

The California Hemp Market - Fourth Quarter 2019

Now is a time of great opportunity for California growers, processors, manufacturers and retailers to start up or expand their hemp business.

The 2018 Federal Farm Bill made hemp a completely legal crop in the USA. Under the law, hemp is managed by Department of Agriculture as a crop rather than as an illegal substance. Hemp is under the prevue of the U. S. Department of Agriculture (USDA) and CBD is under the U.S. Food and Drug Administration (FDA).

- Banks and payment processors/credit card companies can service the hemp industry
- Investment and capital infusion is allowed in both the oil and fibrous hemp businesses
- Interstate commerce of hemp and hemp products is allowed
- Convicted felons can join the industry 10 years after the bill passed
- Hemp farmers will be allowed to buy crop insurance for the first time.
- Hemp futures can be traded for the first time, locking in prices for farmers

The California Advantage

California is positioned grow into the USA's largest hemp growing, production and consumption market. It is the largest state by population, the third largest state by area, the largest agricultural state, and has no snow or frost in its prime growing areas. While states like Colorado, Oregon and Kentucky have been growing hemp for many years, California will surpass them all in hemp production and sales in the next few years.

“CBD hemp” is now being grown all over California. “Industrial hemp” is only starting to being grown here. Many companies are now entering the California CBD hemp industry because it is both legal and has less tax and regulation than the CBD industry related to medical cannabis. Licensed medical cannabis growers can only grow ¼ acre outdoors.

California Hemp Regulation

Hemp is legal to grow in California, and in all its 58 counties. However, half of California counties still have temporary bans or restrictions on growing hemp. The counites that are welcoming hemp agriculture are getting a clear jump on the proven economic benefits of hemp. Hemp in California has no special taxes. Farmers can grow as many acres as they wish on land zoned for agricultural purposes. LA county now has a 100-acre hemp farm.

The California Department of Food and Agriculture (CDFA) is the state agency responsible for hemp regulation in California. The CDFA works with the counties on hemp agriculture rules and its farming registration process. Hemp farmers need to register with their local County Agricultural Commissioner. County Agricultural Commission offices share a registration fee with CDFA and information from a one-page registration form. The California hemp farming fee is \$900. per year.

The Industrial Hemp Advisory Board (IHAB) is a voluntary board that advises CDFA on hemp rules and regulation. It has public meetings at the CDFA building in Sacramento.

The Department of Food & Agriculture reported on October 1st that there were a total of 497 Registered Hemp Growers and Seed Breeders in the state, with 1,116 sites registered to grow, for a total of 32,894 acres of land registered to grow on in California. The registered number is not the same as the actual number of farmers and acres growing this year, but it reflects tremendous amount of interest and activity. Applications continue to come in to CDFA from county agriculture commission offices and the numbers continue to increase. Another updated registration summary will be available at the next IHAB meeting on November 6th.

As with the national trend, 95% of the hemp being grow in California is CBD hemp rather than industrial hemp. This is due to the US market valuing CBD hemp over 10 times more than industrial hemp.

Over the past years California has under-funded and under-prioritized its efforts on hemp. While the California Bureau of Cannabis Control (BCC) that regulates medical and adult use marijuana has 100 staffers, the CDFA has just six working on hemp. Governor Newsom, has a higher priority for hemp. He understands the good jobs, revenue and economic development the hemp industry is bringing to California. Hemp and cannabis are both handled by the Governor's office of Business and Economic Development, GO-Biz. (www.business.ca.gov)

The Hemp Industries Association (thehia.org) is the largest hemp business advocacy organizations in California. The HIA has over 1,500 hemp business members nationally and 150+ business members in California. There is now a California chapter of HIA, the California Hemp Industry Association (CHIA). CHIA is just getting started. It is sure to grow into the major hemp trade associate in the state.

The California Hemp Council is a lobbying and policy organization in California (www.calhempcouncil.com), similar to the national Hemp Industry Round Table. Vote Hemp is political advocacy organization (VoteHemp.org) that worked on the original California Hemp law. It does grassroots organizing and advocacy work in the state. The California For Jobs campaign (CaliforniaForJobs.org) working to fight against California county bans and moratoriums on hemp agriculture.

Industrial Hemp

Industrial Hemp grows very fast and tall like bamboo. It is grown for fiber and seed. There are thousands of different products that are made from industrial hemp.

Industrial Hemp Agriculture Net Revenues: Statistics for Canada indicate that 1-acre of hemp yields an average of about 700-lbs of grain, which can be pressed into about 50 gallons of seed oil and 530-lbs of meal. That same acre will produce an average of 5,300-lbs of straw, which can be processed into ~ 1,300-lbs of fiber for a total value exceeding \$1,000 per acre. - **Hemp as an Agricultural Commodity, U. S. Congressional Research Service, March 2017.**

Irrigated pasture and commodity crops account for approximately 40% of California water usage (i.e. hay, alfalfa, pasture, corn, wheat, rice and cotton). Crop rotation with industrial hemp would save the State billions of gallons in groundwater and add excess revenues back to producers for cultivating a higher priced crop per acre. **(alfalfa = \$250-\$500/acre; hemp = \$500-\$1,500 per acre)**

Industrial hemp is considered to be a row crop that is not likely to compete with specialty crops, fruit and nuts commonly grown in California due to its specific microclimates. Industrial hemp will compete for acreage production alongside alfalfa, corn and grain silage, hay, safflower, potatoes, cotton, etc. Due to industrial hemp's rapid growth (12-ft in 100-days), California farmers can grow at least two crops per year.

CBD Hemp

Cannabidiol (CBD) is a naturally occurring element of the industrial hemp plant. CBD has become a highly sought-after compound in the natural products industry. CBD hemp oil is different than the organic hemp oil you find in grocery stores. Hemp crops are put through a specialized extraction process to yield a CBD hemp oil that is naturally high in cannabidiol. CBD hemp oil products are being purchased from online stores and shipped directly to all 50 states and many countries. Growing Hemp for CBD is the most profitable segment of the market today.

The term "short, bulky Christmas trees" describes a typical CBD hemp crop. Hemp CBD plants are planted outdoors with 3 square feet of separation.

Depending on the circumstances, and farming method; cultivating hemp for CBD can generate \$20,000 to \$30,000 or more per acre. Prices for dried hemp flower (CBD Hemp Biomass) can range from \$20 - \$25 - \$35 per pound with various percentages of CBD content. Trimmed and packaged CBD hemp buds for smokable hemp can wholesale for \$250. per pound or more. Tested and verified CBD content levels is the key and primary factor for the price of CBD Hemp.

Largest California Companies Selling Hemp Products

There are over 10,000 products that can be made from industrial hemp. The three largest companies in California selling hemp products are Dr. Bronner's, Patagonia and Nutiva. Dr. Bronner's in Vista, CA makes soap with hemp oil. Patagonia in Ventura, CA sells hemp clothes as well as outdoor & active gear. Nutiva in Richmond, CA sells organic super foods. HempTaders.com in Paramount, CA is the oldest online retailer of hemp products in California. BulkHempWarehouse.com sells both hemp products and seeds.

The National Market

According to the Hemp Business Journal, the total sales for the U.S. Hemp Industry in 2017 were \$820mm. \$190mm were for Hemp-Derived CBD products, \$181mm were for personal care products. \$137mm were for hemp food products. Food sales were led by the Snack Food category. Industrial Product sales were led by the Automotive category. The U.S. hemp industry grew 16% in 2017 amidst continued domestic legal and regulatory challenges. The hemp industry was bolstered by explosive growth in the hemp-derived CBD category that grew from a market category that did not exist five years ago to \$190mm in sales in 2017. The U.S. hemp industry is poised to reach a \$1 billion-dollar market level this year led by hemp-derived CBD, food, personal care and industrial products. Now that hemp is federally legal, the market is rapidly expanding.

In 2019 it is safe to say that 98% of the hemp growing in California is being grown for the CBD market. Large supermarkets and drugstore chains like Walmart and CVS have announced plans to sell CBD topical products. When the FDA and the California Department of Public Health eventually approve CBD in eatable products like water, energy drinks, ice cream, cookies and pills, the CBD market will have another huge surge in growth. The CBD hemp market will continue to grow in supply and demand for several years. However eventually CBD will become a real mass-produced commodity and the market will change. It will become something like vitamin C that is found on store shelves in orange juice, vitamin-water, vitamin pills and added to corn flakes. People make money buying and selling vitamin C, but it is a commodity with commodity profit margins.

Over the next five years the percentage of hemp grown and processed in California will switch from mostly CBD hemp to mostly industrial hemp, grown for seed and fiber. In the future, companies like Levi Straus will be selling 100% hemp jeans and 50% hemp jeans. Chain stores like Starbucks will be using hemp paper coffee cups with hemp bioplastic lids. Building materials and hundreds on other products will be made from California industrial hemp. Just like all industry the hemp market will be affected by both automation and the forces of supply and demand. Hemp is a uniquely strong, versatile and value creating plant. A green, sustainable and profitable hemp industry will grow and thrive in California with no end in sight. Now is a historic time of opportunity in this industry.

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