

Transactions and Processes Taking Place in the CBD Hemp Industry

Farming

Currently, it's the small minority of farmers who have their CBD biomass contracted out to go to an extractor at a predetermined price that they can turn a profit on. The vast majority of farmers are growing a small plot of hemp because the risk of unknowns and the cost to grow the labor-intensive crop.

The market for biomass is down to a point where the most farmers cannot make money only selling their biomass outright. It takes a guaranteed contract and established hemp friendly infrastructure on a very large scale to make money selling biomass outright. Most transactions take place between a farmer and a processor as a split or toll. A toll contract is such that a farmer would pay the processor a price based on input or output weight or volume to extract their biomass and give them back a crude oil, another intermediary substance, or a finished product as you call it. In a split contract the processor would keep some of the processed extract as payment and give the remaining desired extract back to the farmer. A farmer could potentially take their product even further and pay a processor to have the THC removed from their extract and/or turned into a consumer product.

Farmers have had a hard time because they can't make money off of what they do best, farming, but instead have had to get into the extract market or even the consumer finished product market to get a return on their biomass. The new temporary regulations will make this even tougher on the farmer by making the processor either dilute the farmer's extract before they could take possession of it, effectively decreasing marketability, or force them to remediate the THC from their extract below .3%, or turn it into a consumer product incurring additional costs and making them enter undesired markets. As the temporary regulations are written I am not sure a farmer could lawfully take possession of a diluted intermediary substance created from their own biomass to sale even though it would be below the legal .3% THC.

Processors

There are many different steps and tiers of processing CBD biomass and turning it into a marketable extract and different steps can yield a final product that could also be viewed as an intermediate substance. Take for instance high CBD distillate or CBD Oil. Before THC is remediated from a CBD Oil it is roughly around 3%, which is a common level. That 3% distillate could also be sold to a processor or manufacturer of consumer products where it will be diluted well below the .3% mark before it reaches the end consumer.

Likewise, as the temporary regulations say, for a product to leave a processing facility the THC has to be .3% or below. To get that CBD oil down from 3% to .3% you have to dilute by a factor of 10. If you have one five gallon bucket of undiluted CBD Oil you now have 10 five gallon buckets of diluted CBD Oil. Incurring extra costs by having to purchase diluting agents, usually

ethanol or MCT oil depending upon the type of extract. Diluting not only brings the THC down but will bring CBD content down 10 fold in this instance leaving you with an unmarketable low CBD content finished product.

That intermediate substance/final product could also be remediated of THC to get it below .3%. This process is not so easily done as stated in the temporary regulations. It is usually done with chromatography, which incurs a significant financial investment of equipment and is an expensive process to perform with a steep learning curve. It would be very unfeasible for someone to hijack a shipment of crude oil or high CBD distillate and try to extract the THC from it as an illegal operation. There are much easier ways to obtain THC.

From a purchasing viewpoint of wholesale extracts for further processing a diluted intermediate substance is also not appealing. Take an extractor for instance trying to sell his CBD crude oil. They will most likely have to mix that to a 10:1 ratio of ethanol to crude oil to legally get it out the door. A post-processor would be looking to purchase this crude oil but the diluted crude comes with extra processing steps.

First of all, if you want to purchase one five gallon bucket of crude to turn into a finished product CBD oil, which is a very small amount in the wholesale market, you will be receiving 45 gallons of ethanol with that 5 gallons of crude. The last purchase I made was for over a hundred kilos of crude oil which is roughly 5 five gallon buckets. That transaction would now be 50 five gallon buckets containing roughly 225 gallons of ethanol. You can see how this could get out of hand rather quickly with costs and logistics in addition to transporting that much ethanol in a cargo vehicle. Once the diluted crude oil is received at the processor they have to evaporate the ethanol out of the CBD crude oil before it can be further processed. Creating a need for solvent recovery equipment and storing and handling many gallons of ethanol they may or may not have any use or permitting for.

Consumer Products

A co-packer, white labeler, or manufacturer of CBD consumer products would purchase wholesale bulk CBD extracts from a wholesale hemp CBD processing facility. Just like with a processor purchasing diluted crude oil from another processor the consumer product manufacturer would have to purchase diluted extracts, unless that product had undergone costly THC remediation, when they can purchase undiluted extracts from sources who do not have those requirements.

CBD products you see on the shelf can be made with undiluted extracts and are well below the .3% range. A small amount of CBD Oil goes a long way. Take for instance a 2 fl oz 1000mg CBD tincture. Which is on the more potent side of CBD content. 2 fl oz is roughly 60 ml and 1000 milligrams is one gram. Of that 60 ml only one gram is CBD oil or roughly 1 ml. If the CBD was derived from CBD oil which has 3% THC content only that 1 ml contained THC. So 3% of 1% in the entire bottle is THC. A very small number.

Regulations Effect on Business

These new regulations will force hemp processors/farmers to be involved in multiple tiers and steps of processing to turn out a cost-effective marketable product. Asking them to incur extra processing costs to make their product comply with regulations or make potential major capital investments in equipment so their product never has to be transferred to another processing facility before becoming a compliant finished product.