

From: Schroeter, Bob L (LCB)
To: [Smith, Rebecca \(LCB\)](#), [Antolin, Peter P \(LCB\)](#), [Garza, Rick J \(LCB\)](#)
Date: Nov 20, 2015, 4:00 AM
Subject: Fwd: BOTEK - LCB Contract 430; Correspondence following Teleconference

FYI - I will be following up with Mark and Brad on this concept in the 2:30 call today. Bob Schroeter

Director, Public Records & Support Services

Washington State Liquor & Cannabis Board

360-664-1677

Bob.schroeter@lcb.wa.gov

3000 Pacific Ave SE Olympia, WA 98504

Begin forwarded message:

From: "Mark A.R. Kleiman" <markarkleiman@gmail.com>**Date:** November 19, 2015 at 7:03:43 PM PST**To:** "Schroeter, Bob L (LCB)" <bob.schroeter@lcb.wa.gov>**Subject:** Re: BOTEK - LCB Contract 430; Correspondence following Teleconference

Bob, an additional note that may or may not be relevant. For the moment, please consider this my personal opinion as an academic student of drug markets, not representing a finding or recommendation.

The contract called for estimates rather than policy advice, so the report says nothing about policy except for a parenthetical statement that it wouldn't require 50% more I-502 stores to provide 50% more product to consumers. However, because the Board asked us to provide county-specific estimates, our working assumption was that the answers we provided would be used to determine how many additional store licenses to issue.

If instead the question is how much more production capacity to license, the numbers we provided are still relevant, but require some interpretation.

Assuming that the goal is to continue to supply existing customers plus normal growth but without stimulating big

increases in the volume consumed, prices are at least as important as volumes. According to the reports I have seen, "farmgate" prices have been plunging (as the RAND team predicted they would). I would expect them to continue to fall even if no more canopy were licensed this year.

So the note in the report about the relationship between volume of product and store count applies with extra force to the relationship between volume and licensed canopy.

If our estimates are accurate, and incorporating medical demand (other than medical demand served by home-growing) into the Board-regulated system would boost sales in that system by 50%, the optimal amount of additional canopy to license might be well less than 50%. In fact that figure might be zero, or even negative if currently licensed canopy, when fully exploited, would flood the market with cheap cannabis.

From the beginning, many of us in the drug-policy community have worried that legalization would result in large price decreases, risking large increases in heavy, problem use and in use by adolescents. Nothing that has happened since 2012 has done anything to assuage those fears.

So - again, my private view - the incorporation of the medical system may provide the Board with an unexpected chance to protect the public health merely by inaction.

Since it's easier to issue new licenses than to take back licenses already granted, if I were making the decisions I would err on the side of under-licensing, and monitor farmgate prices closely with an eye to issuing new licenses or increasing the allowed canopy under existing licenses if it appears that a shortage might be in the offing.

Yours,

Mark