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So if cannabis users can’t legally buy from a local dispensary, many go to black market sources.

Businesses in those cities and counties that allow recreational sales, however, must pay local taxes (4% in Sacramento) on top of the 15% state tax, along with the costs of permits for growing, selling and operating legally. That’s a burden their competitors in the black market can avoid.

Paul Clemons, director of licensing and compliance at Florin Wellness Center, told SN&R that taxes, fees and red tape are driving up the price of legal cannabis.

“Let’s look at it like gas,” Clemons said. “Gas is a pretty cheap commodity. It’s all the taxes we’re placing on it that makes it expensive, especially here in California.”

Phil Blurton, owner of All About Wellness in Sacramento, told KCRA in November that fees and taxes are “making the cost of our product so expensive the black market is booming now.”

Clemons cited other expenses facing Sacramento cannabis businesses, such as HD cameras that record 90 days, required in dispensaries. “People don’t think of the bandwidth of internet that takes, or the costs of storage,” he said. “The amount of money that takes in general is a lot.”

“Although we do have high hopes for 2020, I still think we’re very much so fighting these new industry woes,” Clemons added.

So how do you compete with a black market product that’s cheaper and easier to get?

Many suggest handing out more licenses, allowing more people to open businesses to sell cannabis—the free market approach. With more retail competition, eventually prices for the legal product would go low enough to kill the black market.

In Oregon, growers amassed an excess of 2 million pounds of legally grown cannabis, far exceeding the in-state demand. With federal law still preventing interstate cannabis trade and growers sitting on massive stashes of excess cannabis, they turned to the black market. That led to something authorities called “diversion,” or the illegal funneling of legally grown Oregon cannabis to surrounding states—and it happened a lot.

Between July 2015 and January 2018, 14,550 pounds of

Oregon-grown cannabis was seized on its way to 37 other states, shorting the state of Oregon about \$48 million in lost potential profit.

“You’re never going to eliminate [the illicit market] until most of the states are legal,”

Adam Smith of the Craft Cannabis

Alliance, a group in Oregon advocating for small cannabis

farmers, told Politico. “As long as half the country still can’t get it legally, there’s a market for it illegally.”

Despite the seeming doom and gloom around the prices, taxes and costs on both the consumer and the buyer in the Californian legal cannabis market, it’s not all bad news on the horizon for 2020.

More and more states—including Arizona, New Jersey and Pennsylvania—are making the push to legalize recreational use in 2020. Recreational cannabis is supported by an overwhelming two-thirds of American adults.

Lifting the federal ban on cannabis would allow California’s cannabis industry to grow, and allowing legal interstate cannabis trade would let California legally offload surplus cannabis to Nevada and others states short on supply. □

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Paul Clemons
director of licensing and compliance,
Florin Wellness Center

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