product within the country.

While speculation has been fueled by a lack of data regarding hemp production and processing in general in China there is a more general global issue with import and export tracking of CBD. Until now there has been no established code for CBD and many exporters are labeling it as any number of other products like hemp seed oil. This lack of standards makes it nearly impossible to track the volume of CBD being exported from China as well as other countries. Additionally, the Chinese government provides almost no public data on the production of the crop and the processing of hemp into CBD.

Seed CX has developed a deep understanding of the nature of hemp production as well as CBD within China utilizing interviews and surveys with Chinese hemp participants. These interviews have been supplemented by a review of official Chinese documents regarding the regulatory structure of hemp in China.

## Hemp in China

China's history of hemp cultivation dates back six thousand years with a tradition of utilizing hemp for textile, paper, food, feed and as a pharmaceutical. Today it is cultivated in more than 20 provinces, with Yunnan, Heilongjiang, Shanxi and Anhui being the largest producers. While hemp cultivation is taking place across China, the central government has not yet defined industrial hemp separately from marijuana nor has it developed a legal infrastructure to regulate the cultivation and processing of the crop. Yunnan is currently the only province with legal infrastructure in place to define and regulate the growth and production of industrial hemp<sup>1</sup>.

Yunnan is located in the warm and humid south of China. The Yunnan Drug Enforcement Administration has first defined industrial hemp as "the plant *Cannabis sativa* L. and any part of such plant, whether growing or not, with THC concentration of no more than 0.3 percent on a dry weight basis." These regulations also require licenses for the extraction and processing of CBD. (See Appendix for Yunnan's fully translated rules and regulations). Currently, Yunnan has more than 120,000 acres under cultivation mainly for fiber production. However, in 2013, CBD extraction from byproducts was officially permitted on about 2,000 acres devoted to fiber.<sup>2</sup>

Heilongjiang Province is located in the northeastern most portion of China. In 2014, Heilongjiang exceeded 130,000 acres and in 2016 hosted a global hemp conference in the capital of Harbin. Production of industrial hemp in Heilongjiang is mainly for fiber, and some acres for hempseed. In 2014,

---

<sup>1</sup> <http://www.zgswcn.com/2014/0819/472315.shtml>

<sup>2</sup> Elma M J Salentijn, Qinying Zhang, etc. 'New development in fiber hemp (*Cannabis sativa* L.) breeding', *Industrial Crops and Products*, 2014. Available at: <https://www.researchgate.net/publication/273729995>

Alberta Innovates Technology Futures,<sup>3</sup> an organization devoted to business research and innovation in Alberta, began conducting industrial hemp research collaborations for fiber and seed productions with Heilongjiang Academy of Sciences.

Shanxi Province, located in central China, is involved mainly in producing fiber and clothing for export. Shanxi Greenland Textile, the largest hemp fiber processor in China, annually produces 5,000 tons of yarn, 10,000,000 meters of fabrics, 150,000 finished textile products. The products are mainly exported to the US, Europe, Japan, Korea, Hong Kong, etc.

Anhui Province is located in eastern China. Anhui Province's Lu'an Hemp Laboratory has been actively involved in pushing the provincial government to develop legal infrastructure for industrial hemp. Lu'an Kaixuan Hemp Company Ltd., one of the largest fiber companies in Anhui, began collaborating with Live Wire Ergogenics Inc, out of California, in developing hemp oil and CBD production in 2014.

### **Industrial Hemp Research Initiatives in China**

Several hemp breeding and research institutions within China are looking into the potential benefits of hemp in a variety of areas. China utilizes hemp fiber for a variety of purposes, most notably military. As a result, in 2004 the Chinese Army Research Institute of Hemp was founded to develop cultivars specifically for military utilization. This hemp research project began in 2006 in Yunnan, with around 30,000 acres. This research project resulted in the creation of 'YunMa 1', a hemp cultivar with less than 0.09% THC. In recent year, the Chinese government started to shift the research and development of industrial hemp to the northern provinces for the purpose of producing better quality fiber. Chinese growers also started to realize the potential market of hemp food in China, so there are more hemp fields harvested for seed. By 2020, China is estimated to have more research based industrial hemp fields in Xinjiang, Inner Mongolia as well as Yunnan, Heilongjiang, Gansu and Anhui as part of the project to help alleviate poverty in those provinces<sup>4</sup>.

### **CBD Development in China**

China has been quick to explore the potential of high-CBD strains of hemp. The Yunnan Academy of Agricultural Sciences has been advocating cultivating hemp for pharmaceutical uses and has been actively developing a host of new cultivars with the goal of maximizing CBD yields. YunMa 7, a cultivar with 0.18% THC and high CBD content was registered and released in 2014. Hybrid YunMa 3, another cultivar with high CBD content was created in 2015 by the Yunnan Academy of Agricultural Sciences in conjunction with a private firm, Yunnan Industrial Hemp Inc<sup>5</sup>.

As Chinese growers see the potential of global CBD market, more and more acres of industrial hemp are grown for the purpose of extracting CBD. However, there is very limited information on the production and processing, as many growers are currently operating their business in a legal gray area.

### **Chinese CBD Companies**

---

<sup>3</sup> Alberta Innovates-Technology Futures (Tech Futures) is part of Alberta's research and innovation system, helping build healthy, sustainable businesses in the province by facilitating the commercial use of new technologies, developing new knowledge-based industry clusters, and supporting entrepreneurs.

<sup>4</sup> <http://www.cannabisculture.com/content/2009/04/16/chinese-officials-promote-growing-hemp>

<sup>5</sup> <http://www.cnhemp.com/>

Hemp cultivation and CBD processing is currently occurring across China; however, only three companies in Yunnan are approved and have government licenses to process industrial hemp flowers and leaves.

**(i) Yunnan Industrial Hemp Inc.**

Yunnan Industrial Hemp Inc<sup>6</sup>, founded in 2001, is a subsidiary of Yunnan Hanpu Health Products Co. Ltd, and was the first company to obtain the proper licensing for the processing of industrial hemp flowers and stems in China. The company specializes in cultivation, production and processing of industrial hemp. Its product line includes: hemp whole seeds, hulled seeds, hemp oil, CBD capsules and extracts.

**(ii) Yunnan Hanmusen Ltd.**

Yunnan Hanmusen Ltd. is a biotech company located in Yunnan province. The company specializes in fiber production and CBD extraction by utilizing the ‘YunMa 7’ variety. Dr. Xuan Chen, the director of industrial hemp project from Yunnan Academy of Agricultural Sciences visited Hanmusen hemp fields in August 2016, and discussed the potential of the new cultivar.<sup>7</sup>

Interestingly, we also found that China is becoming an increasing demand source for hemp derived CBD. In interviews with importers they stated that their products to date originated almost exclusively from Europe. Importers do not need a license and as such the largest growth has been in companies reselling European based products.

**(iii) Yunnan Shaoxing Jincheng Yama Ltd.**

In 2013, Yunnan Shaoxing Jincheng Yama Ltd. planted 30,000 acres of industrial hemp in Yunnan. Yalou Li, the CEO of the company said they will expand their business to Beijing and plant more in 2014<sup>8</sup>. Jincheng Yama Ltd. specializes in fiber processing and also has a processing line for industrial hemp flower and leaves.

Apparently, there are other companies involved in processing hemp flowers and leaves, located in provinces other than Yunnan. But by this time, there’s very limited information we can find.

**Beijing Hanyi Biotech Ltd.**

Hanyi Biotech works closely with government agencies and research institutions in developing CBD pharmaceutical. Sutiwa, an energy drink, is their first CBD infused product, and they are going to develop more edible products with the infusion of CBD.

---

<sup>6</sup> <http://www.cnhemp.com/index.html>

<sup>7</sup> Available at: <http://www.yaas.org.cn/view/front.article.articleView/38554/6/290.html>

<sup>8</sup> Available at: <http://www.yaas.org.cn/view/front.article.articleView/38554/6/290.html>

Appendix

YUNNAN DEPARTMENT OF AGRICULTURE

Rules Pertaining to the Administration and Enforcement of the Industrial Hemp

Regulatory Program Act

Passed on September 21, 2009. Enacted starting from Jan 1, 2010

1. To strengthen the regulation of industrial hemp cultivation, this act is in accordance with 'Yunnan Drug Enforcement Regulations'.

2. "Industrial Hemp" is defined as a plant of the genus Cannabis and any part of the plant, whether growing or not, containing a delta-9 tetrahydrocannabinol (THC) concentration of no more than three-tenths of one percent (0.3%) on a dry weight basis.

Any product with higher than 0.3% delta-9 THC concentration is subject to penalties according to 'Yunnan Drug Enforcement Regulations'.

3. Individuals/other entities wishing to plant or process industrial hemp in the area of Yunnan province, are required to obtain cultivation license or processing license.

Individuals or companies who have violated drug enforcement regulations are not allowed to cultivate or process industrial hemp.

4. For any purpose including engaging in research or commercial cultivation are required to be licensed, individuals cultivating for self-usage or gardening are required to be registered.

Unlicensed individuals/other entities are not allowed to grow or process industrial hemp.

Cultivations for self-usage or gardening are only allowed in minority communities or mountainous area.

5. Local police departments are in charge of issuing industrial hemp cultivation license, processing license, and monitoring work.

6. To apply for a hemp cultivation license for the purpose of research, individual/entity has to meet:

1) Certification of the related research program; 2) With an employment of at least three researchers/technicians; 3) THC testing facilities and operators; 5) Safe storage facilities; 6) No cultivations of other crops within 3 km; 7) Management statement of hemp testing, storage and entity financial situation.

7. To apply for a hemp cultivation license for the purpose of research, individual/entity has to provide the followings to the local police department:

1) Application form for cultivating hemp; 2) Certification of the related research program; 3) Operation license or operation register certification; 4) Qualifications of the cultivation researchers and testing technicians; 5) A list and photos of testing, storage facilities; 6) Management statement of hemp testing, storage and entity financial situation.

8. To apply for a license for the purpose of commercial hemp cultivation, individual/entity has to meet:

1) Legally certified cultivars; 2) With a capital no less than one million RMB (about \$150,000); 3) With an employment of at least three researchers/consultants; 4) THC testing facilities and operators; 5) Safe storage facilities for hemp seeds; 6) No cultivations of other crops within 3 km; 7) Management statement of hemp testing, storage and entity financial situation.

9. To apply for a license for the purpose of commercial hemp cultivation, individual/entity has to provide the followings to the local police department:

1) Application form for cultivating hemp; 2) Certification of registered hemp cultivars; 3) Operation license or operation register certification; 4) Qualifications of the cultivation researchers and testing technicians; 5) A list and photos of testing, storage facilities; 6) Management statement of hemp testing, storage and entity financial situation.

10. To apply for a license for the purpose of growing industrial materials, individual/entity has to meet:

1) Seeds are supplied by certified individual/entity; 2) Growing no less than 100 acres; 3) Least 1 km away from tourist resort or highway; 7) Management statement of hemp testing, storage and entity financial situation.

11. To apply for a license for the purpose of growing industrial materials, individual/entity has to provide the followings to the local police department:

2) Application form for cultivating hemp; 2) Operation license or operation register certification; 3) Contract with certified seed supplier; 4) Certifications of legal usage the land 5) Annual plan of type and quantity of production; 6) Management statement of hemp testing, storage and entity finance.

12. To apply for a license for the purpose of processing industrial hemp flowers, individual/entity has to meet:

1) Register capital is at least over 20,000,000 RMB (about 3 million dollars); 2) Plans of the origin of resource, purpose of using, product type and processing plan; 3) Testing, storage and processing facilities; 4) Management policies of testing, storage and financial statement.

13. To apply for a license for the purpose of processing industrial hemp flowers, individual/entity has to provide the followings to the local police department:

1) Application form for processing industrial hemp; 2) Operation license or operation register certification; 3) A list and photos of testing, storage, processing facilities; 4) Strategic plans of resource, usage, products type, processing procedures; 5) Management statement of hemp testing, storage and entity finance.

14. Local police department is fully in charge of issuing industrial hemp cultivation or processing license, the decision should be made within 15 business days. License should be issued within 5 business days after the individual/entity is approved; Otherwise the department should explain the reasons through letters.

On the issued license, it should be stated the purpose (Cultivation/Processing), shipment details of products (product type and ways of transportation).

15. All licenses are valid for 2 years. It can be extended as necessary; application should be received by the license issue place 30 days before expiration date. Decision should be made by the department before its expiration date.

16. The approved registrants of hemp cultivation should keep an ongoing, accurate records of:

1) Address, acres and dates of cultivation; 2) Name, origin, quantity of resource; 3) Type, harvest date and quantity of harvest products; 4) Records of storage, sale and shipments. 5) Others.

The approved registrants of hemp processing should keep an ongoing, accurate records of:

1) Reports of resource of raw materials and testing records; 2) Type, quantity, processing procedure and date of production; 3) Treatment of waste (flower part of the plant) and the responsible individual; 4) Shipments destinations and buyer information; 5) Others.

Such records should be kept for at least three years for the inspection from police department.

17. The approved registrants for research purposes should conduct safety test of the selected cultivars, to make sure the cultivars meet the regulations, and avoid missing or spread of hemp materials with THC level > 0.3%; Immediate reports should be made to the police department when missing or spread is noticed.

The approved registrants of hemp cultivation should conduct safety tests during growing, and label the certified cultivars with recognized symbols; Remove all other plants within 3 km of cultivation; Plants cannot be removed should be reported to the local police department and it should be done by the department.

The approved registrants of cultivation hemp for industrial materials should destroy the unused hemp flowers; Remove all other plants within 3 km of cultivation; Plants cannot be removed should be reported to the local police department.

Individuals who are approved to grow hemp are not allowed to sell or provide hemp flowers to any others who do not possess a license.

The approved registrants of processing hemp flowers should keep exclusive storage, specific individuals to store the products and keep a separated book of records, and destroy waste immediately, to avoid the missing of hemp flower and its waste; Immediate reports should be made when missing is noticed.

18. The approved registrants for research purposes should report to the issued police department regularly on the project.

The approved registrants of processing hemp flowers should report to the issued department on processing, productions, storage and shipments every half year. The department should keep its confidentiality.

19. The police department should do the followings to inspect the activities of the approved registrants:

1) Conduct surveys from related individuals on the growing, processing of industrial hemp; 2) Inspect the cultivation, storage and processing of hemp; 3) Inspect and make copies of contracts, testing results, financial statement, sale and shipments records, etc; 4) Take samples of products and conduct sample tests.

When illegal activities are found during inspection, the police department have the right to detain the materials or products, and close the related place temporarily.

20. When the registrants violate the regulations above and conduct the following activities, the police department should release a warning, the individual/entity will be fined accordingly, from 3,000 to 30,000 RMB; if such illegal activities have not stopped or changed according to the warning, the department has the right to detain or revoke the license.

1) Fail to follow the management regulations; 2) Fail to keep records of transitions and cash flow; 3) Fail to remove other plants within 3 km; 4) Fail to report any missing or spread of hemp with THC level >0.3%; 5) Fail to report the research project on a regularly basis; 6) Illegal usage of seeds; 7) Fail to destroy flower waste immediately; 8) Fail to follow the shipment description stated on the license; 9) Provide hemp flowers to individuals/entities without certifications; 10) Refuse to be inspected by the police department.

21. Cultivation or processing industrial hemp without licenses will be stopped and fined by the police department, ranging from 5,000-30,000 RMB; criminal charges will occur if the activities are against the law.

Registrants who sell self-grown industrial hemp to others will be fined with no more than 1,000 RMB.

22. Individuals who grow industrial hemp for self-usage should register with the local police department. The department can inspect such individuals according to rule 19 listed above.

Individuals who fail to report and register with local police department will be fined with no more than 500 RMB.

23. Such regulations will be enacted from January 1st 2010.