

HOUSE FINANCE COMMITTEE  
April 30, 2021  
9:04 a.m.

9:04:40 AM

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Kelly Merrick, Co-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen  
Representative Steve Thompson  
Representative Adam Wool

MEMBERS ABSENT

Representative DeLena Johnson

ALSO PRESENT

Representative Grier Hopkins, Sponsor; Joe Hardenbrook, Staff, Representative Hopkins.

PRESENT VIA TELECONFERENCE

David Schade, Director, Division of Agriculture, Department of Natural Resources; Rob Carter, Agronomist, Division of Agriculture, Department of Natural Resources.

SUMMARY

HB 156 INDUSTRIAL HEMP PROGRAM; MANUFACTURING

HB 156 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the morning.

#hb156

HOUSE BILL NO. 156

"An Act relating to industrial hemp; and providing for an effective date."

9:05:18 AM

REPRESENTATIVE GRIER HOPKINS, SPONSOR, read a prepared statement:

"Co-Chairs Merrick and Foster, members of the committee, thank you for the opportunity to present HB 156 to the Finance Committee today. For the record, Representative Grier Hopkins, House District 4.

I'm proud to be working with my colleague from the other body to advance this important and pressing legislation. As my staff will elaborate later, there are federal timelines which require action by the Alaska legislature THIS YEAR in order to keep our fledgling industrial hemp industry alive and in compliance with federal law.

Today, Alaska farmers are growing industrial hemp for animal feed, nutraceuticals, manufacturing, and other uses. I would note for the committee that Industrial Hemp - as governed by federal law - is a different industry than Alaska's state-licensed recreational marijuana program.

In 2018, the 30th Alaska Legislature saw the unanimous passage of Senate Bill 6, which established a pilot Industrial Hemp Program in Alaska. With the passage of the 2018 Farm Bill, the United States Congress changed federal requirements for state industrial hemp programs.

HB 156 will empower the Alaska Division of Agriculture to work constructively with Alaskan farmers and the federal government to create a new Industrial Hemp program compliant with federal guidelines. I'm happy to report that the Division of Agriculture is assembling a qualified and enthusiastic team of specialists to cultivate this growing industry.

This bill continues the model of requiring the hemp industry to pay its own way - fees and taxes on growers, processors and retailers must be sufficient to cover the program's costs. Co-Chair Merrick, members of the committee, the administration feels that this industry - when fully operational - will cover its own costs AND result in an increase in UGF to the tune of over three quarters of a million dollars annually.

It is my hope that this bill will result in the continued development of a new, thriving industry for Alaska farmers and manufacturers, diversity in our economy and increased state revenues.

Co-Chair Merrick, with the committee's permission, I'd ask Joe Hardenbrook from my staff to walk the committee through the bill."

Co-Chair Merrick invited Mr. Hardenbrook to proceed.

[9:07:46 AM](#)

JOE HARDENBROOK, STAFF, REPRESENTATIVE HOPKINS, read a prepared statement:

"Co-Chairs Merrick and Foster, Members of the Committee, for the record, Joe Hardenbrook staff to Representative Hopkins.

Thank you for the opportunity to present HB 156 to the Finance Committee today. With us online today for questions are Dave Schade and Robert Carter from the Division of Agriculture.

Industrial Hemp is a variety of the cannabis sativa plant grown specifically for industrial use. While both marijuana and industrial hemp are derived from the same species, they are distinct strains with different and unique chemical compositions and uses.

Hemp has been grown as a crop for millennia and was one of the first agricultural crops to be spun into fiber for making rope and textiles. Along with bamboo, hemp is one of the fastest growing plants on earth, making it of particular interest to northern farmers

dealing with long growing days and short growing seasons.

Hemp can be processed into a variety of commercial items, including paper, rope, biomass, nutritional supplements, clothing, plastics, paint, insulation, concrete, biofuel, animal feed and medications - including Epidiolex, the first FDA approved prescription drug derived from hemp, which is for the treatment of seizures and epilepsy. Increasingly, hemp is made into food for human consumption, including dairy substitutes, oils, granolas, and snack bars. Hemp seeds are high in iron and protein and can be ground into meal or pressed for oil.

The US Agricultural Act of 2014 allowed states to create Hemp Farming Pilot Programs overseen by state agencies and institutions of higher learning. To date, 47 states have enacted legislation allowing hemp cultivation.

In 2018, Senate Bill 6 passed the legislature unanimously, establishing an Industrial Hemp pilot program for Alaska. Later than year, the US Congress passed the 2018 Farm Bill, which removed hemp from the Schedule 1 list of drugs and made it an agricultural commodity, enabling hemp farmers to get licenses, loans, and federal crop insurance.

The terms of the 2018 Farm Bill required state programs to comply with the new federal guidelines by the end of October 2020. This deadline was pushed back to October 2021 due to the pandemic. Co-Chair Merrick, I would point out that this is why this legislation has a sense of urgency - without passage and approval of a federally-compliant hemp program this session, Alaskan farmers who have invested their time, resources and available land in this new industry face an unknown and challenging economic future.

This bill would empower the Commissioner of the Department of Natural Resources to create an Industrial Hemp program in line with federal requirements. The commissioner would include manufacturing and sales of products made from hemp - along with necessary registration and renewal procedures - in the regulations of the program. To

comply with federal requirements, the bill prohibits those convicted of a felony involving controlled substances within the last ten years from applying for a hemp growing license.

Co-Chair Merrick - to qualify as industrial hemp, the THC (or delta-9 tetrahydrocannabinol) level of the crop must be below .3% of the dried weight of the plant. Hemp has higher concentrations of cannabidiol (CBD), which decreases or eliminates its psychoactive effects.

As we're talking about a plant here, natural variations in seed stock and growing conditions can result in a crop with a concentration above legal limits. Under current law, the commissioner MUST issue a stop order and report a grower to the Department of Public Safety and the Marijuana Control board if a crop tests above the .3% limit.

This legislation would allow the commissioner to work with a grower to recondition a crop that comes in above the legal limit for THC, provided the crop is between the .3% limit and a total 1% THC concentration. Tested crops which exceed the 1% limit must still be destroyed. A grower who refuses to comply with regulations could still be sanctioned by the commissioner.

There is a bit of a complicated legislative two-step at the end of this bill. Basically, the final sections of the bill would strike the existing Industrial Hemp Pilot Program from state statute upon the approval of Alaska's new Industrial Hemp Program by the United States Department of Agriculture.

The bill carries a fiscal note of roughly three quarters of a million dollars annually. AS 03.05.010 requires that the industrial hemp program be self-sustaining through fees and revenue from the industry, so all costs will be covered by program receipts generated by program participants. Should the program flourish and grow, all additional costs associated with the program will continue to be raised through fees and licenses. As the administration states in their fiscal note: "The IH Program has the potential

to have participants in nearly every town and village across Alaska which will be a significant workload for the division. It is projected that 2,000 to 3,000 applications to be processed and monitored on a yearly basis." Director Schade can speak more to the Fiscal Note if the committee so desires.

Madame Co-Chair and members of the committee, I would just echo the words of the bill sponsor - there is a federal deadline in the 2018 Farm Bill which makes the passage of this legislation during this session critical. Alaska farmers and their families have invested their time and resources into this new industry. HB 156 will bring our laws into alignment with federal requirements, protect the investments of our Alaska's hemp farmers and open our economy to new opportunities."

[9:13:39 AM](#)

Mr. Hardenbrook reviewed the sectional analysis:

Section 1: Two subsections added to this section authorizing the commissioner of the Department of Natural Resources to include the manufacturing and retail sales of products made from industrial hemp, as well as registration and renewal procedures, in the regulations for the industrial hemp program.

Section 2: Lays out process for DNR Commissioner to sanction unregistered growers or growers producing hemp with THC concentrations in violation of legal limits. Gives the DNR Commissioner the ability to work constructively with a grower if their crop tests above .3 percent but below 1.0 percent THC.

Section 3: Adds language that a registrant for the industrial hemp program is not eligible if they had been convicted of a felony involving a controlled substance within the last ten years. This section is added to comply with provisions of the 2018 Farm Bill.

Section 4: Empowers department to: issue orders and violations to unregistered growers; adopt regulations regarding shipping of industrial hemp; conduct random tests and inspections.

Section 5: Adds that the department may develop an industrial hemp program that complies with federal requirements and submit a plan for the program to USDA for approval.

Section 6: A grower may retain and recondition their crop if it tests above .3percent but below 1.0percent THC.

Section 7: A new subsection adds that a person who retains but fails to recondition is guilty of a violation.

Section 8: Changes the statutory definition of industrial hemp to match the federal definition which was changed in the 2018 Farm Bill.

Section 9: Repeals AS 03.05.077 the Industrial Hemp Pilot Program

Sections 10 and 11: Conditional effect for Section 9 of the bill, in that the Pilot Program statute is repealed when the Industrial Hemp Program developed by the department is approved by the USDA. Effective date of legislation is the day after DNR Commissioner notifies the Revisor of Statutes of program approval by USDA.

[9:16:22 AM](#)

Representative Edgmon supported the legislation. He asked about the fiscal note cost.

Co-Chair Merrick commented that there would be testimony regarding the details of the fiscal note later in the meeting.

Representative Carpenter asked how many farmers participated in the hemp pilot program. Mr. Hardenbrook estimated the number was in the range of 80 to 90. He deferred to the Department of Natural Resources (DNR) for a definitive answer.

[9:17:24 AM](#)

DAVID SCHADE, DIRECTOR, DIVISION OF AGRICULTURE, DEPARTMENT OF NATURAL RESOURCES (via teleconference), answered that

the growth of the program was significant. The number of applicants rose from 6 to more than 100 retail registrants and 2 manufacturing registrants. He reported that 10 growers, 2 more manufacturers, and 100 retail stores were presently in application status. He furthered that retail stores selling hemp products were located throughout the state and growers were located on the Kenai Peninsula, South Central Alaska to Delta Junction, and mainly in the Matanuska-Susitna (Mat-Su) Valley.

[9:18:47 AM](#)

Representative Carpenter asked what retail products were currently being produced. Mr. Schade replied that there were several products on the market made of hemp and cannabidiol (CBD) including tinctures, oils, and clothing. He relayed that interested people were experimenting with biomass and one grower was growing hemp for seed.

[9:19:46 AM](#)

Representative Carpenter asked how a farmer would know their plants would not exceed the one percent limit of THC. Mr. Schade answered that there were indoor plants and outdoor plants, and various varieties were sold for specific qualities like seed or CBD. The division warned people to be cautious when purchasing the legal varieties for Alaska because they were untested. He reported that all the varieties grown at DNR's plant material center and by the pilot farmers produced hemp within the legal limit. He cautioned farmers not to grow large quantities of untested seed in case the crop exceeded the THC limit and had to be destroyed.

[9:21:19 AM](#)

Representative Carpenter asked how long it took to grow a plant to maturity. He deferred the answer.

[9:21:31 AM](#)

ROB CARTER, AGRONOMIST, DIVISION OF AGRICULTURE, DEPARTMENT OF NATURAL RESOURCES (via teleconference), replied that it took between 85 to 110 days from seed to harvest for an outdoor crop. He added that under a controlled environment like a greenhouse, high tunnel, or Conex it took 72 to 100 days.

9:22:13 AM

Representative Wool assumed that many of the hemp products contained CBD and most of the manufacturing was for CBD oil. He asked if the state revenues were from licensures and if CBD oil sales was taxed. Representative Hopkins deferred to Mr. Schade.

Mr. Schade replied that there were no additional taxes. He delineated that hemp was an agricultural crop and licensure was a fee based program. He maintained that the fees were low but would cover the cost of the program. A challenge for the department was the program had no carry-forward and fees were based on a calendar year and not a fiscal year. He pointed out that even though the fiscal note showed program receipts, Undesignated General Funds (UGF) were necessary because fees were lost mid-year. He wanted to see the fee structure match the fiscal year.

9:23:57 AM

Representative Wool asked if licensure was required for growers, manufacturers, and retailers. Mr. Schade responded that the division designed a three phase registration. He explained that there were growing, manufacturing, and retail registrations. Therefore, the division could track the product from growth to retail sales. A licensee could be integrated and maintain all three registrations. He furthered that a lot of products were brought in from out of state and an endorsement was necessary. The endorsement required a fee and had to show the product was free of pesticides and other toxins that was dangerous to human health. He detailed that the largest problem with cannabidiol had been the dangerous synthetics on the market that was due to a lack of testing and oversight. Alaska was in the forefront of public safety regarding the use of cannabidiol. The fees to grow a crop cost \$350 per year, which he considered reasonable. Alaska was in the lead for hemp crop growth. Representative Wool asked whether selling anything made with CBD oil required a license that was registered with the state. Mr. Schade responded in the affirmative. He offered that without adequate funding and a permanent program, it had been challenging to enforce retail sales. He noted that 200 retail stores were registered but guessed that two thousand sold industrial hemp products. He informed the committee that it was a requirement to be properly registered and he was currently

sending out inspectors to retail establishments. The division was publicly noticing that a civil penalty of \$500.00 was levied against retailers not properly registered. He elaborated that an industrial hemp sticker should be located near the products and if lacking, the retailer was likely not following the regulations. Participants in the industry had asked the department to enforce the registration requirements. Representative Wool deduced that there were many retailers without a license. He asked what duties the inspectors performed. He wondered if the inspectors went to retail stores. Mr. Schade responded that the inspectors performed all parts of the inspection from growers to retailers. He expounded that the division did the THC content testing themselves. The agriculture inspectors did in-person inspections and would be traveling around the state. He deemed that the biggest workload for inspectors would be in retail.

[9:28:37 AM](#)

Representative Carpenter spoke of the growth in the industry and marketing. He wondered if Alaska's products would be confined to the state or whether sales would expand to the national and international markets. Mr. Schade replied that the market was domestic and international. He shared that the manufacturers were anticipating selling CBD products internationally because the reputation of Alaska Grown was very good for sales. Alaska's program ensured the product was legal for national and international markets. Representative Carpenter was aware of the hard work of farmers. He wondered if an agricultural economist had looked at any analysis regarding the market. He noted the huge growth in the state. Mr. Schade had not seen an exponential growth in growing or retail of industrial hemp in the state. He observed that Alaskan manufacturers were unable to obtain enough Alaska grown product to satisfy demand. He shared that he was an agricultural economist and did review the data. He reported that the United States Department of Agriculture (USDA) data indicated that the growth of the market was "huge." He believed that Alaska was a niche market and there was room for "a lot of growth."

[9:31:41 AM](#)

Representative Carpenter asked if testing was done in-state or out of state at a laboratory. Mr. Schade replied that

some of the testing had to be done in the Lower 48 for solvents and pesticides. He communicated that THC content testing could be performed in-state. He furthered that one of the provisions in the federal farm bill was the lab must be Drug Enforcement Administration (DEA) certified. The provision went into effect in two years and currently there were no DEA certified labs in the state. In addition, the division used multiple laboratories to eliminate testing bias. He emphasized that it was "critical" to perform proper testing.

[9:32:53 AM](#)

Representative LeBon ascertained that there was a large gap between retail outlets that were licensed and those that were not. He wondered if there was a public list of licensed retail outlets. He pondered whether the public was encouraged to report suspected unlicensed retailers.

Mr. Hardenbrook stated that there was a list of entities that had applied for licensure. He indicated the list could be found on the DNR website under the Division of Agriculture on the Industrial Hemp Program page. He deferred to Mr. Schade for further answer.

Mr. Schade responded that the division received reports daily. He encouraged the public to look at the division's website database and to look for the sticker. He reported that he had done public service announcements and had been on news programs. The division had been proactive over the past year in alerting the public about compliance. He felt that it was time for citations if someone was found out of compliance with the regulations.

Co-Chair Merrick indicated the committee would take up the bill again and would review the fiscal note in greater detail.

HB 156 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

[9:35:48 AM](#)

The meeting was adjourned at 9:36 a.m.