

Hemp – An Interesting Licencing Alternative to Accessing the CBD Market

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Canadians are able to apply for a wide variety of licences to access the Tetrahydrocannabinol (THC) and Cannabidiol (CBD) market. THC and CBD are the two most prevalent of the active ingredients of Cannabis and CBD is also prevalent in Hemp.

There is one main difference between THC and CBD – THC has psychoactive (intoxicating) effects while CBD does not. As a result, many regard CBD as a healthier and socially conscious choice and point to the following benefits that makes CBD a lucrative market:

- According to the World Health Organization, with CBD having no psychoactive effects there is no perceived risk of abuse or dependence
- There is no evidence of any public health concerns related to the use of CBD
- Some of the perceived health benefits of CBD include^[1]:
- Pain and inflammation relief
- Post-traumatic stress disorder (PTSD) management
- Reduction in epileptic seizure frequency
- Reduction in anxiety
- Treats insomnia
- Eliminates stress
- Helps fight cancer
- Improves heart health
- Decreases the risk of diabetes

Rise in CBD Interest^[2]

- Consumer interest in the CBD market has dramatically increased in the last 5 years
- The US market for Hemp was US\$50 million in 2014
- The Canadian market for Hemp was CAD\$181 million in 2016
- The recently passed US Farm Bill operates to remove all federal restrictions on the cultivation of industrial hemp, remove its classification as a Schedule I controlled substance

and after many years of prohibition, American farmers are acquainting themselves with industrial hemp

- The US market for Hemp is expected to hit US \$736 million by 2020
- Canada's introduction of CBD infused edible products in October 2019 is expected to significantly increase the demand for CBD
- The Canadian market for Hemp is expected to hit CAD\$1 billion by 2023
- Now that Hemp is legal nationwide in the US and Canada, researchers are actively studying the health benefits of CBD and making such studies available to public health officials worldwide
- CBD is being touted by politicians and the medical community of both Canada and the US as an important alternative to the opioid crisis

Introduction to Licencing

- In Canada, there are three^[3] main and distinct licences that can be obtained if one hopes to cultivate CBD. They are:
 1. Standard
 2. Micro
 3. Hemp

Licence Comparisons

- The standard licence imposes the most restrictions on cultivation, including stringent physical security requirements and identification requirements. It also requires significant capital and application costs and, in reality, only the large Cannabis players have the financial wherewithal to obtain a standard licence
- Unlike large standard licenced producers, micro-cultivators are restricted to 200 square metres of canopy or growing space and micro-processors are restricted to handling a maximum of 600 kilograms of product a year. While micro-cultivators and micro-processors are subject to less stringent security requirements they still have significant capital costs, including new requirements to have a building in place before an application can be made. Micro-cultivators have difficulty securing financing and grapple with the regulatory requirements. Only one licence is permitted per unique address. As a result, the number of companies obtaining approvals has fallen far short of expectations with so far only 3 licenced micro-cultivators and only 1 micro-processor in Canada to date
- Alternatively, a Hemp licence imposes the least restrictions and costs upon a licence-holder.
- A Hemp licence holder is not subject to the same reporting requirements as standard and micro licence holders pertaining to public safety and crime prevention
- While standard and micro licenced holders both require a Canada Revenue Agency (CRA) licence, a Hemp licence holder does not require this additional licence
- No longer any minimum acreage requirement and no restriction of only one licence per unique address like there is for micro licence holders
- Criminal Record Checks/Security clearances are not required for a Hemp licence holder like they are for standard and micro licence holders

History of Recent Hemp Regulation

- During the 1980s and 1990s, there was increased interest in the cultivation of industrial hemp as a potential new source of jobs in the agricultural and industrial sectors
- There also existed an increased need to develop alternative sources of fibre

- Between 1994 and 1998, research was conducted to show that it could be successfully grown in Canada separate and apart from Cannabis
- As a result, the first set of *Industrial Hemp Regulations (IHR)* came into effect in 1998. Growers were initially only allowed to harvest hemp for seed and fibre and the CBD enriched leaves and flowering heads had to be destroyed
- The IHR were amended and added to the Cannabis Act and effective October 17, 2018 growers can now legally harvest the CBD enriched leaves and flowering heads of the crop and access derivatives of the plant, including hemp seed oil (oil derived from seed or grain) and hemp flour
- Pursuant to the IHR, industrial hemp includes cannabis plants and plant parts, of any variety, that contains 0.3% THC or less in the leaves and flowering heads
- Once CBD is extracted from Hemp it becomes “cannabis” under the Cannabis Act and one of the alternative cannabis licences (eg. Standard or Micro Processor Licence) is required to carry out the extraction.

The Benefits of Hemp

- Hemp is one of the oldest domesticated crops known to man, having been used for thousands of years
- Hemp is an attractive rotation for crop farmers because, as it grows, it breathes in CO₂, detoxifies the soil, and prevents soil erosion
- Hemp can be grown as a renewable source for raw materials that can be incorporated into thousands of products
- The fibre and stalks can be used in hemp clothing, construction materials, paper, textiles, rope, twine, biofuel, plastic composites, and more
- The grain from industrial hemp can be used in food products, cosmetics, plastics and fuel
- Multiple revenues are possible with Hemp in that a farmer can capture revenues for the seed, fibre, grain, flowering heads, branches and leaves

It will be interesting to see if more and more farmers start considering the route with less costs and regulatory obstacles and obtain a IHR Licence to take advantage of the CBD craze.

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[1] <https://www.cbdoilcanadahq.ca/laws/>

[2] <https://www.leafly.com/news/industry/investing-in-cbd-companies-watch-out-for-these-warning-signs>

[3] Nursery is a fourth licence but it only deals with seeds and is not considered a main licence