



Advancing Legal Medical Marijuana Therapeutics and Research

April 1, 2018

The Honorable Herb J. Wesson, Jr
The Honorable Michael Feuer
Ms. Cat Packer
Los Angeles City Hall
200 N. Main Street
Los Angeles, CA 90012

Re: Expedited Licensure of Distributorships – Council File No. 14-0366-S5

Dear President Wesson, the Honorable Michael Feuer and Ms. Packer:

As you are aware, all wholesaling, transfer not performed pursuant to a self-transport license, arrangements for testing, payment of non-retail taxes and quality control must be done by distribution Licensees. The City of Los Angeles (the City) has not issued any distribution licenses.

Our organization is concerned that once inventories are exhausted (and this is beginning to happen)¹ that the lack of distribution entities will cause the entire supply-side to become immobilized, unable to pay its taxes, have market ready products tested, certified via quality control, moved into the marketplace, marketed to wholesalers or stored.

We respectfully request that the City begin issuing distribution licenses and allow them to be issued in the same manner as testing licenses currently are, so that applicants may apply at any licensing stage, until such time as a sufficient number are located within the City limits. The goal of creating a cannabis industry was to ensure that a reliable tax revenue stream was created, along with jobs and a meaningful Social Equity Program. Without distributorships located within the City, all three of these goals are thwarted.

When Las Vegas began recreational cannabis sales, shortages quickly arose. The lack of a viable distribution network meant all movement of cannabis froze, quickly resulting in acute shortages. This was devastating for patients. Adult use consumers stood in long lines for hours.² It should be noted that Los Angeles, like Las Vegas, has a huge amount of tourism and as we move closer to summer this should be a concern.

The few distributors existent outside the City limits can charge whatever they like for their services and local licensees will have no choice but to pay whatever fees these non-resident licensees demand. The scarcity of licensed distributors in and around Los Angeles means that existing distributors will travel long distances adding to the expense of dealing with such entities.

Those who acquired transport-only licenses when they applied for City retail licenses are specifically prohibited from wholesale sales, quality assurance, storage, arranging for testing or collecting taxes on behalf of others. These activities are reserved for state issued Type 11 distribution licenses and are activities which must be performed before cannabis and cannabis products can be sold at the retail level. (See: Section 5315 of the BCC Emergency Regulations. Link: http://bcc.ca.gov/law_regs/bcc_notice_emerg.pdf).

¹ Most retail outlets beefed up inventory as much as they could prior to 12/31/17, in anticipation of increased sales due to legalization. Unfortunately, many of the Prop M retailers were already financially savaged by unfair competition created by unlicensed rogue entities and simply didn't have the assets to meaningfully increase their inventory. Compare and contrast to West Hollywood which was less burdened. Products already gone from Los Angeles shelves can sometimes still be found in West Hollywood dispensaries, though supplies are dwindling.

² See: <http://www.businessinsider.com/nevada-marijuana-shortage-statement-of-emergency-2017-7>

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General Information

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Los Angeles is 467 square miles. State law does not currently allow for a chain of storage facilities for distributors who are traveling the length of the state. Distributors must be able to locate themselves in close proximity to the products they will be moving. Thus, there is an urgent need to license in-city distributors. Each day we delay in the issuance of these licenses, jobs and tax revenues are lost to other municipalities.

The City will shortly begin to license the largest group of licensees, the non-retail applicants that were formerly part of the collective system as patient providers. The non-retail segment of the cannabis industry cannot function efficiently without a healthy number of distributorships. As cannabis becomes a finished product it will move multiple times through the supply chain. It must be tested, quality control performed and taxes collected.

A lack of distributorships within the City will meaningfully cripple the Social Equity Program. Social equity candidates are not exempt from product testing, quality control or taxation. Without a sufficient number of distributors operating in the City, social equity candidates, like all participants in the supply chain, will be subject to crippling fees for distribution services. Because they are new to the marketplace and may be boutique businesses, they may find that they are chronically ignored as distributorships give preference to large entities, which are in a position to pay more. If the City does not issue Distribution Licenses, no social equity candidate can establish such a business nor can they be mentored by existing businesses.

Those most inconvenienced by all this will be patients, who will not only suffer acute shortages of the medicine they depend upon for relief, but will also pay more for that medicine. Businesses will have no choice but to pass on the costs that arise when there are no distributors within the City.

For the reasons stated above, we urge the City to begin licensing distributors as soon as possible and continue accepting applications until such time as an adequate number of distributorships are functioning within the City limits. We apologize in advance to Ms. Packer and her staff for the added work of immediate licensure, but based on the efficient licensure of the overwhelming majority of Measure M candidates the Department of Cannabis Control appears to be up to the challenge.

Sincerely,



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Director of Industry Affairs
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Cc: Mr. Andrew Westall
Ms. Leela Kapur
Mr. Alexander Ponder
The Honorable Members of the Rules Committee
Mr. Paul Habib
Mr. Solomon Rivera
Mr. Richard Williams
Mr. Virgil Grant
Mr. Donnie Anderson
Mr. Daniel Sosa
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