



August 29, 2024

The Honorable Gavin Newsom
Governor, State of California
1021 O Street, Suite 9000
Sacramento, CA 95814

RE: AB-1111 (Pellerin) Cannabis: small producer event sales license: Request for Signature

Dear Governor Newsom,

On behalf of Origins Council, representing 800 small and independent cannabis businesses in rural legacy producing counties throughout California, we are writing to request your signature on, AB-1111 (Pellerin), which would enable small licensed cannabis producers to obtain a license to vend a limited amount of their own products annually at state and locally approved cannabis events.

Craft Producers Need Access to Direct-to-Consumer Sales Opportunities

Since 2021, statewide oversupply driven by larger-scale farms has resulted in collapsing wholesale prices for cannabis, with market prices falling below the cost of production for many small producers. Rural legacy producing regions in particular have seen hundreds of cultivators drop out of the regulated market over the past several years, resulting in economic collapse in many regions where small-scale cannabis farming has been historically prevalent. The consequences of this market crisis for small cultivators and their communities have been heavily documented in the Washington Post¹, Los Angeles Times², the Times (UK)³, CalMatters,⁴⁵ academic publications from UC and CSU researchers,⁶ and elsewhere.

In comparable industries, such as California's world-renowned artisanal wine industry, small and craft producers typically rely on some form of direct-to-consumer sales to differentiate their products from large-scale competitors and gain access to sales opportunities. Small producers generally lack access to marketing resources, such as sales teams and advertising budgets, that are available to larger and better-capitalized businesses, and rely largely on personal relationships to promote and sell their products.

Unfortunately, under the existing legal framework, craft legacy producers who may have interacted frequently with patients under Proposition 215 have largely lost access to these opportunities to connect directly with consumers. Vertical integration is financially out of reach for most independent small producers, and CEQA, local land use regulations, and building code restrictions significantly limit the opportunity to pursue sales directly from the farm.

AB 1111 Is a Practical and Accessible Approach to Direct-to-Consumer Sales for Small Cultivators

¹ <https://www.washingtonpost.com/nation/2022/08/21/california-marijuana-farms-failing/>

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<https://www.latimes.com/california/story/2022-12-29/the-impossible-costs-of-cannabis-californias-legal-weed-industry-is-killing-itself>

³

<https://www.thetimes.com/world/us-world/article/how-red-tape-sent-californias-legal-cannabis-industry-up-in-smoke-d77rqtsw8>

⁴ <https://calmatters.org/politics/2023/02/emerald-triangle-cannabis-communities/>

⁵ <https://calmatters.org/economy/2023/02/emerald-triangle-cannabis-workers/>

⁶

https://crc.berkeley.edu/wp-content/uploads/2023/04/DCC_SmallFarmers_PolicyRecs-3_Updated3-16-1.pdf

AB 1111 would address these issues by establishing a license type that authorizes small cultivators to conduct direct-to-consumer sales specifically at temporary cannabis events which are both state and locally authorized. Under existing California law, small cannabis farmers are only authorized to conduct direct sales at events if they hold a full-time license as a cannabis retailer. This current requirement is not just unnecessary: it also puts direct sales practically out of reach for most small and especially rural cultivators, who generally lack the financial resources and commercial zoning to support a full-time retail operation.

By creating a new DCC license type specific to event sales, AB 1111 would enable small cannabis farmers to conduct sales at these events without investing many tens or hundreds of thousands of dollars to become a full-time retailer. For comparison, under the California ABC framework for wine and beer, producers have a similar ability to obtain licenses for specific retail opportunities such as events, without obtaining an expensive full-time retail license.⁷

AB 1111 Supports Consumers, Patients and an Expanded California Cannabis Market

Under the Proposition 215 framework, California medical cannabis patients, legacy cannabis farmers, medicine-makers and home growers of medical cannabis developed a robust direct-to-consumer network under state medical cannabis access laws. This network was stewarded by compassion clubs, medical patient collectives and cannabis farmers' market events which afforded producer direct-to-consumer relationships and transactions.

Under the existing Proposition 64 framework, however, craft legacy producers have largely lost access to these opportunities to connect directly with consumers. As a result, legacy producers have been denied access to their well-established and loyal medical cannabis consumer base, as well as the burgeoning recreational consumer base. In turn, consumer and patient access to farm-fresh cannabis and small batch products at retail have substantially diminished since legalization. Analytic labs are now reporting a significant and

⁷ E.g., Type 77 (Event Permit), Type 79 (Certified Farmers' Market Permit), and Type 81 (Wine Sales Event Permit) licenses. See <https://www.abc.ca.gov/licensing/license-types/>

ongoing decline in the genetic biodiversity within the regulated market. As an annual plant, the loss of California's extraordinary cannabis genetics currently underway will be largely permanent.

AB 1111 would provide a pathway for small producers to re-establish these consumer relationships, and in turn would help build a niche market for craft cannabis produced by California's world-renowned cannabis producers. Establishing a market for craft cannabis will help educate the public at large and drive consumers to these products at licensed retail facilities, building the foundation for the long-term market differentiation of California cannabis, and the eventual expansion of these products into interstate commerce .

Additionally, AB 1111 would enable rural areas to utilize producer event sales as one component of larger efforts to promote tourism and destination marketing. Providing a pathway for consumers to interact directly with producers, in the region of origin itself, would enable legacy cannabis producing regions to protect and strengthen a regional reputation, similar to other California producing regions renowned for their craft products, such as the Napa Valley American Viticultural Area.

Addressing Opposition Arguments

Opponents of AB 1111 have raised concerns that the bill would result in uncontrolled cannabis sales, undermine cannabis traditional retailers, or require excessive implementation costs. We disagree with these arguments, which in our view do not account for how AB 1111 fits into the existing cannabis events framework authorized under California law.

AB 1111 limits small producer event sales to state and locally-permitted temporary cannabis events, which are more analogous to beer festivals than farmers' markets. These events have been authorized in state law since the passage of Proposition 64 and are extensively regulated by both the DCC and local governments. For context, according to a PRA request to the DCC,⁸ 25 of these cannabis events were held statewide in 2022, and 65 were held in the four years between 2018 and 2022.

⁸ <https://drive.google.com/file/d/1dinY4bFQJRc9U8lj2SECSJJ9nKVQiT7W/view>

AB 1111 would not change anything regarding the framework or regulations governing these events, including the resources required to regulate them; instead, it would merely extend eligibility to participate in established events to small cultivators, in addition to licensed retailers who currently hold this eligibility.

In addition to these overarching factors, several additional elements of AB 1111 are worth emphasizing:

- **AB 1111 is limited in scope** - AB 1111 limits eligibility to small producers, limits annual event sales to \$175,000 per year, and requires sales to take place within the state's temporary events framework. State regulations require each cannabis event to comply with significant regulations, and to receive explicit authorization from both the DCC and local government.
- **AB 1111 protects local control** - local governments have absolute local control over whether and how to authorize cannabis events, including which licensees may participate in these events. Local governments concerned about competition with local retailers can prohibit these events, authorize them in a time and place designed to support local retailers, and/or limit event participation exclusively to locally-permitted businesses.
- **AB 1111 would not result in thousands of new licenses** - AB 1111 limits sales by a small cultivator to products which only contain cannabis cultivated by the licensee: *(26050.6(d)(1) All cannabis or cannabis products sold by a small producer event sales licensee at a licensed state temporary event shall only contain cannabis cultivated by that licensee.)*

As a result, AB 1111's scope is effectively limited to cultivators selling branded (rather than wholesale) products, which encompasses about 10-15% of all licensed cultivators. About 1,800 cultivators would meet size eligibility requirements for AB 1111 licensing, meaning that a reasonable ceiling for cultivators applying for the license would be around 250.

Practically speaking, not all branded cultivators will choose to participate in events, and the number of AB 1111 licenses will likely be lower than this

amount. For comparison, among 6,881 licensed Type 2 winegrowers in California, just 186 have obtained a Type 79 license for certified farmers' market sales.⁹

- **Annual sales caps in AB 1111 ensure no competition with traditional retail sales** - statewide taxable cannabis sales in 2022 according to CDTFA were approximately \$5.4 billion.¹⁰ If 250 cultivators were to apply for the AB 1111 license, and *all* of them were to sell the maximum allowable \$175,000 per year, *total* sales would amount to just \$44 million annually - just 0.8% of total statewide cannabis sales, and no threat to retail sales.
- **Small cultivator event sales will drive more traditional retail sales** - AB 1111's framework can be compared to a wine tasting or beer festival model - a consumer may be initially exposed to a small wine or beer brand at an event, but after that initial experience, will continue to purchase these products in a traditional retail setting. AB 1111 strongly incentivizes small producers to partner directly with retail operators to sell the bulk of their products, and can enable small producers to essentially serve as a marketing arm for retailers who carry these products.
- **Small producer event sales must comply with all existing retail and event rules** - cannabis products sold under AB 1111 would be subject to identical testing, packaging, labeling, and quality assurance requirements as all other cannabis products legally sold in California, and cultivators selling at cannabis events would be required to follow identical rules to the retailers who currently sell at this events.
- **SB 1064, if signed, would further decrease administrative resources required for AB 1111 implementation** - SB 1064, legislation currently on the Governor's desk, would streamline the cannabis licensing framework by allowing cannabis operators to obtain authorization for multiple commercial cannabis activities under a single "combined license." If signed, SB 1064 would further facilitate AB 1111 implementation by allowing a small producer event sales authorization to be incorporated

⁹ <https://www.abc.ca.gov/licensing/licensing-reports/licenses-by-statewide/>

¹⁰ <https://www.cdtfa.ca.gov/dataportal/dataset.htm?url=CannabisTaxRevenues>

under an “combined license” without requiring the DCC to issue an additional license solely for event sales activities.

Timely Action is Essential to Support California’s Craft Cannabis Farmers

As small producers face dire market conditions and limited market access opportunities, AB 1111 is the only policy currently on the Governor’s desk that specifically takes steps to address the challenges facing California’s craft cannabis cultivators and legacy producing regions.

With small producers struggling, consumers and patients losing access to high-quality craft products, and potential federal legalization looming on the horizon, AB 1111 is a critical and timely opportunity for California to reassert our leadership as a global center for world-renowned cannabis.

For these reasons, we respectfully request your signature on AB 1111.

Sincerely,



Genine Coleman
Executive Director
Origins Council



Natalynne DeLapp
Executive Director
Humboldt County Growers Alliance



Oliver Bates
President
Big Sur Farmers Association



Diana Gamzon
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