



March 7, 2025

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Origins Council Comment on DCC and ERA Economics Cannabis Market Reports

On behalf of Origins Council, we are writing today to offer comments on the recent cannabis market reports made available by DCC ahead of Tuesday's informational hearing. Our comments largely focus on the economic analysis authored by ERA Economics, which provides a detailed assessment of the current state of the cannabis market and offers policy recommendations for supporting the regulated market.

Based on an initial review of the report, there are several items that we would like to emphasize for your committees as you consider policy items this year.

1. The ERA report's finding of collapsing wholesale cannabis prices underlines the crisis facing small outdoor cultivators.

We appreciate that the ERA report provides, for the first time, clear public-facing data on the collapse in prices to outdoor cannabis farmers since 2021.

The ERA report finds that wholesale prices for outdoor flower have decreased by 74% since 2021 (p. 9), including a 36% drop this year (p. 63). These findings are consistent with our internal estimates¹ finding that wholesale outdoor prices have declined from ~\$1,300/pound when the state's regulatory framework was established in 2017 to ~\$250/pound today.

Wholesale prices are now well below the cost of production for most small farmers, and the resulting market conditions have become nothing short of catastrophic for our communities. Rural legacy producing regions in particular have seen hundreds of cultivators drop out of the regulated market over the past several years, resulting in severe economic hardship in many regions where small-scale cannabis cultivation is prevalent. The consequences of this market crisis for small cultivators and their communities have been heavily documented in the Washington Post², Los Angeles Times³, the Times (UK)⁴, CalMatters,⁵⁶ academic publications from UC and CSU researchers,⁷ and elsewhere.

In this context, we do not agree with the characterization in the ERA report that wholesale prices are now "stabilizing." The ERA report does suggest that wholesale prices for indoor flower may no longer be declining, but substantiates that prices for *outdoor* flower have dropped by a third just in the past year, indicating a market in continued collapse.

2. The ERA report could benefit from additional discussion on comparative market conditions for small and large businesses.

With several notable exceptions, the ERA report largely analyzes market conditions globally for the market as a whole, without taking into account distinctions between small and large operators. At certain points, we believe this leads to limitations in the analysis that could be avoided if both small and large businesses were considered.

¹ <https://drive.google.com/file/d/1GYaGXhYDwwa-hXjfQLEFALEbSotASCW5/view?usp=sharing>

² <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>

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

⁵ <https://calmatters.org/politics/2023/02/emerald-triangle-cannabis-communities/>

⁶ <https://calmatters.org/economy/2023/02/emerald-triangle-cannabis-workers/>

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

For example, the report cites the ability to consolidate multiple cultivation licenses into a single, large-scale (Type 5) cultivation licenses as a “stabilizing” force in the wholesale market going forward:

“The outlook for 2025 is more stability in wholesale and retail prices and businesses continuing to exit the market... The outlook depends on several key factors highlighted in this report. Consolidating cultivation licenses allows cultivators to achieve economies of scale. This helps cultivators compete with unlicensed producers.”

While consolidation into large-scale cultivation licenses may lower costs for large operators, it will only lead to greater comparative disadvantage for smaller cultivators. Consequently, absent policy changes to support small cultivators, we anticipate that the market will only become more de-stabilized over time for small farmers even if the market stabilizes somewhat for larger cultivators.

Over the past several years, we have proposed or supported many approaches to specifically support small and craft cultivators in the legal market, including opportunities for direct-to-consumer sales, cannabis appellations, and reductions in tax, fee, and regulatory burdens. We believe that supporting small and craft cultivators can provide broader benefits for rural communities, equity goals, consumers, patients, and California’s long-term competitiveness as a craft cannabis producing state, and we encourage the legislature and DCC to maintain a specific focus on these issues going forward.

3. The report accurately identifies excessive financial and regulatory burden as a key barrier to the success of the legal market, and the disproportionate impact of fees on small cultivators.

We appreciate that the ERA report identifies California’s high fee and tax burdens as an impediment to the success of legal businesses, including small businesses. For example, the report finds on p. 28 that:

“California cannabis has considerably higher fees and excise taxes relative to product value. The value of cannabis at wholesale in California is 35 percent higher than in Michigan. However, excise tax collections are 124 percent higher, and fees are 162 percent higher.”

The ERA report later suggests moving DCC fee burdens away from smaller cultivators (p. 66), a direction that we would strongly support. An analysis we conducted in December found that small, outdoor cultivators currently pay a 4-10x greater share of licensing fees as a proportion of their gross revenue compared with other license types.⁸

To a large extent, this is the case because state licensing fees were set in 2017, when wholesale cannabis prices were 5x their current rate, and have not been updated as wholesale prices have collapsed. Our analysis also finds that under the current licensing fee structure,

⁸ <https://drive.google.com/file/d/1GYaGXhYDwwa-hXjfQLEFALEbSotASCW5/view?usp=sharing>

smaller cultivators pay proportionally more per licensed square foot than larger cultivators. Larger outdoor cultivators pay an average of \$0.32 per square foot in licensing fees, whereas smaller outdoor cultivators pay at least \$0.48 per square foot, and often more. We appreciate that the recommendations in the ERA report align with these findings.

4. Several report findings indicate the potential for hemp integration to severely negatively affect cultivators.

The ERA report indicates that the DCC has *“provided a proposal outlining potential regulation of hemp cannabinoids, but this ultimately requires legislative action for the Department to regulate cannabinoid hemp products.”* Our assumption is that the referenced proposal is related to the integration of hemp into the cannabis supply chain.

In 2024, Origins Council expressed concern regarding a similar proposal, AB 2223, including opposing proposed technical assistance which would have further expanded the regulatory structure for hemp integration proposed in the in-print version of the bill.⁹

In both the in-print and technical assistance versions of AB 2223, we expressed concerns that high-THC and intoxicating hemp products and cannabinoids - if allowed to be incorporated into the cannabis supply chain at manufacturing, distribution, or retail without appropriate safeguards - would risk fatally undermining the cannabis cultivation sector, since these “hemp” products and cannabinoids can be produced at a significantly cheaper cost than cannabis products and cannabinoids while supporting similar, intoxicating end uses.

As the ERA report discusses, this cheaper cost is not due to any inherent market advantage of “hemp” over “cannabis” production, but rather regulatory arbitrage stemming from the fact that cannabis agriculture is currently regulated to an exponentially higher degree than hemp agriculture. Hemp is currently regulated as a typical agricultural product under the 2018 Farm Bill, whereas cannabis is not regulated as agriculture and instead is highly regulated under the DCC with substantially higher fees, environmental requirements, operational regulations, CEQA standards, and requirements for additional local control.

AB 2223 and the TA proposed regulating hemp and cannabis at parity under DCC at the points of manufacturing, distribution, and retail, but not at the point of cultivation, further expanding these disparities for cannabis cultivators.

The ERA report speaks to many of these dynamics, including:

- **Hemp is cheaper to produce than cannabis due to regulatory disparities** - “Since industrial hemp cannabinoids are not currently subject to Department regulations, it is generally cheaper to produce cannabinoids from hemp than cannabis.” (p. 13)

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https://drive.google.com/drive/folders/1le0502bZwYaAYXeSHIGYFwX8kB3_je5s?dmr=1&ec=wgc-drive-hero-goto

- **Intoxicating cannabinoid products may be produced by concentrating naturally-occurring THC in hemp** - “Producers also produced intoxicating cannabinoid products for the general commercial market by concentrating THC derived from industrial hemp.” (p. 59)
- **Intoxicating cannabinoid products may be produced by chemically converting CBD to delta-8 THC** - “Floral hemp contains cannabidiol (CBD), which can be used to manufacture non-psychoactive CBD products, or to manufacture Delta 8 THC, a psychoactive compound.” (p. 60)
- **A significant proportion of hemp contains high levels of THCA, which is nearly indistinguishable from high-THC cannabis** - “Hemp cultivars may contain high levels of THCA, a non-psychoactive compound which, when heated, undergoes decarboxylation and transforms into Delta 9 THC, a psychoactive component of cannabis... High THCA hemp flower is a close substitute for cannabis flower, and prices for the two are similar—average price of outdoor cannabis flower was \$475 per pound in 2023. Based on these prices, roughly 1,558 thousand pounds of hemp biomass (and around 110 thousand pounds of high THCA flower) were harvested in California in 2023... High THCA flower is used to produce inhalable hemp products as well as manufactured products such as oils, capsules, and edibles.” (p. 60-61)
- **Increased allowances for hemp risk undermining licensed cannabis cultivators** - “Restricting intoxicating cannabinoids derived from hemp provides direct benefits to licensed cannabis cultivators and retailers by reducing the supply of substitute cannabis products.” (p. 62)
- **Hemp integration would significantly increase DCC costs** - “Aside from market effects, in the event intoxicating hemp products are integrated into the licensed California cannabis market, Department costs would be expected to increase to encompass regulation of a broader range of products. Enforcement, licensing, legal, and other staff are needed to ensure that any hemp-derived products entering the licensed cannabis market comply with testing, distribution, manufacturing, and retail requirements.” (p. 62).

If a proposal for hemp integration emerges in the legislature, we believe it’s critical that these considerations are taken into account to avoid undermining licensed cannabis cultivators who are already struggling under current market conditions.

Thank you for your consideration, and we look forward to continuing these conversations with you this year.



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