

Opinion: The cannabis cartel California needs

By Joe Mathews

To legalize cannabis successfully, California is going to need its own cartel.

For the record (and to reassure federal law enforcement), I am not smoking anything. And I am not suggesting that California encourage a criminal syndicate like the Zetas. The California cartel would need to be a legal corporate oligopoly. The cartel members would be a small number of companies with the size and resources necessary to control the distribution of cannabis so that our state can properly track, regulate, price, and tax America's largest marijuana market.



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Without a powerful force to wrangle the motley cannabis players who operate in remote corners of the state, California marijuana could quickly spawn yet another of the convoluted regulatory messes for which our state is famous.

Early attempts to design regulation around cannabis are worrying. Instead of designing one system to cover all forms of cannabis, regulation is moving right now on two separate tracts. Work is under way on a new regulatory system for medical marijuana. At the same time, voters are considering whether to approve Proposition 64, which legalizes, and

proposes regulation of, marijuana's recreational use.

Hopefully, medical and recreational marijuana would be combined into a single regulatory system. But even then, Propositions 64, at 62 pages, is the longest initiative on the November ballot and outlines so many different priorities that a regulatory system based on them would be highly complicated.

How to bring order to the potential chaos? A cartel is by far the best answer.

For one thing, it's proven. Alcohol has long had this sort of three-tier system, with a middle tier of powerful distributors connecting a diverse array of brewers with all the various places that sell beer. For another, a powerful distributing cartel allows for ownership and accountability in the system. The cartel must buy the product from the growers, thus providing a check on supplies and quality and licensing. And the cartel must sell to the retailer, tracking the amounts of sales and the quality of product sold. And by tying together the system, distributors would be the natural vehicle for regulating and taxing cannabis.

The cartel has another important role: keeping the price high enough to protect small players. Without a choke point in the industry, legalization of recreational cannabis in California will likely produce a big drop in price. That's because demand is unlikely to spike after legalization; most of those who use cannabis in large amounts already have access to it, via medical marijuana and the ubiquity of the black market. But legalization is all but certain to increase supplies significantly, as growers move out of the shadows and make their once illegal businesses more productive.

That combination—a big increase in supply, while demand stays relatively flat—could produce a dangerous drop in prices and encourage more people to use marijuana. Distributors, as middlemen, would by their existence keep prices higher.

So, what sort of person could assemble such a cartel?

My own choice would be someone like Eric Spitz, who has already publicly raised his hand as a person interested in shaping the future of pot in California.

Spitz, who has an MBA from MIT's Sloan School of Management, ran a brewing company and founded a "fast-casual" food chain. He talks messianically about how those experiences, along with the investment in the Orange County Register that brought him to California a few years ago, make him the right man to help the state design a new regulatory regime and structure for the industry.

Spitz's goal? To help shape the system and eventually become a distributor. Spitz is now advising local governments about how to regulate cannabis businesses and he's been talking with former state Attorney General Bill Lockyer. "It's great fun to see how he thinks," says Lockyer.

Spitz says the question is not whether such a cartel (which is my term; he uses the word "consortium") arises, but when, and how it's structured. Will it have only a couple of distributors or many? And will such a distribution system be divided up into regions, or be truly statewide? He says that it should start statewide and then become regional as the number of outlets proliferates and retailers transform themselves from marijuana-focused dispensaries to restaurants or clubs that offer cannabis in the same style that bars offer alcohol.

"We have a responsibility to do it right, not only to make sure our system works, but because we know how California is going to tilt the scales for the rest of the country," Spitz says.

And how will you know if the system is working? My own view: When people in the marijuana business stop complaining about all the uncertainty and chaos as their industry emerges from

prohibition—and start complaining about the decisions of the cartel in charge.

Joe Mathews writes the Connecting California column for Zócalo Public Square.