



March 12, 2025

Re: Industry Response to the *Department of Cannabis Control: Report on the Condition and Health of the Cannabis Industry* Joint Informational Hearing

Dear Assembly and Senate Committee Members,

Since its inception in 2013, the California Cannabis Industry Association (CCIA) has lifted stakeholder voices in Sacramento to support and enhance a thriving regulated cannabis marketplace in California. Our membership includes all segments of the regulated supply chain and represents cannabis businesses of all sizes. Licensed operator members of CCIA hold a uniquely qualified perspective, having weathered the regulatory and marketplace changes brought about by the passage of Proposition 64 and the implementation of the Medical and Adult Use Cannabis Regulatory and Safety Act (MAUCRSA).

While we appreciate the Department of Cannabis Control's (DCC) efforts to assess the health of California's cannabis industry, the *California Cannabis Market Outlook 2024 Report* presents a misleadingly optimistic portrayal of current market conditions. The report suggests growth and stability, but the underlying data—and the lived experiences of operators—tell a different story: an industry in crisis.

I. Industry in Freefall: A Race to the Bottom is Not a Sign of a Healthy Marketplace

The report acknowledges that wholesale cannabis prices have plummeted since 2020, yet it presents increasing production as a positive sign. In reality, legal suppliers are producing more than ever while earning less revenue, a clear indication of unsustainable market conditions. A healthy marketplace does not rely on businesses selling products at non-existent margins simply to stay afloat. Meanwhile, state and local taxes, excessive regulations, and lack of enforcement against illicit operators continue to push compliant businesses to the brink.

II. Failure to Entice: Illicit Operators Still Dominate Cannabis Sales

The report concedes that the legal market has captured only 40% of total cannabis sales and consumption—a figure that has remained stagnant since 2021—**while 60% of cannabis purchases still occur in the illicit market.** This statistic alone

should have set off alarm bells. Instead, the report presents it as a neutral fact, with no urgency or immediate recommendations for structural changes. If the Alcoholic Beverage Control (ABC) were to report that 60% of alcohol sales in California were bootlegged, and enforcement efforts were no more effective than during Prohibition, the state would act immediately.

III. Ignoring the Gap: Report Fails to Address Diversion from the Regulated Marketplace

One of the most glaring inconsistencies in the report is its discussion of increased legal production while taxable sales decline. Where is this surplus product going? The report does not offer a clear answer. The gap between rising production and falling taxable sales strongly suggests product is being diverted outside the regulated market—either out of state or into illicit channels.

Rather than acknowledge this reality, the report glosses over the issue and avoids a meaningful discussion about the drivers of diversion: the overwhelming tax and regulatory burdens placed on compliant operators. Until the state reduces the financial incentives for participation in the illicit market, these conditions will persist.

IV. Punishing Compliance: License Fees Cannot Remain the Sole Funding Source for Enforcement

The report acknowledges the rising costs of enforcement but fails to address the fundamental unfairness of relying on license fees as the primary funding source. Unlike other regulated industries, compliant cannabis businesses bear the financial burden of the very enforcement actions that are supposed to level the playing field.

This approach is counterproductive. It further strains legal businesses already struggling under excessive taxes and fees, while illicit operators—who do not pay into the system—continue to thrive. If California is serious about supporting a regulated marketplace, it must explore alternative funding mechanisms for enforcement, rather than treating licensees as an endless source of revenue.

V. Identified Outcomes: The Industry's Historical Asks Align with Report's Calls for Action

Despite its flaws, the report correctly identifies the key actions necessary to stabilize the legal market: reducing costs for licensed businesses, increasing consumer access, lowering taxes, and strengthening enforcement against unlicensed

operations. These are the very policy changes the industry has been advocating for since legalization, yet progress has been minimal.

The report offers an opportunity to finally align policy with reality. However, for meaningful change to occur, there must be more than just acknowledgment—there must be action. Until the state takes definitive steps to address these structural issues, the legal cannabis market will remain at a competitive disadvantage, and California’s once-promising industry will continue its downward spiral.

The time for selective optimism has passed, California’s legal cannabis industry cannot afford to wait. We urge the Department and legislators to use this report as a starting point for real collaboration and reform—one that prioritizes transparency, economic sustainability, and fairness for those who have invested in a legal and compliant future.

Respectfully submitted,

A handwritten signature in red ink, appearing to read "Caren Woodson", is written over a light green rectangular background.

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California Cannabis Industry Association