

silicon valley *cannabis alliance*



6/19/23

Senator Roth
Chair of the Committee on Business and Professions, and Economic Development
1021 O Street, Room 3320
Sacramento, CA 95814

Re: AB 1111 (Pellerin) – Cannabis: small producer event sales license

Position: Strongly Opposed.

Dear Chair Roth,

If all that was needed for a cultivator to be successful in this market was marketing and direct contact with customers at licensed special events, this sector of the industry would be trending successful. Cultivators have

received the ability to market and educate their product to the general public via special events in the emergency regulations which is the basis for this bill from the author's description of its intent. This bill only add the ability to individually sell products produced on one farm when currently special events already have the ability to retail sell all cultivators products legally produced.

Last year AB2691 the same bill last year received a budget of \$4.3 million dollars and 12 new full time DCC staff to enforce and administer these thousands of new potential part-time retailers. This year the enforcement budget has been reduced to \$500,000 and 3 full time staff leaving a gaping hole for diversion. The DCC and local law enforcement haven't been able to reduce the number of illegal retailers and illegal delivery companies from flooding the market and to assume that they will be able to do any meaningful enforcement with 4000 new cultivators being retailers with this budget and staff is not a risk this industry can afford.

The economics of this bill were put forth showing losses in a business budget to become a part-time retailer. These losses show the attempt to sell for increased margins at special events is eroded away at the high cost of our industry's compliance. Why would this bill change that? It won't. What it does do, is widen a dangerous loophole that allows for diversion into the unregulated market. The increased opportunity for diversion has to be at the fore-front of our reasoning in order to stem the bleeding of products out of our legal, regulated industry.

Below are current work-arounds used to divert and gain profit from the unregulated market:

1. Underreporting of harvest totals to push untaxed products to the unregulated market.
2. "Double-harvesting" or "topping". The process of cutting the biggest and best buds off the top of mature cannabis plants. This allows the most valuable part of the plant to be harvested undetected, so it can be processed and made available to the unregulated market sooner, rather than following the path of the regulated supply chain.
3. Packaging is not regulated or tracked. Buying 10,000 jars and only bringing 2,000 into the regulated market leaves an opportunity for 80% of the harvest to appear to be regulated but the opportunity for diversion is increased.
4. The demographic of buyers at special events is trending towards an unregulated buyer. This bill is pushing the opportunity for diversion into the unregulated market.
5. Farmers are incentivized to take all the sales they can get at a special event. There is little oversight on deals made at the event or to future deals that could go around the regulated taxed market. Once this new customer is introduced, diversion to an unregulated delivery retailer to provide the exact same product for a far cheaper price than the regulated price is an attractive deal for both sides of this transaction..
6. CCTV cameras are not part of the regulation for special events like they are in the licensed brick and mortar retailers. Licensed retailers are mandated to hold 90 days of video showing every transaction. This allows for yet another opportunity for diversion and a lack of tracking of unregulated sales.
7. "Burner Cultivation Licenses" will be the new way to defraud the state and use disposable cultivation licenses to move products from the regulated market to the illicit market.
8. Illegally grown product is leaked into the regulated market by purchasing a cultivation license and pushing that illegally grown product to new consumers. This is incentivised by the ability to meet new customers at special events to further the underground sales. This further blurs the lines between

regulated and unregulated products. Prop 64 separated licenses so there would be a checks and balance between license holders and there are currently 3 ways for someone to obtain the right to retail sell. Retail, Delivery, and Micro-Business licenses are all available with local approval.

- 9. AB195 removed the Cultivation Tax and took away an auditing tool for compliance.
- 10. SB622 - Plant Identification Program Bill is attempting to remove the plant tags on each plant, removing yet another auditing tool for compliance in cultivation.

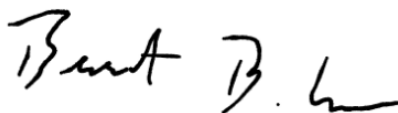
If we are not going to monitor, audit, and enforce the single largest sector for diversion to the illicit market then we have failed the purpose and intent of Prop 64. Changing Prop 64 with a 2/3rds vote without violating the intent of the voters comes only if we are making the cannabis industry better and this does nothing to better the overall revenue of the industry or open up new markets or support the entire supply chain.

We ask for AB 111 to not be approved by the Committee. For questions, contact our Legislative Advocacy Chair, Jerred Kiloh from United Cannabis Business Association at (707) 235-8474.

Sincerely,



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