Licensing Caps and Vertical Integration in the Cannabis Industry: Market Implications and Outcomes

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Panelists:

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Jerin Presley, Manager of Interagency Collaboration, Oklahoma Medical Marijuana Authority

Moderator:

Natalie Fertig, Federal Cannabis Policy Reporter, Politico

TRANSCRIPT

Holly Griffin: Thank you for attending Licensing Caps and Vertical Integration in the Cannabis Industry: Market Implications and Outcomes hosted by the Drug Enforcement and Policy Center at the Ohio State University, Moritz College of Law. Before we begin, we just have a few notes we'd like to share with you. First, to streamline the appearance of the webinar, we suggest that you hide non-video participants. To do that, click on the three dots at the top right corner of any participant box that has their video off and click hide non video participants. Second, we want to draw your attention to the Q & A function at the bottom of the zoom window. You may submit questions at any time. Please, note however, that there is limited time available for Q & A at the end of the session. Third, close captioning has been enabled for this event. To change how you view the transcript or to hide it, click live transcript in the menu at the bottom of your zoom window. Finally, this event is being recorded. The recording will be made available on the event page and social media channels as soon as possible after the event. Follow us @OSULawDEPC, to stay up to date on our research, programming, and future events. Thank you again for joining us, and we hope you enjoy the event. Doug?

Douglas Berman: Thank you so much, Holly. And thanks, all of you joining us today. I am Professor Doug Berman and I'm the Faculty Director of the Drug Enforcement and Policy Center and stealing just about thirty seconds at the front of this terrific program to not only welcome and thank our participants, but also by the attendees, and to highlight that this is the third of a series of of three events we've done this summer, where we've been calling the cannabis regulatory deep dive. And it's part of our effort at the Drug Enforcement and Policy Center to elevate sophisticated conversations about the cannabis industry and drug policy reform more generally, and I couldn't be more grateful to have this ah event kind of conclude the summer as we we think about the fall, and I'm especially grateful to now be able to hand it off to Natalie Fertig, who joins us from Politico, senior cannabis reporter, who's going to moderate what I'm excited to listen on as a terrific discussion about cannabis regulation across the country. With that, Natalie go right ahead.

Natalie Fertig: Yeah, thanks, Doug. I'm really excited to be here for anyone who doesn't know me. I'm not Natalie Fertig. I'm a federal cannabis policy reporter at politico. I am a big nerd about state licensing caps. So I was, and regulations and all these different ways that states are navigating legal cannabis. So I'm really glad to be asked to do this. I'm going to have everyone introduce themselves, and explained just really shortly. Um kind of what the licensing system is in the state that they're going to be talking, or the city that they're going to be talking the most about on this panel, so that everyone has a really brief overview before we get going. So, Kaliko, why don't we start with you?

Kaliko Castille: Aloha! Hello, everybody! My name is Kaliko Castille. I'm the President of the Board for the Minority Cannabis Business Association. I'm feeling fortunate to be here today. I'm actually going to be providing a national perspective. We actually put out a report a couple months ago called the National Cannabis Equity Report. It really looks at all of the State legalization efforts. It really evaluates from an equity perspective what works and what doesn't and specifically looking at license caps and and and vertical integration. I will be able to sort of provide a national perspective on that today.

Natalie Fertig: I may also bother Kaliko to talk about Oregon every once in a while. Great. Cat, why don't you introduce yourself?

Cat Packer: Thanks, Natalie. My name is Cat Packer. I am the former Executive Director of the City of Los Angeles, Department of Cannabis Regulation. I currently have the pleasure of serving as a Distinguished Cannabis Policy Practitioner for the Ohio State University Moritz College of Law, Drug Enforcement and Policy Center, and I serve as the Vice Chair of the Cannabis Regulators Color Coalition. So I'm excited to join this conversation and share my perspective. One's on the west Coast and the City of Los Angeles, and now, looking at these things on a national level.

Natalie Fertig: Cool. Uh Jerin?

Jerin Presley: Yes, my name is Jerin Presley. I am the agency liaison at the Oklahoma Medical Marijuana Authority. Um, and just to kind of give some context in Oklahoma in 2018 the people passed state question 788 um, and within that state question the agency had to get up and running within sixty days, which is a relatively short amount of time, especially compared to other states. And so we have started to pass some legislation, and recently we had a moratorium put in place, and hopefully I'll be able to speak a little bit about that and give some context in that regard and some things that are happening here in our state as cannabis is booming.

Natalie Fertig: Thanks, Jerin. And last, but not least, Claire.

Claire Moloney: Hi, everyone I'm Claire Moloney. I'm the VP of business operations here at LeafLink. LeafLink is the wholesale cannabis platform, and we currently work with eleven thousand licenses across the country, and more than twenty-five markets. They use our platform to manage their wholesale orders, payments, and shipments. And in my role I'm responsible for launching new markets, and I was actually the company's first hire. So I've been launching those twenty-five markets for the last seven years so I'll definitely be giving more of a national perspective today. Most recently I've been focused on our launches in New York and New Jersey, and then I've spent a lot of time with our Illinois, Massachusetts, and Pennsylvania customers, so I'll have a bit of an East Coast lean. But I've definitely worked across the country.

Natalie Fertig: Awesome. Thanks, Claire. And we have one other potential panelist who, we hope, will be able to join us, just having issues calling in at the moment. But Axel, from New York City or New York State, may be joining us eventually, and we will loop him into the discussion when and if he does. So I wanted to get started by talking about um. you know we could separate a different licensing structures into a lot of different buckets. But one of the biggest, I think, is the wide open licensing structure versus the ah, more narrow licensing structure which can show up in caps, or, you know, wave licenses, or, you know, very heavily, vertically integrated systems. And let's just start by you know I'd love everyone to sort of give their take on which tends to create a robust market from what they've seen. I know it's a it's a complicated question. But um, you know kind of what are the pros and cons of each system? So um Cat why don't you start by giving us your biggest pro and your biggest con of the closed system versus the open system.

Cat Packer: Thanks, Natalie. I, through my previous experience working with the City of Los Angeles. Just for context, the State of California does not have the cap um a number of licenses that it would issue, but, like many jurisdictions Uh, the State of California gives local authority to local jurisdictions, to decide whether or not to allow, prohibit or regulate commercial cannabis activity. What we've seen as far throughout California is that many jurisdictions that will continue to uh outright prohibit uh commercial cannabis activity. Uh, but at the local level in the City of Los Angeles uh the City of Los Angeles decided to license and regulate uh commercial cannabis activity, starting back in 2019=8 when we first began to uh license and implement its adult use program uh, but the City of Los Angeles did decide uh to put caps in place. And I want to talk a little bit about this framework in the City of Los Angeles because it has matured over time. Uh, but the reality is that the City of Los Angeles did establish caps specifically for cultivation and for retail activity.

What I saw as the lead regulated there was that there was just a huge demand to participate. Many more folks wanted to participate particularly in cultivation and retail activity uh, than, the city's framework would allow. Uh, and with these caps that the City of Los Angeles has, and other jurisdictions have, the second question that regulators and policymakers have to contend with when a cap is established is, what is that limit going to be uh, and then how are you going to determine, uh, who actually receives a license? Are you going to use a merit process, are you going to have a lottery? In the City of Los Angeles for our first round of retail we had a first come first served model, and I have long uh spread word across the country that I hope folks don't replicate uh what we did in the City of Los Angeles in terms of our first come first served retail process because what we saw happen at the local level was that it created this process that was extremely competitive. There was chaos and frenzy as folks moved very quickly to try and participate in what was a limited process. I believe ultimately we had close to 800 applicants participate uh for our first round of retail licenses in which only one hundred were going to be selected to move forward. And I say that with the context, knowing that the City of Los Angeles local market, even just for retail is larger than some state markets uh for retail. But even with the cap uh first round of one hundred licenses, what we saw was that a frenzy, and folks spending a lot of money to participate in the process, and I think the lesson learned for me, and that I try to share with regulators is that you know there are going to be winners uh and losers when we have these uh competitive processes. Uh, and we have to be able to think intentionally about how we mitigate risk associated with participating in the process. Uh, because what we saw in the City of Los Angeles was a lot of folks expend a lot of resources, and then ultimately not be able to participate in the local market. So I'll stop there so that way we can tag some other folks, Natalie.

Natalie Fertig: We'll come back around to some of those things down the road a little bit. Jerin, you are representing Oklahoma here for us and Oklahoma and Oregon are sort of famously like the Wild West. You know, everyone wants to be the Wild West of Cannabis now. Um, like Virginia got called that this week. I don't know what's happening with that. Um, I guess they can come be part of the West if they want to be. But Jerin Oklahoma, wide open. Um, you know, kind of everybody who wants to get into this can get into this. But then, at this point now you're a few years in, and you're starting to put some kind of tap that down a little bit right. So tell us kind of where you came from, and then where Oklahoma is at now.

Jerin Presley: Yeah, Natalie. So um where we came from would be very much a free market state, where licensing fees are relatively inexpensive, especially compared to that of other states. So it's $2500 for a commercial license. And then you pair that with the cheap cost, or, I should say, inexpensive cost of land here in our state of Oklahoma. And so what we've seen, especially in the early stages, is a large influx of people from other states, Colorado, California, moving to the state of Oklahoma and opening up cannabis businesses almost I don't think when the state question was passed that anybody could have anticipated the number of patients that the state of Oklahoma would have. We have close to 400,000 patients just underneath, and so there was a demand, and with that demand came more and more businesses and regulation now, I should say we're the legislature, and the people I believe, would like us to get a better regulatory system in place to help regulate the industry and a little bit what Cat talked about is, I also feel that several people moved here for the reasons I mentioned low cost, but they really didn't take into account that that the market was somewhat oversaturated, especially in the last year or so. Just 11,000 current commercial licenses is quite a bit, and our state population, I'm not sure, reflects the demand for that many licensees. So it's been, it's been interesting, to say the least.

Natalie Fertig: Yeah, I mean, you guys are now limiting licenses. Correct?

Jerin Presley: That's correct. So a moratorium recently went in place. And so what that means is that if you are a commercial grow, dispensary or processor um, you can no longer apply for a new license. We will only do renewals for those licensees, and so that gives us two years um to hopefully just better regulate the industry than what we have in the past, and be more proactive, as for our state agency at least, and so that I think the hope would be that we can get caught up in, and some of those inspections and things like that, so that maybe we're not taking so much that title of the Wild West. We still want to have free market, and we still want to look out for our licensees. But at the same time we're trying to find that balance there.

Natalie Fertig: Yeah. And you know, when you are looking at your model, because it is so similar to what Oregon also did. Were there any things that you looked at Oregon, and you know, and and you're kind of following a similar trajectory, like Oregon did eventually get to the point where they started to cap licenses as well or said, you know, no new licenses. How much of what they did and the mistakes that they made, have you guys looked at and and tried to do something different?

Jerin Presley: Yeah. So I think we have looked at at Oregon for sure and some other States, and tried to kind of mirror some of their procedures that they put in place, some of the regulations. Um, you know we we obviously talk at different conferences and things like that, and try to collaborate together to figure out what is what is that happy medium that I spoke about before? Especially for um, you know, having a free market and wanting people to be successful. And and having it open to everybody, but also being able to successfully regulate that business and and try to weed out those, pun intended I guess, illicit markets that are that are in our state.

Natalie Fertig: Alright, uh cool. Thanks. Uh. So one of the things, though, that you know we're we're not going to talk too much about the states that have really sort of had a lot of major issues, but because they're they're fun to talk about, I thought we would touch on that first, and ah up here, up front. And, Claire, I think you came prepared to talk to us a little bit about the "do not do" states. So can you tell us what those are in your opinion?

Claire Moloney: Yeah. So and this actually kind of follows the points of the previous two. Um thinking about license caps, I from working in uh, both uncapped and capped license markets, you can see a stark contrast in terms of what is actually available for sale in those states. Right? So in states where you have capped license markets, you often have less variety, and also higher prices as a result. And so just to compare some states, so in Illinois and New Jersey right now, for example, the price of an eighth is about fifty percent higher than that of an eighth in Colorado or California, which are both uncapped license markets. And I think what's kind of ironic is that I think a lot of times caps are instituted as a way to control what product is sold in the legal market compared to the illicit market and make it easier to manage um, those licensees, being able to inspect those facilities, um, making sure that you're tracking and tracing all of the sales that happen, but kind of ironically, there was a study two years ago which showed that actually in California a twenty-seven percent of all cannabis sales were be being done in the legal market compared to seventeen percent in Illinois, where they are very strict license taps. And so I think the actual goal of caps, which is for compliance is actually not being achieved by caps at all. It's actually the opposite. And I'd kind of love to hear from the other panelists what they think about that claim. How they feel, especially having actually managed the compliance of the states too?

Natalie Fertig: Well, I saw Kaliko smile, so. I know Axel is on. We'll talk to him in a second. But, Kaliko, you smiled. Why, don't you give your opinion on this first?

Kaliko Castille: I appreciate that. Part of the context that I wanted to provide here is that limited licensing is a business model. Like, it's literally how MSOs are pitching themselves to investors in order to maintain their market share. So there's some aspect of like when we're talking about limited licensing it's important from a regulatory standpoint. But it's also a policy that actually determines the equity, the actual backgrounds of the industry. Right? So license caps well, you know, they may be well intentioned, end up having an effect where, even as Claire was saying it ends up proliferating the illicit market but also ends up basically giving those markets away to these MSOs because they can just wait out everyone else and end up swallowing up through a bunch of ways. Then I think it's also important context that you know federal prohibition is the elephant in the room. We're talking about all of these regulatory schemes, because we're trying to figure out how to keep the feds out of our states right? So there's a certain element that even with Oklahoma being sort of what it's going through, that in a in an open market with interstate commerce, like these things would naturally play themselves out, and states like Oregon and California, that were natural export states wouldn't be having an over supply problem, they'd be having right now they have a market access problem. So I would just say that those are two important contexts, is that limited licensing is a business model but MSOs have very much benefitted from and helping to fight equity, and then the elephant in the room is one hundred percent Federal prohibition. And that's what we're trying to think of all these creative ways to regulate a system that ultimately, if we had a truly free market, would end up working itself out because it's ultimately not plutonium or uranium, it doesn't require quite the level of regulations that we put on this.

Natalie Fertig: Yeah, I think that's actually a good reminder. Just for anyone who's on this on this call, panel who is not, you know, deeply seeped in cannabis policy, obviously the reason that we're talking about various state regulations are because every state must stand up its own standalone cannabis industry. So you know, Axel is coming in talking to us in New York. New York cannot say we want to license sellers and retailers, and then go buy weed from Oregon and sell it there. You know we somebody explained this to me when I was early on covering cannabis policy, as you know not every state that sells orange juice has orange trees and juices the oranges in their states. It's all grown and juiced in Florida, and then you ship it around the country and sell it in New York or Illinois, or wherever. That's not the case of cannabis, so every state has to juice their own oranges, and grow their own oranges in the cannabis industry, so to speak. So with that said Axel is now joining us, which is awesome, and he's going to be talking to us about New York, which, as we know, is like it's probably very new for New York to be like the baby in the market. You know our newest little friend here. No offense. Will soon be a very big friend, we are sure. But you know Axel, can you tell us a little bit about navigating this licensing cap versus no cap situation, because New York is kind of doing an interesting thing where it's not a capped situation. Can you explain that to us really quick?

Axel Bernabe: Sure can Natalie. It's a pleasure to be here with everyone. Fortunately, I've actually been following the entire conversation, but have been muted, as I called in with a phone originally. I'm driving. So I can't be on video. So I I followed it. I'm happy to talk about New York, but just a couple of comments with respect to the last couple of speakers. I think, as a regulator, we don't view our mandate of starting up a brand new industry, so much of imposing license restrictions because it's plutonium, while some regulators believe that probably, but you know we don't in New York and most other state regulators that I spoke with don't believe it's plutonium. We also don't believe in picking winners and losers through you know, roll out of licensing programs, and I'd distinguish that from caps because I think most regulators you'll talk to believe in a free market, so we'll get back to that in a second. But I think what we're talking about is we're talking about an orderly roll out of licenses. Because you have a market where demand exists in the illicit market, and you have a lot of people that want to participate in it. In fact, I think a couple of speakers have said too many people want to participate. Everybody wants to come in, and the problem with something like cannabis that can be grown fairly inexpensively outdoors as well is that if everybody comes in at the same time you crash the market and the prices bottom out, and you have a lot of people that get hurt.

So our responsibilities as regulators, is to sort of ease into the market in an equitable way, and to make sure that when to get to the competitive Nirvana everybody wants, we do so in a way that doesn't actually ah essentially bankrupt a bunch of small farmers, get ah social equity applicants to mortgage their house, borrow from their family, all of which we've seen repeatedly. So in New York we've cut down on any costs associated with applying for a license. We focus on equity. I can talk about that as well, but we have decided that licenses need to be rolled out in an orderly way. I love the idea of a free market. You know I'm an Adam Smith believer. I'm a competition attorney by training, so I do believe competition is the best outcome that people should be allowed to compete. I just have to get there. So how do you get there? So we are rolling out licenses. So eventually, five years out, seven years out, once there are signals from the market on what it costs to get in, what the supply you know the levels are, what the number of retail stores are, you will be able to make an informed decision on whether you want to spend money to get into the market. You'll look at it and you'll say there are X number of growers, I think I have a differentiated product, I can get into the market. Same thing on retail. I want to open. I think this community can, you know, can can support another retailer. This is the average cost of a retail location. So those market signals will be there. Right now they don't exist, and so we are just we are rolling them out to get to that point where at one point we will no longer need to do that, because there will be a market system.

So I'll just stop there because I know I could talk sometimes a little too much, but I'm happy to talk about how we're doing that through equity, and what our recent licenses we've already issued one set of licenses to small farmers. Our hemp farmers are the first ones to grow. No, MSOs. The MSOs are all waiting. Secondly, we are also just announced last week, at the opening of our dispensary licenses, and those all go to folks that have been convicted of a 221, which is our marijuana offense for sale or possession of marijuana. So we found, I think, hopefully, ways to encourage equitable starts, so that people that typically have been disproportionately impacted by the War on Drugs get in early and start building that as we move towards the market. That that's the philosophy here. So that's why I don't like to talk about caps. Because I think it's a misnomer.

Natalie Fertig: Yeah. So the one thing that I, as a journalist now want to ask you is what you know, where are the pressure points in this? It seems like every state that's come up with a system to get equity applicants in off the bat has hit pressure points that they didn't expect. You know, Cat was recently talking about all of the resources that a lot of different people applying for licenses had to get ahead of time, and we know often that equity applicants do not have the same resources as, say, someone who has been like working in real estate for twenty years in Los Angeles, and has all of these connections and resources, and deep pocketed people who are going to to put into this is something that also came up in Massachusetts as well. So that was not a licensing fee. That was not, you know, a a regulatory hurdle that was simply being the best pitch, and being, you know, in Los Angeles this case it was being the first to to the table. So how are you making sure that there aren't extraneous financial burdens on the equity applicants that are coming to try to make it into the first round, which is still going to be heavily competitive?

Axel Bernabe: I'm happy to take that again. Thank you, Natalie. I mean, I think that actually raises two points. One is, how do we learn from Cat and all the other West Coast and the East Coast and the Midwestern states that have already legalized, and I can tell you what we've learned from the giants on whose shoulders we stand, and it is a lot, and every new state gets to sort of perfect that approach. But, second, it addresses what Kaliko mentioned about the free market, and making sure that everybody who wants a license gets to go and letting folks that have been disproportionately impacted go first with everybody else. You know the caps favor MSOs. Not sure what they are saying we can do differently, and I so I'd be I'd be open to hearing about that. But when you open it up entirely for competition, to your point exactly, it is unsurprising that the people that are going to have the best head start of the bill to do so. So by doing nothing in terms of roll out, and in terms of focusing on social equity, you guarantee that the people that have most money will get in first, and will crush the competition. So that's what we've seen repeatedly. So I don't. I think that's a given. And what can a state do to fix it? So what did we do to fix it? Well, you know, we started by looking at what the cost is to apply, and we reduce that absolutely, you know, entirely. So originally what the state what some states did was require you to meet certain requirements and show your security plan, show your diversity plan, show all these things that were aspirational fundamentally, that nobody had. So it meant hiring an attorney and hiring a consultant to give you the best possible plan. We've removed all of that we focused on the individual, and in this case the individual has to have a conviction for marijuana possession or sale. So to do that we make the application extraordinarily simple. We focus on social justice and social equity applicants, and that that's just sort of the cornerstone of our of our application process.

Natalie Fertig: Does anyone want to jump in with any thoughts on that before we go on to, before we sort of transition?

Kaliko Castille: I'll just jump in real quickly, and just say that, like I agree with a lot of what Axel said and I'm and I'm quoted in some articles recently saying that, I think that New York as written is one of the best bills out there, and I think has been very thoughtful about these things, as it relates to rollout. I do think that that's a lesson learned from the West Coast that, like we want to make barriers to entry as low as possible, so that people have the opportunity to get in. But I do think being thoughtful about who gets in when is one of those places where you can put your thumb on the scale and get to an equitable place. So I definitely, you know, hats off to Axel and everybody who's working on the New York situation. I think that's the best opportunity we have to get to an equitable market right now.

Cat Packer: I'll just add on the conversation around these limited licensing caps. I don't think that we are in a place that so far removed that some of these issues can't be addressed. As I talk to regulators thinking about folks that are starting this for the first time, for example, uh the County of Los Angeles has a plan, so that they're starting very narrow, only issuing maybe a dozen license types uh across the board. But that still allows for folks room for folks to grow. And so what I'd love to see are some of these jurisdictions that have limited licensing schemes begin to consider what it would look like to take maybe the New York approach and model, and do the next wave of licensing in those particular jurisdictions. I think that be able to see more diversity, more participation, but in order for that to happen, the second way of folks who are participating need to have access to the resources that they need to to be successful.

Um, that being said, I, I think that there is a lot of work that we can do. We can talk about uh equity and access, but if there's no access to begin with, uh, it's difficult to have uh equity uh in access. And so I do think that the local level and state level uh jurisdictions can start to reconsider that. And I'd also, even though we have a situation in in California, where we still have many jurisdictions that uh that are not allowing for commercial cannabis activity, I would rather see states allow for uh open markets and free markets, and have local jurisdictions take the lead on deciding whether or not they should prohibit or allow for commercial cannabis activity. I think what I've seen in my experience is that the impacts of cannabis are local. Local regulators need to be empowered to manage a cannabis related issues, and I think part of what we're talking about as evidenced by Jerin and Axel from a regulator's perspective is the administrative burden that we have when we're trying to implement these programs for the first time. Uh, and you know what it takes to, uh impose a hundred different requirements. How much time, how many staff do you need? What level of you review is being done? Because we can let a bunch of folks in, but if we're not going to put emphasis in infrastructure on the regulatory model, then we've missed that mark as well, but I'd like to encourage fellow regulators in this space to continue to consider how they can increase access and make sure that that access is equitable.

Natalie Fertig: Oops, did either Claire or Jaren did either of you want to hop in on that?

Claire Moloney: I you know I I did reflect before joining this panel on some customers of ours that I've seen have that first to market advantage, and what that looks like over time. And I do think it kind of, there are a number of factors that play into, whether the first market entrance win or lose, and what that looks like. And I'm personally excited that New York is going to have more of an equal playing field as as compared to some other markets we've seen. But just to give like a couple of anecdotes here, um, one is Massachusetts, right, in the medical market, you had sixty vertical operators, and then they all had the first right of access to the adult use market. And then over time that market has released more and more licenses. And now, I would say, probably last year it finally had enough flower to serve the whole adult use market and actually had competition. And I've talked to some of the first entrants there, and they essentially said when we started it was all about getting flower on shelves. No one had enough flower, and so we could charge almost anything we wanted for that flower, and it would sell, right? And it wasn't about the branding of the flower, even the quality it was just about, do you have flower? Yes or no? Um, and I think that will definitely happen in the early days of New York, as well as some of these other earlier markets, where it's literally just about supply and demand. But over time, I think what really wins is the actual branding right? And so I've seen other operators in states that, like Colorado and California, be some of the earliest licensees, and they now have edibles, brands that are in ten plus states across the country, and that's because they really focused on their branding, and they focused on a mix of pricing and innovation within their products, and we're able to scale across the country. And so, you know, I see different stories based on how people focused on the early days. And whether they focused on hey, I'm first to market and and I have supply I can sell it. Or hey, I am first to market, and I'm going to take this opportunity to build my brand. And I'm hoping that these first licenses in New York will spend that time that they get focusing on how to build their brand, so they truly can scale as New York scales and introduces more licenses and more competition over time.

Jerin Presley: I think, in Oklahoma, what we're seeing is, it's not so much the large businesses coming in and smashing the smaller, you know smaller markets. People in fact, I think small and medium businesses in Oklahoma are thriving. What's interesting about our state, I believe, is the illicit market is what's hurting the price for our licensees. You know cutting, cutting into their profit margins and things like that. And so I think, as long as we continue to listen to our commercial licensees, and and I do feel there is a substantial portion of them that are asking us to regulate the market, and they were excited when metric came, and they were excited when we were starting to impose different regulations, because the illicit market has really hurt just our licensees our commercial licenses in our state. And so I think that's where we sit a little bit differently. I have seen some bigger businesses come in from California and Colorado and have success. But I I don't think that they're really crushing the small business owner by any means in our state.

Natalie Fertig: Nice. Well, speaking of small business owners and outside of an investment, I wanted to transition really quickly to talk about residency requirements because it's an interesting portion of the local licensing situation and caps. And how do we do this? And in Maine recently there was a case deciding that the Maine's residency requirement for dispensary ownership was struck down by the court. So there's a couple other states like Washington State that maybe they'll also be relooking at the residency requirements. Um, but you know, Axel was telling me that New York has found a very creative way to get around this residency requirement in making sure that the industry is, you know, benefiting people who live in New York that are from New York, but probably won't run into as many legal battles. So Axel, can you explain that really quick for us? If Axel is still there. Okay, we'll come back to Axel.

Axel Bernabe: I am. Just finding the unmute button while driving. So, yeah, I don't know if I'd characterize it exactly as you did, because it sounds like we're trying to circumvent something and a in a duplicitous way to get to the same goal. We understand the basis of the commerce clause and nondiscrimination against residents from other states. But what we've realized is that what we're doing as regulators in New York is we're trying to make up for the harms that were caused by the State of New York. And so when you reframe the issue there, and you don't talk about favoring a particular resident for the for the just the fact that they are a resident. That that's where you get in trouble. That's what the Supreme Court says in the Constitution, why are you putting your resident above anybody else's resident? But if you flip it, and you ask yourself what harm as the State of New York's criminalization of cannabis policy caused? Then you start, the way we frame it is well, who has it arrested? Who has it convicted? So we don't we don't discriminate if someone from New Jersey has come to New York and was convicted of an offense for selling cannabis in Union Square. They will have the same opportunity to apply for a dispensary license under our program from last week, as someone who was from New York who similarly got convicted for for that sale offense. So so we make it about New

York as the perpetrator. I feel terrible saying that about my state, but I mean that in the most respectful of ways. Just misguided you know social policy over the last thirty years of criminalizing something that's a public health issue. And so that that's how I think you look at it that way. The second thing is a question of residency. Some states have, you know Maine's case it's not clear from me, and I've asked some of our councils to look at it, but it's not clear yet whether that will end up applying requirement that whoever applies as a social equity applicant co-income neighborhood that has been disproportionately affected by the war on drugs. Would that kind of residency...

Natalie Fertig: Axel, I think we're losing you. Ah, I will come back to Axel. Ah, Jerin, you guys also had a residency requirement that I think a lot of people may not be fully aware of. But like including yours truly at first. Can you tell us a little bit what that was?

Jerin Presley: Yeah. So you have to be a resident of the state of Oklahoma for two years, and that resident has to have seventy five percent ownership in the business. So that is our requirement for a commercial licensee. Um, I will say um the goal when that was written was obviously to give back to fellow Oklahomans, to hopefully, they would be the one to prosper from the industry. However, we have found um that there are some interesting loopholes and things like that that have allowed businesses from other States to come in and operate in this market. And so, then I think we just as a regulatory body, look and reflect on our practices, and ask ourselves, how can we improve upon not only just looking out for the residents of our state, but also working out for all of our commercial licensees.

Natalie Fertig: Jerin, I'm going to stay you for a second for a slightly different question that actually popped up in the Q & A. And I think it's a good question based on what we've just been talking about with you know you mentioned the illicit market, the unlicensed market in Oklahoma, and how you guys are still dealing with that. I know this is something that has popped up in almost every state. I know Cat dealt with it in Los Angeles. I know that New York is currently looking at how they're dealing with some of the different businesses that have popped up. I mean there was a bunch of trucks in Times Square that were um shut down two weeks ago. Um, you know, if one of the purposes for legalizing marijuana is to undo the you know the negative harms of you know the criminalization of marijuana, what do we do with unlicensed marijuana grows that are then, you know, undermining local business owners, especially the equity business owners that are coming from you know that even that type of harm. It's like this weird cycle, right where you're saying, we're giving we're trying to put people into a place where they can economic benefit, because we put them in jail for this thing that we don't think is worthy of jail. But then other people are continuing to break the new laws um, and undermine these equity applicants' ability to make money and to succeed in the industry. So it's a big, you know tough question. But I'd be interested in hearing from Jerin, Cat, Axel and Kaliko and Claire, if you have anything else to add also um about this issue, because I think it's a really pressing one. So, Jerin, why don't you start?

Jerin Presley: Well, I think it's a really, that's a tough question. And once again that goes back to reflecting on our practice as a regulatory body is how can we get those elicit, the illicit market, how we can we cut that down? I don't know that we'll ever be able to get rid of it. Ah, but how can we start making a dent in that? And that's why we've implemented some different things, especially recently with the moratorium, with metric, which is our seed to sale program. Those sorts of things to hopefully put a dent into that illicit market, so that our commercial licensees can be successful profitable within the business. I would be interested to see that what other people think that's not a regulatory body on this issue a little bit, just because I'm interested to get their perspective on you know, I think, as you pointed out, like the criminalization of marijuana and things like that, I would be interested to see how they interpret uh the illicit market, and how big it is in other states as well, because once again in our state, uh, I would call it a substantial illicit market that we have.

Natalie Fertig: Uh well, why don't we hop to Kaliko then from the non-regulators perspective.

Kaliko Castille: Appreciate it. I mean I think in general as MTVA, we are opposed to the idea of like starting a war on drugs 2.0 right? Which I think we run the risk of doing when we talk about sort of recriminalizing people who are not obeying these laws right? Like from a regulatory standpoint, like, obviously, some of you guys are doing a great job. We need to be making it as easy as possible for people to get in, lowering the barriers to entry, because most people who are dealing with cannabis are not trying to stay in the illicit market. They know it's too tough to get into the legal marketplace, whether that's state regulations or local taxes. We need to be thinking holistically about how we're creating an economy and a system here where everybody can win. In that way, truly, if people are part of organized crime with these other sort of aspects of illicit market stuff, those can be dealt with in the way that is criminal, because those are different criminal offenses rather than the crime itself, being growing, possessing, and distributing a plant that we now as a society are deeming is no longer worth locking people in a jail for. So I do think that, like we don't want to see recriminalization or a crackdown from a law enforcement perspective. I think you know, being able to levy fines and that sort of stuff. There's a way to be able to do that. But ultimately our job is to make it easier for people to get into the industry, so that there's not an excuse for them to be in the illicit market. Right now in places like California and Oregon you can still make good money being in the illicit market because it's tough for for a lot of those folks to be able to get into the legal marketplace.

Cat Packer: I think this conversation around licensing and the unlicensed market is critical for folks who work on criminal justice issues and regulators. policymakers to have a conversation together. Early on, we tried to make this point that uh, because a license is literally your ticket to doing this legally, this is part of the reason why it's critically important for communities who have been historically disenfranchised, historically criminalized, to have access to these licenses, because if they do not have access to the licensing, if they are not a part of as as owners and as a part of the workforce then these are the folks who we're going to continue to see criminalized. And unfortunately I can predict a name, particularly If we don't put policies in place to mitigate against this, that we will see a 2.0 and 3.0. I think of the drug war I've seen it in the City of Los Angeles, where this conversation has come up even from existing operators, who have said you know we want to see, we want to make sure that uh, there's fair competition in this market, and so we want you to we want the law enforcement to take care of this issue. What I'd recommend, and the things that we organized and engaged on at the local level, is really trying to figure out how we uh remove law enforcement from the center of this conversation. Uh, and that's where regulators step up. It should be regulators who are uh leading these conversations, trying to figure out how to pull folks in uh to their systems. It's not to say that law enforcement it doesn't have a role to play.

Ah, but I think that the reality is that regulators need to start playing a larger role, and over time we should see the role of law enforcement reduced, just like we want to see the size of ah folks who are participating in the unlicensed market reduced. But I think that that requires reducing barriers so that they can participate legally. Comment for a second on something that Jerin was mentioned mentioning earlier when we were talking about uh these residency requirements, and I again, I'm gonna talk about the administrative burden that are put on our regulators. I can talk about this a little bit more freely uh now that I'm a former regulator. But regulators know that I have got you in mind as I I make this uh plea. The reality is that sometimes we crave these regulatory structures that have all of these requirements with intention, whether they be residency requirements or otherwise. But if there's not going to be an intentional administrative effort, resources put to do the due diligence to make sure that businesses are meeting these requirements. The requirements themselves mean nothing. So when we have a conversation about residency requirements in certain states, I'm going to continue to really reiterate that every single state has a different definition of owner, and so based on what that definition of owner is, there are ways that you can skirt around residency requirements. If I think Jerin was saying that the threshold was 75% in Oklahoma and that means that on paper at least have 25% that's going to a non-owner but I've seen, even through looking at uh social equity agreements at the local level, that if it's not through ownership, it can be through some kind of management company, or some type of fee based billing structure. There are lots of ways uh that folks who, regulators may want to uh keep out or protect, for uh one reason or another, that folks can get around these provisions. And so again, if there isn't going to be an effort put into thoroughly making sure that folks are following the rules, I think that it warrants a review of whether or not the rules are necessary to begin with.

Natalie Fertig: Um. We have an interesting question in our Q & A. It's a scenario that one of our listeners is interested in getting your thoughts on. What do you guys think of a licensing system in which licensing is wide open, and there's no cap or limit or wave. But non-equity applicants have to wait until there's a certain number of equity applicants. So every one for example every one non-equity applicant has to be paired with an equity applicant in this licensing scenario. What do you guys think of that? It hasn't been done anywhere, I guess, I don't think it's been done anywhere. But what? What do you think of that? What? What would work? Would that work well? Or you know what are the potential pitfalls that you guys can see in that? Kaliko or Cat, I don't know if either of you guys have an idea of that?

Kaliko Castille: I'd actually be interested on sort of a regulatory perspective on this. It would be like in theory like ratio, and being able to like, go one for one sounds good, but I I'm not sure how that would look like from a regulatory standpoint.

Cat Packer: Yeah, I guess I'm just wondering uh the City of Los Angeles's original framework was...

Axel Barnabe: Who was the first equity candidate...

Cat Packer: Axel, I think we heard you, and then you you went away. But I was saying that in the City of Los Angeles we have this framework originally for what we called Phase 2. There was supposed to be this kind of one for one application processing. I think the challenge is that, depending on what your licensing criteria is to begin with, as long as folks aren't expending resources on the front end to go through the licensing process, I think that that makes sense. But for regulators, we have to remember that these are uh businesses that have a hundred other things going on beyond just getting the license. And so it may just become an issue of timing and sequence. I'd rather have something like that happen in a larger batches, so maybe not like one for one, but like forty for forty uh, or something like that, just because that may be uh easier to handle. Um, but it it again is gonna depend on what the scale of the market is. I think it would be a little bit too tedious for the one for one matching, but I think in a grander scale it could be implemented with a smoother process.

Claire Moloney: Another model to look at that has, like some similarity is Connecticut, where they have the joint venture license type, where you can essentially pair ultimately an MSO with a social equity licensee, and it's a joint application for a license. That's a newer model that I'm curious to see how it shakes out. It hasn't really been operationalized yet. But looking forward to seeing how that plays out in the market, what works and what doesn't work about it. Um, otherwise I agree with Cat here. You kind of run the same, as you would in any other market where you have, where you release a lot of licenses upfront all at once, and then you'd still run into the risks of social equity licensees not having enough startup capital to compete with the other licensee. So I still think that implementing some measures to protect social justice are critical to having a successful launch of those social equity licensees. What I do like about the model that you're presenting is the fact that it is unlimited, it is a free market, and allows for competition which ultimately will, over time, drive down prices, increase efficiency, et cetera, et cetera. But I think that there would still be some risks to seeing a successful social equity implementation in that state.

Cat Packer: Another model that I don't know that we discussed thus far, but I think it is reasonable, and and folks could consider it, is not having a a limit on the number of licenses that would be issued, but um prioritizing those licenses specifically for social equity applicants or providing those licenses exclusively uh to social equity applicants for a period of time. I know this is something that uh Massachusetts and the City of Los Angeles has done specifically in relation to uh its delivery and retail uh activity. This would allow folks, social equity applicants, to be able to take advantage of this first mover advantage that we're talking about while still allowing opportunities for other folks to join after social equity applicants have had an opportunity to leverage uh that opportunity. Another point that I want to make, and this is something that uh, my colleague Shaleen Title, who's also a Distinguished Cannabis Policy Practitioner in Residence for the center put together, and she's put together uh some excellent over the summer. One Bigger is Not Better, the other Fair and Square. Ah, these two papers talk about some of the limitations that jurisdictions have or can put in place. Um, but I think what's more important than licensing caps, limiting the total number of licenses, are limiting the number of licenses that any individual owner or operator can have. That's critically important for a conversation around equity, and making sure that we have competitive markets.

Claire Moloney: I totally agree with that Cat. I think that's a really good point in terms of the number of licenses you can own. And I think obviously, in the case of New York, for instance, restricting vertical integration can really support the success of um social equity licensees, small medium-sized businesses. And the reason I think that's the case is because obviously being a vertical operator is extremely expensive. So I consider that one of the biggest barriers to entry in states like Florida or a lot of early medical markets like New Jersey had a high degree of verticalization, Illinois, etc. And when you think about the impacts of vertical integration on a state, it's not only that it gives vertical operators the ability to control the supply chain, there are also unforeseen circumstances, like vertical operators have typically have excess warehouse space where they can store extra supply for their stores. That gives them the ability to then negotiate for better, both purchasing deals, carrying more variety in their stores, and a lot of those retailers don't have as many stockouts, et cetera. That's something that smaller retailers who aren't vertical don't have the luxury of doing. And, in fact, it's something that LeafLink actually did is we launched the service called retail fulfillment, where we lease out small parts of warehouse space to give smaller retail operators the ability to compete in that regard. So I just see a lot of implications of vertical integration that can really impact the market in one way or the other over time. I do think that in the long term everyone will have to ultimately specialize, to quote unquote win. It's very difficult to scale a vertical operation across the entire country, and so I do think it's short lived. But that's really what we're looking at as the next two to three years here in some of these markets.

Natalie Fertig: Yeah, and let's actually talk a little bit more about vertical integration. Sorry, Kaliko. If you want to jump in on vertical integration, we'd love to hear um, but that is something that it seems like, you know, we know we all know Florida is kind of the big vertical integration state. Very limited number of licenses, very large businesses. I mean, we have Trulieve, which is pretty much, is a major operator in the cannabis industry almost solely because of its massive presence in the state of Florida. How you know, Kaliko actually, I do want to go to you on this, how does vertical integration impact equity and also, if you have any thoughts, impact you know the ability for just anyone that's not like Trulieve to get into the market?

Kaliko Castille: I appreciate that, and I agree with a lot of what i'm Claire said. But I think also like bringing back the National Cannabis Equity report we put out a few months ago, and looking at it, like only thirteen states of all of legal cannabis states, require vertical integration. Obviously, Florida being one of those sort of things. Colorado, early on, required vertical integration to a certain level, and then ended up walking back. But you know, I think, from our perspective we still see license caps as being more ubiquitous and more harmful to inequity than having vertical integration. I think vertical integration is an example from my perspective of over regulation, right. Either requiring it just doesn't make sense, because that does harm equity operators, because it's so hard to to finance. But I think you know, if banning vertical integration makes just as much like, just as least amount of sense. We shouldn't band vertical integration, too, because that's an efficiency model that if you are an equity, you know, operator, or just a Black and Brown operator who is not an equity applicant, if you want to be able to reach these economies of scale and efficiencies, you should be able to vertically integrate if you want to. So I think this is really an example of maybe we're tweaking the markets a little bit too much, even though if we were requiring vertical integration, they would harm and disproportionately impact small business owners as well as Black and Brown entrepreneurs.

Natalie Fertig: Cat. California is like the opposite of a vertically integrated state. But you do have a micro business license correct? That is sort of semi vertically integrated. Kind of refresh me on that and then give me your take on this question.

Cat Packer: So uh there, there's not an outright prohibition on vertical integration in in California. There the requirement that you can't have a a testing license if you participate in any other type of activity in the state. But the state did create a micro business license that is intended to uh capture at least three uh activities, uh commercial cannabis activities. Could be cultivation, manufacturing retail or distribution, any any combination of those three. And the intention was to try and I think reduce the regulatory fee and hurdle by providing it under one license type. But I think in practice, the barriers and burdens for the applicant have been almost the same even under that micro business license just because of the underlying activities. You're going to have to go through separate inspections for cultivation sites versus a retail site. You're going to have different agencies engaged with that particular type of operation. The thing I want to comment on though for context, uh is the policy that essentially allows for vertical integration when we transition or automatically prioritize medical operators. The reality is that this framing for adult use is often coming from whatever medical model exists. And, for example, this is important context as well, California didn't regulate medical cannabis activity for twenty years, right. And so when we started this conversation in 2015 to 2018, the State of California was trying to both set up a medical and adult use program at the same time, which meant that any type of regulatory system was set up at the local level, and I think local jurisdictions leading this conversation early on, there were concerns about over proliferation or proliferation of cannabis activities, and so so the term that was used is co-location. It required all activities to be co-located at the same facility. And that in turn created vertical integration and because businesses couldn't move their operations under multiple roofs and I think that has caused an issue in that currently in the City of Los Angeles we have operators who are, for example, doing cultivation in spaces that would normally only allow retail. And so now we have businesses that need to be able to move but this medical transition is really framing, I think, for a lot of a lot of markets who is allowed to participate in vertical integration first, and whether or not that's a permissive policy or a restrictive policy.

Claire Moloney: Cat, as a follow up question, I'm kind of curious on your take about this, considering you're from California. I'm interested in the distribution layer in California, and how you think it has supported or not supported social equity licenses or small business owners, because to me that's one of the layers that's inserted in California that disaggregates the market, and I know that New York will have that layer as well, and I'm kind of curious on your take on how that's impacted the market from a non-verticalization standpoint.

Cat Packer: Yeah, I mean, I think, in in the State of California, at least in my experience in the City of Los Angeles, this is one of the activities that wasn't capped. It was a relatively lower barrier to entry for for some folks, and so we saw ah, many social equity applicants take advantage of the distribution license in the City of Los Angeles. I think for me, I haven't looked at the aggregate data yet across the state to determine how those applicants are faring in comparison to non-equity applicants, Claire.

Claire Moloney: Gotcha. Yeah, I think anecdotally, what I've heard from some of our clients in California is that can sometimes be difficult if you want to work with a third-party distributor to have them represent you with the same share of voices, larger operators with bigger brand recognition in the state. And so it can be a challenge to find that equal share of voice, but it's similarly expensive to do it yourself right. Like in Massachusetts, the cost of getting just one truck is like $250,000 a year between the insurance is, they require a two-person vehicle there, the compliance outfitting fuel, et cetera, and so it's extremely expensive to stand up your own distribution operation as well. And so that's what I was kind of curious about the about the dynamics in California, and maybe what we can expect to see there in New York.

Cat Packer: Yeah, I'll add as a caveat uh California has two distribution licenses. There's the regular distribution license, and then there's the uh distribution uh transport uh only. I think part of what I've seen happen at the level of the City of Los Angeles is, I've heard from a lot of uh social equity applicants who said early on, and this is before we had opened up opportunities for these folks to uh participate in retail activity, but I got a lot of complaints about folk's inability to reach retail shelves and just the reality that some retailers were charging exorbitant amounts of money to allow folks on their shelves. Even retailers who might have a specific section of their store dedicated to highlighting minority and equity entrepreneurs were still charging those entrepreneurs outrageous rates just to make it. And so the need for equitable distribution, I think, was made clear to me during my time in the city.

Natalie Fertig: All right, you guys, I've got a interesting question about vertical integration from one of our um attendees here. As you may know, vertical integration has some pretty strong restrictions on it in the CAOA, the Schumer, Biden, Booker bill. It's also something that is not fully legal in the existing alcohol industry which they did model the CAOA after. Obviously there are like micro business licenses for breweries and alcohol, and the same thing would be possible in the cannabis industry. But this attendee asked, given that, how does cannabis ethically allow vertical integration when it was the root cause of the prohibition of alcohol in 1918, and is prohibited by the CAOA and various other bills on at the Federal level. That may eventually pass. Anyone jump in when you feel like you have an answer for this. Or I'll just call on someone.

Kaliko Castille: It seems like at the Federal level, there's going to be plenty of education that needs to be done, no matter what right. So like as the CAOA stands now, it's not going to be the way it is when something ultimately gets passed. So I think this will be something that probably will be brought up. I think that in general, like vertical integration once again is like this is us putting our hands a little bit too much on the market and we should allow folks to be able to do whatever it is they need to do to run an efficient business. And then I think that in general the opportunity for small businesses to get to a place where they want to vertically integrate is something they want to do. For large players, it makes sense that they will be able to do it. So I just think that, like at the Federal level, we're going to have to educate them about the reason why you shouldn't ban vertical integration. It just to me it's just too much of playing with the market.

Uh, and I don't know that this is uh inconsistent with what you just said Kaliko, but I'd rather see a ban on vertical integration than requirements for vertical integration. And a lot of the times with some of these regulatory decisions, uh it, it's not so so much a matter of this is bad or good, it's just a matter of if you do this, there are going to be these consequences.

And so again, if you're going to allow for something like vertical integration, you have to be thinking about the other strategies that can be employed to make sure that we don't have systems that are anti-competitive or unfair, or create monopolies that I don't think it's it's one or the other, I think that as we approach what the model for Federal regulation is going to look like, we're going to have to contend with and grapple with all of these things, and I think all of these things are fair questions. I would be more concerned about any of us saying specifically, we can or cannot do something, as if we're so sure of things less than a decade in.

Claire Moloney: The other piece that I just wonder, kind of aloud about it is, if and when Federal legalization comes to fruition, will there be anyone who truly tries to launch a national, vertically integrated business because of the expenses of doing so? You we need to launch a national retail chain, a national distribution arm, and a national network of grows right? Like that is a monolithic task. And so I think that natural conditions of a Federal market will actually force a degree of specialization in the future. Um, so it's not to say I'm not worried about what would be included in a bill, but it's more to say, I think natural conditions will kind of take over in that case.

Cat Packer: I think I think what we're seeing in the space right now, which with a lot of these mergers and acquisitions that got like this visual of the um Mighty Morphing Power Rangers. Um, as you were talking about folks trying to build uh, you know these the scalable uh systems at the retail and and cultivation across the supply chain. Um, I think that as Kaliko mentioned earlier that it's some of these uh operators; business model. Like, even even though it seems unreasonable, we have folks who articulate that their best business model exists in a situation where there is allowed vertical integration and a limited licensing market. And I think that we're seeing that the folks who advocate for these policies are increasingly organizing and lobbying at the Federal level, so it may be called something different, it may take some other form or shape, but I think that there are market forces and business interests that are going to try and get as close to that large-scale model as possible and take it internationally.

Jerin Presley: I have a slightly different perspective of a vertical integration just in in our state. Something that I failed to probably mention earlier is that we are a medical marijuana state with a medical marijuana authority. So um what I've witnessed is I've seen an increase in vertically integrated businesses, especially since we passed our seed to sale metric program, because all of those have to be tagged. We require cannabis to be lab tested for the health and safety of our patients. So we're seeing more businesses move to a vertically integrated model because they can expedite the process, and also knowing where those tags are coming from, the delays, everything that might happen when you're dealing with different operators, when it can all be done under one roof, it seems to be ah really helping some of our commercial licensees in regards to having those items tested. Um. And earlier, Cat when you talked about barriers or things that prevent, you know, for the illicit, illicit market. Lab testing is expensive, and so I think that's why we see, maybe those that that illicit market that exists in our state is because, for whatever reason, uh, those individuals do not want to have their cannabis tested and or pay, you know, to be regulated by metric or a variety of other factors. And so, anyway, that's just one of the things that I really wanted to mention, because we are, we are a medical state as regards to cannabis. And so we are seeing more businesses go to vertically integrated models just simply from a lab testing standpoint.

Natalie Fertig: All right, we have time for one last question I thought this one was really interesting, a little bit different than what we've been discussing today. But the environmental impact of cannabis cultivation is obviously a pretty big deal um with issues of water. A lot of the states represented here are having to deal with you know the amount of water consumption, the amount of energy consumption, to grow cannabis both outdoors and indoors. Um. So from the perspective of the environment and sustainability, do you guys see more potential harms from a few big mega licenses or from hundreds and thousands of smaller operators in an open no-cap state? Um, I know, Jerin, why, don't you go? I know you obviously are speaking from one specific side of that, but Oklahoma, you got a lot of operators, you use a lot of water. How are you dealing with that?

Jerin Presley: No this is certainly an issue. Um, I I think um from our standpoint, because we have so many commercial licensees, it's much harder to regulate based on the mega licensees, would be more ideal for us as a a regulatory body, because it's easier to regulate a smaller number of licensees of commercial licensees. And oftentimes those mega licensees have a little more capital behind them to ensure that they're doing correct waste disposal and the facilities set up. But we look at more rural parts of our state that are much harder to regulate, and we do have more problems as far as um, you know, waste water and just consumption in general, and getting out to that number of small grows, processors, et cetera. And so I I would much prefer for our regulatory body uh, probably those mega licensees, just because it's easier for us to manage a smaller number of of licensees as opposed to hundreds of licensees all over our state.

Natalie Fertig: And then Cat, you're, you know, regulating people in a city. It's not a, you know, agricultural you know, hot hotbed typically Los Angeles City. So what is your perspective on trying to deal with the emissions issues, the water issues, the energy issues that come with cultivating in a city?

Cat Packer: Yeah, I I guess I want to first start and say that the potential harms, actual arms of folks experience because of the cannabis supply chain are present. But they exist in in markets where there's prohibition as well. We have no means of addressing that, so we want to try and pull these folks into the regulated market. I sympathize with regulators who want to keep models small uh, so that they can manage them, but I think that we have to be able to grow and mature uh with time. Uh, and we uh, the burden is high, and so we need to make sure that we put the administrative resources to make sure that we can continue grow with the industry. I I don't think that it's long term gonna continue to be acceptable uh for folks to do what's just the easiest. Like, we have lots of complicated challenges that we're going to have to deal with as an industry. That being said, I recognize it is going to be uh it could be easier to provide oversight to that smaller group uh of operators, but there are also ways, through different programs and initiatives, to provide support to small businesses uh to make sure that they have the resources they need to mitigate any uh environmental impact.

I think, as we start to have conversation about other jurisdictions opening up, and whatever Federal legalization regulation looks like, interstate commerce, I think that the reality is that a lot of commercial cannabis activity is going to move. There is going to be a lot of movement, because what we're seeing right now in these compressed markets is, you know, there's a limited opportunity, and so people are taking the opportunity that is there. People, are you wouldn't normally grow uh the way that folks are growing in the City of Los Angeles in these large warehouses. Um, even more so in the City of Los Angeles than in other places across the country. But I think a lot of grow is going to move outdoors just where it is most economic and efficient to produce it and so I think a lot of these indoor cultivation issues, I think the market is going to pull away from indoor cannabis.

Kaliko Castille: I feel like there's such an important point to underline that, like the license types, mega, or bunched has far less to do with it than the fact that we're about to spend hundreds of millions of dollars in New York and New Jersey to stand up indoor grows that are completely unnecessary. We're going to destroy the environment and actually are going to make for more expensive cannabis, right? Like it is tough and like obviously, obviously, interstate commerce is going to be a very nuanced and thoughtful conversation that needs to be had. But I think one of the things that we're dealing with right now is that there's so much inefficiency in this industry right now, because we are fighting the forces of natural free market systems and capitalism. And I say that as a Bernie Sanders lefty guy like this is a thing that we are we are just we're setting ourselves up that in the long run we are going to see all that movement because this is not a sustainable marketplace that we're currently setting up right now.

Natalie Fertig: I will say as someone who's been covering all of this environment stuff a lot of agriculture in the United States is being indoors slowly, as water gets rarer, because you can, if you have the right systems, you can recycle the water. Um. So if cannabis in some ways might be leading the environment, agricultural train when we think about indoor cultivation. But obviously the technology is very expensive. I think Jerin made a really great point in terms of the money that is required a lot of the times to make um, you know, grows all over the country actually sustainable.

But yeah, we are at the end. I feel like we could do a whole another panel just about what happens after Federal legalization, because all of this might change. Who knows what? What? Exactly that would look like? There were a lot of questions in the Q & A we did not get to. Unfortunately, we lost Axel en route, but also, unfortunately, so I can't through to him, but Claire, you're the last person who didn't talk about who wasn't just talking to answer this last question, so I'll leave it to you to give us some last thoughts here.

Claire Moloney: Sure um, and kind of ironic, too, because my undergrad degree is in sustainability, and it's what I did for years before joining the cannabis industry, and I will say it was kind of tough coming over to this industry just because I cared so much about energy efficiency. And I think, Kaliko, you made a really good point about how grows are kind of known to be energy, energy inefficient. I think, from our perspective this is kind of a different take. We think a lot about because we have a logistics arm at LeafLink and we partner with logistics uh partners nationally, we're actually looking at the environmental impact of all the trucks that are on the road moving cannabis, because if every single operator in a certain state has their own fleet, that means you have lines of trucks outside of retailers that are ten trucks deep, all to deliver products to the same store. And so we're thinking a lot about how we can change our environmental impact through logistics specifically by creating really efficient routes and um consolidating some shipments. And so that's what we're really excited about personally in terms of what we can do for the industry.

Natalie Fertig: Awesome. Well, that is our panel for today. We went slightly over our allotted time. It was a great discussion. I'm so sorry to everyone whose questions we didn't get to. You can always reach out to people via social media or um anything like that. I know everyone here is very kind and nice, and loves to answer questions. So yeah, thank you all for joining me and all of us today, and check out the next OSU panel coming up. I think the information is in the chat. Goodbye!

Claire Moloney: Thanks, everybody.

Kaliko Castille: Thanks everybody.