



April 26, 2017

The Honorable Edmund J. Brown
Governor of California
State Capitol
Sacramento, CA 95814

**RE: Trailer Bill Language: Medical cannabis
NOTICE OF SUPPORT**

Dear Governor Brown:

Our organizations, which represent the leading businesses, industry sectors, and job creators in the state, write to express our strong support for your plan to reconcile the Adult Use of Marijuana Act (AUMA) that was passed by the voters in November 2016 and the Medical Cannabis Regulation and Safety Act (MCRSA) that was passed by the State Legislature in 2015.

California stands on the precipice of great opportunity. Over the next five years it is projected that the total California market – medical and adult use – will grow at a compounded annual rate of 18.5 percent, from \$2.76 billion in 2015 to \$6.5 billion by 2020.

With thoughtful regulation and the recognition of an emerging legal market, California has the opportunity to create a robust licensure and regulatory system for the cannabis industry that reflects the purpose and intent of both the AUMA and MCRSA and achieves important policy objectives that encourage investment and innovation and enhance public and consumer safety.

Not only does the reconciliation framework, as proposed by your Administration, achieve these important policy objectives, it also addresses many of the concerns we presented to your office in a letter, dated March 16, 2017, as follows:

Broadens the owner/applicant definition for applicants seeking a state license. How an owner/applicant is defined for purposes of applying for a state license is essential to building a legal and fully compliant cannabis business. If the applicant ownership threshold is set unreasonably low, as in the MCRSA, it would have the unintended effect of labeling investors as “cannabis business owners”, subjecting them to the same banking problems faced by existing cannabis businesses. The reconciliation framework, as proposed in the

trailer bill language, defines an owner/applicant as having at least a 20 percent aggregate ownership interest or day-to-day control or management of the licensed commercial cannabis business. By applying this definition to both systems, the state will ensure that existing licensees have access to the investment capital essential to growing their businesses.

Removes the mandatory, independent distribution requirement. Cannabis businesses need the flexibility to bring new products to market quickly, maintaining the spirit of entrepreneurialism for which California is known. The independent distribution model has been responsible for the rise of large monopolistic producers and distributors in the alcohol industry. By allowing licensees to self-distribute, as proposed in the reconciliation framework, the state will avoid the problems tied to the independent distribution model that we have seen in the alcohol industry. These range from the inability of craft distillers to access the market, to distribution firms exerting price control over the entire market, and limiting the choices of consumers.

Authorizes limited vertical integration. It is imperative that small businesses have the ability to participate in as many points in the supply chain as possible. Allowing for limited vertical integration will reduce costs and increase efficiency, which in turn will give small businesses a chance to grow and compete in the marketplace.

For these reasons, we strongly support the trailer bill language, as proposed, and thank you for your leadership in establishing a reconciliation framework that ensures the most responsible implementation of cannabis policy in California.

Sincerely,



Dorothy Rothrock, President
California Manufacturers and Technology Association



Bill Dombrowski, President and CEO
California Retailers Association



Ken Devore, Legislative Director
NFIB California



Nate Bradley, Policy Director
California Cannabis Industry Association



Daniel Conway, Managing Partner
Truth Enterprises



Jot Condie, President and CEO
California Restaurant Association

Cc: The Honorable Members, California State Senate
The Honorable Members, California State Assembly