

Innovation in Hemp Changes Market and Risks

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The hemp industry is booming as its applications continue to expand. The global industrial hemp market was estimated at \$4.13 billion in 2021. The potential opportunity, and the fact that hemp is less water-intensive and typically easier to farm than other crops, has attracted thousands of farmers and entrepreneurs to the space. With industry growth, however, comes evolving challenges, risks and considerations.



Commercial Hemp Needs Expand

Unlike its THC-heavy cousin cannabis, the uses for hemp are typically commercial rather than direct-to-consumer. Hemp farmers therefore grow and sell their crops in high volume to a variety of industries. Innovators have discovered hemp as a sustainable, low-carbon ingredient with an enormous number of potential usages, including hemp oil, paper, timber, industrial materials, textiles, and clothing.

As the public demand for more sustainable products grows, the commercial uses and needs for hemp are likely to expand as well, opening more opportunities for entries into the market, more competition, and increases in exposures.

Risks and Coverage

Hemp businesses and growers face many challenges, but the issues that result in severe, sometimes catastrophic claims are related to crop failure and product liability. To manage these risks, industry players should consider the following coverage options and precautions:

Crop insurance. Crop failure has unique conditions in hemp farming, but with the same potential to devastate a business's annual revenue. In the highly regulated hemp business, a crop is deemed unusable if more than .03% THC is detected. To protect against enormous losses, hemp growers should secure crop insurance through one of two avenues. The first is to go through the federal government's Federal Crop Insurance Corporation (FCIC). As 90% of hemp is grown outdoors, it typically qualifies for FCIC coverage, which will cover up to 80% of the failed crop's potential yield.

Under its present policies, the FCIC pays an average of 63% of the premium and policyholders pay the rest. THC levels must still be closely monitored to maintain insurability. The [USDA](#) has made clear, "Hemp found to have a delta-9 THC level above the federal legal level is not an insurable cause of loss."

The second crop insurance option is Parametric Crop Insurance, which covers crop damage in the case of

weather events. However, insureds must specify the weather event they are insuring against and must take out separate policies for each peril they wish to protect against. Though valuable in the right circumstances, Parametric Crop Insurance can be cost-prohibitive for smaller businesses, with premiums as high as \$100,000 per year.

Product liability insurance. Product liability is of huge concern for hemp businesses. Extensive product testing needs to be done before any product reaches the end customer or is sold to a producer. Underwriters look closely at third-party testing facilities hemp businesses are using, tests the product is going through, how the product is being extracted from the plant, etc. Specific best practices vary by the size of the business and the product itself, but all hemp businesses should hold product liability and product withdrawal insurance.

Many hemp businesses provide white label manufacturing for other companies, which increases risks and liability exposure if a major claim arises. To avoid this, product liability coverage and product testing needs to be enforced at all levels and contracts need to explicitly address processes.

A Changing Market

The hemp market has changed rapidly in the last two years, as shifting regulations have increased industry visibility. When hemp products became widely legal in the U.S., it created incredible momentum that continues to fuel hemp popularity today.

Recently, some hemp farmers have found themselves in a gray area as they develop delta-8 products. Delta-8 products are technically legal since they don't contain THC, but they can get users high. Across the country, delta-8 products are widely accessible and unregulated. Hemp farmers have benefited hugely from delta-8 opportunities, but it is likely that they will soon face regulatory barriers due to concern from state officials and some medical professionals.

Supply chain disruptions have also recently impacted the hemp market, delaying packaging shipments needed to distribute products to customers.

Hemp businesses need to keep a finger on the pulse of the evolving market and relevant regulatory changes, managing risks and mitigating exposures. Risk Strategies experts can provide counsel to ensure hemp crops, products and businesses are properly protected.

Want to learn more?

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