



Big Marijuana and the Commercialization of Cannabis

Kevin Sabet, PhD
President, SAM

March 2016

About SAM



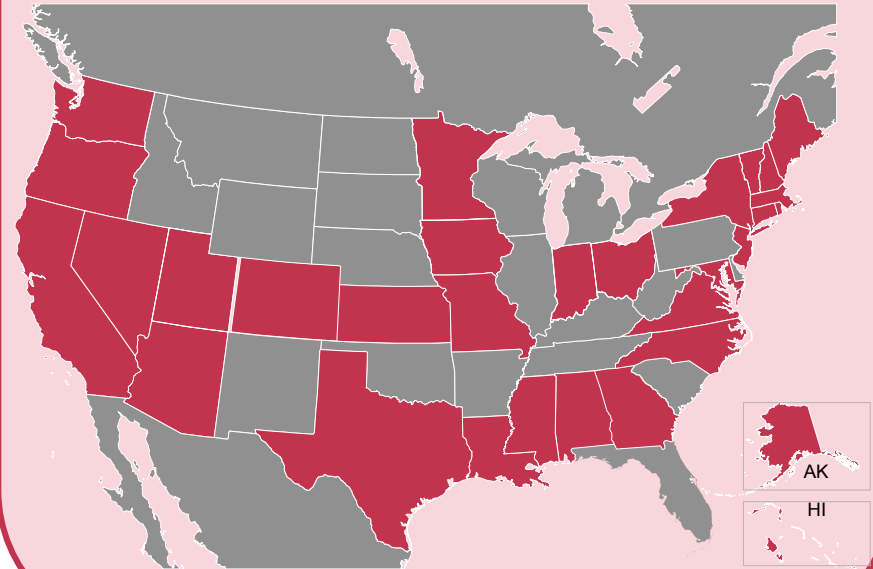
- SAM has an evidence-based, scientific approach to marijuana policy that **rejects the false dichotomy that we must either lock up marijuana users OR legalize pot**
- Instead, we support:
 - Alternatives to incarceration
 - FDA-approved medications derived from marijuana
 - Ending legalization and commercialization of pot
- We have **helped defeat five state pro-legalization initiatives**, including the 2015 Ohio ballot measure

Through its prestige & 31 affiliates, SAM brings nationwide reach and media impact to the table

- **Non-partisan but high-profile:** founded by former Democratic Congressman Patrick Kennedy and leading Republican pundit David Frum
- **Scientific advisory board** of 12 leading researchers, professors, and public health/legal experts.
- **Hundreds of thousands of press mentions**, including in all major national media, such as:



31 state affiliates across the U.S.



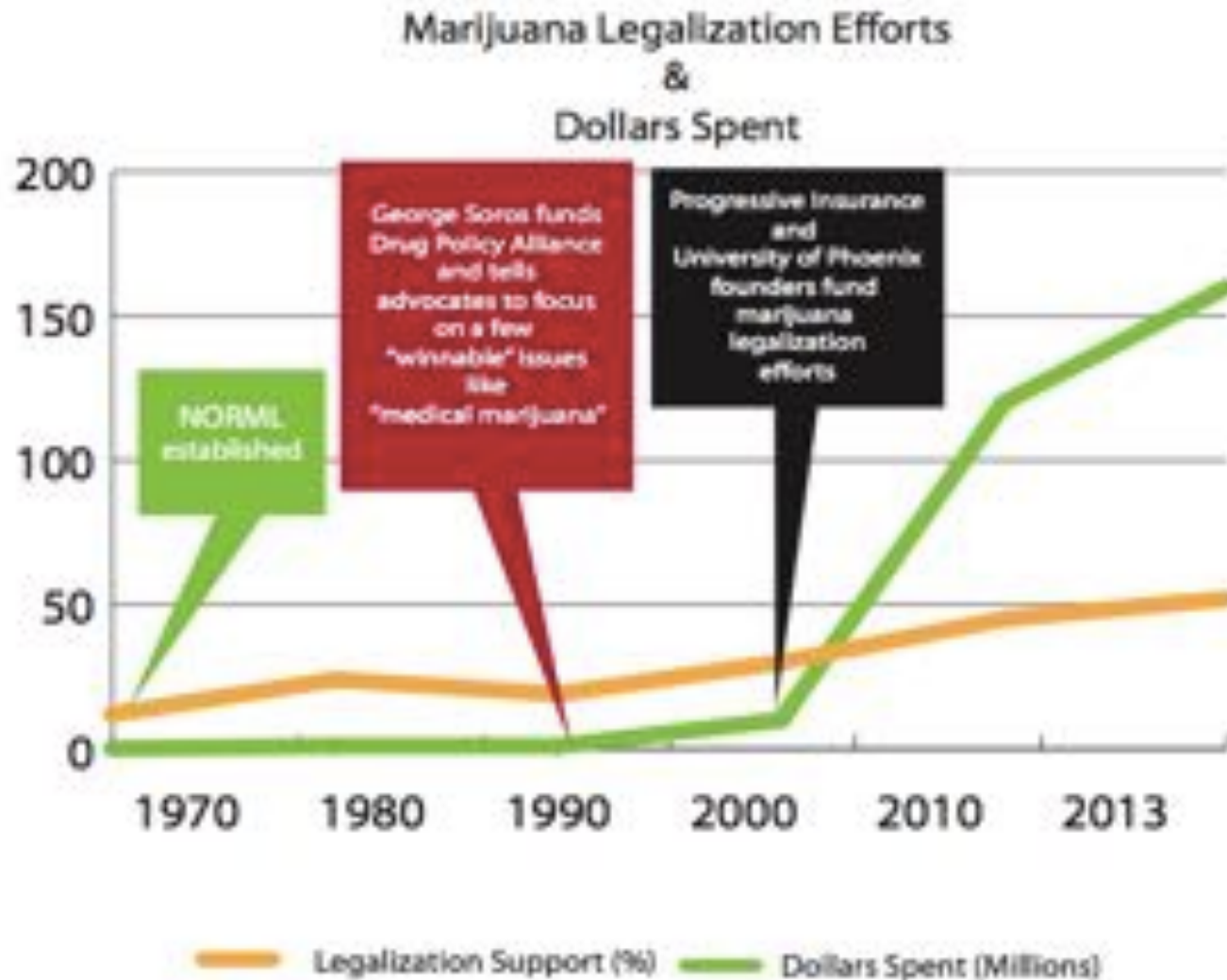
The false dichotomy: “Legalization OR incarceration?”



VS



Rising support for legalization follows a massive political spending campaign



Pundits/elites suggest that large majorities support marijuana legalization and that it is inevitable



“[Legalization in California] is an inevitability... I am not opposed to the legalization of marijuana.”

*- California Attorney General
Kamala Harris*

The Washington Post



“It seems only a matter of time before more politicians join [Bernie] Sanders in taking more definitive policy positions that move along the drug's slow but apparently inevitable march toward acceptance in America. Maybe it's this election, maybe it's the next.”

*- Amber Phillips, Washington
Post*

Going beyond marijuana?

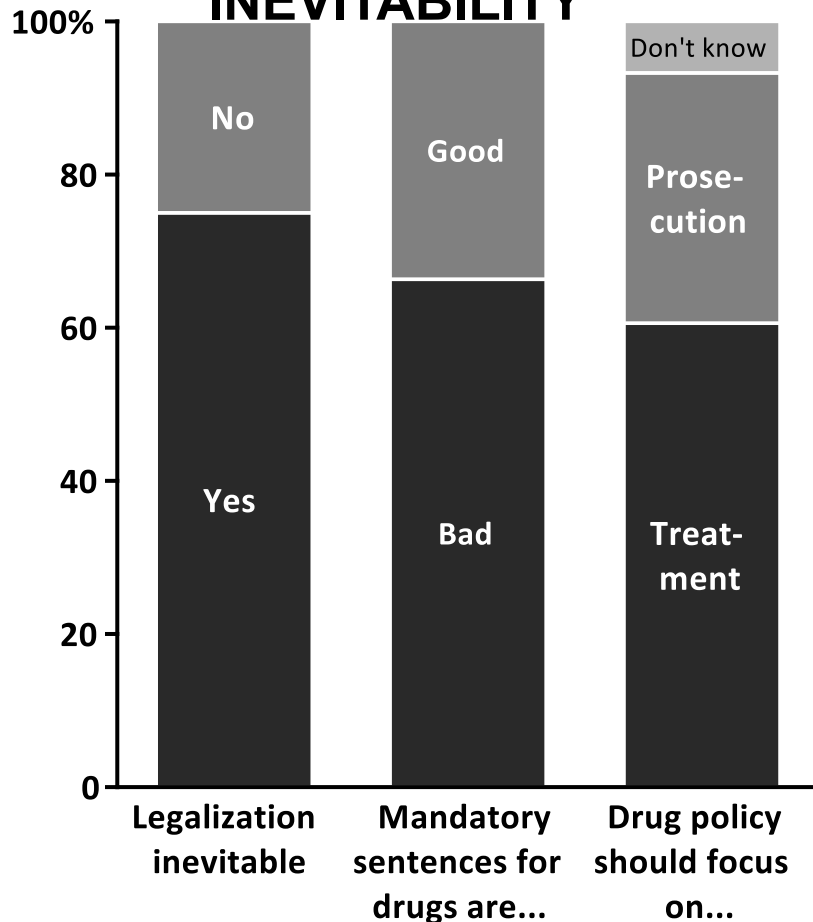
“We're at a tipping point where it's starting to feel like marijuana legalization is no longer a question of if -- but when. **But what about the other drugs?** My colleagues and I at the Drug Policy Alliance are committed to ensuring the decriminalization of all drug use becomes a political priority. ...

Many of the reasons why marijuana legalization makes sense can be applied to drugs more generally””

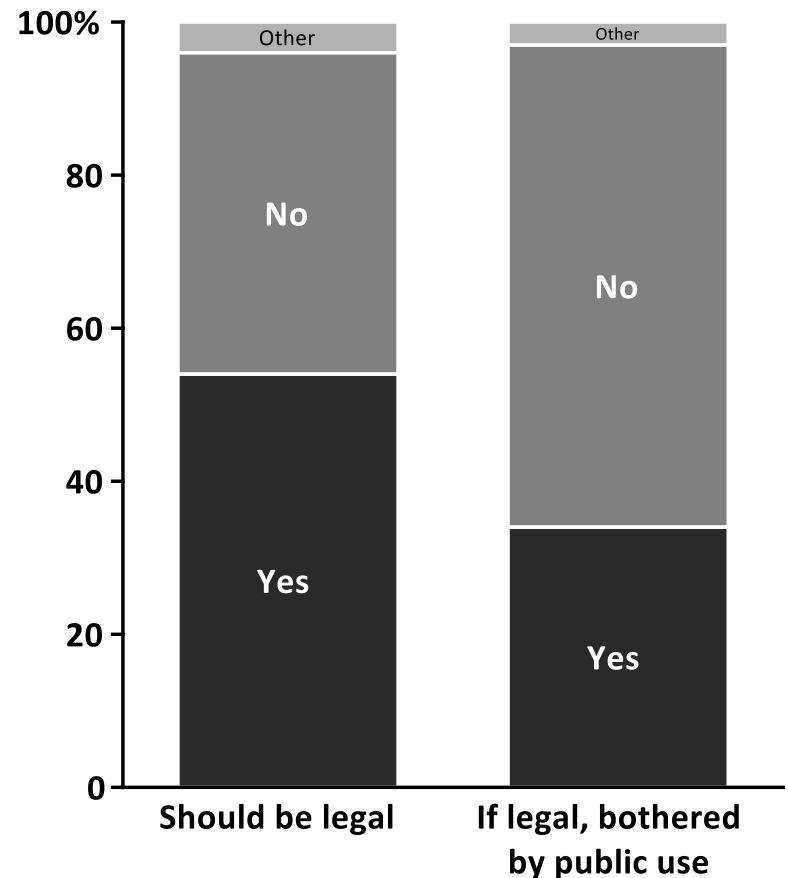
-Tony Newman, Director of Media Relations, Drug Policy Alliance (reported in the Huffington Post)

Americans are uncomfortable with incarceration policies, but don't like having pot in their backyard

STRONG FEELINGS ABOUT PRISON & INEVITABILITY

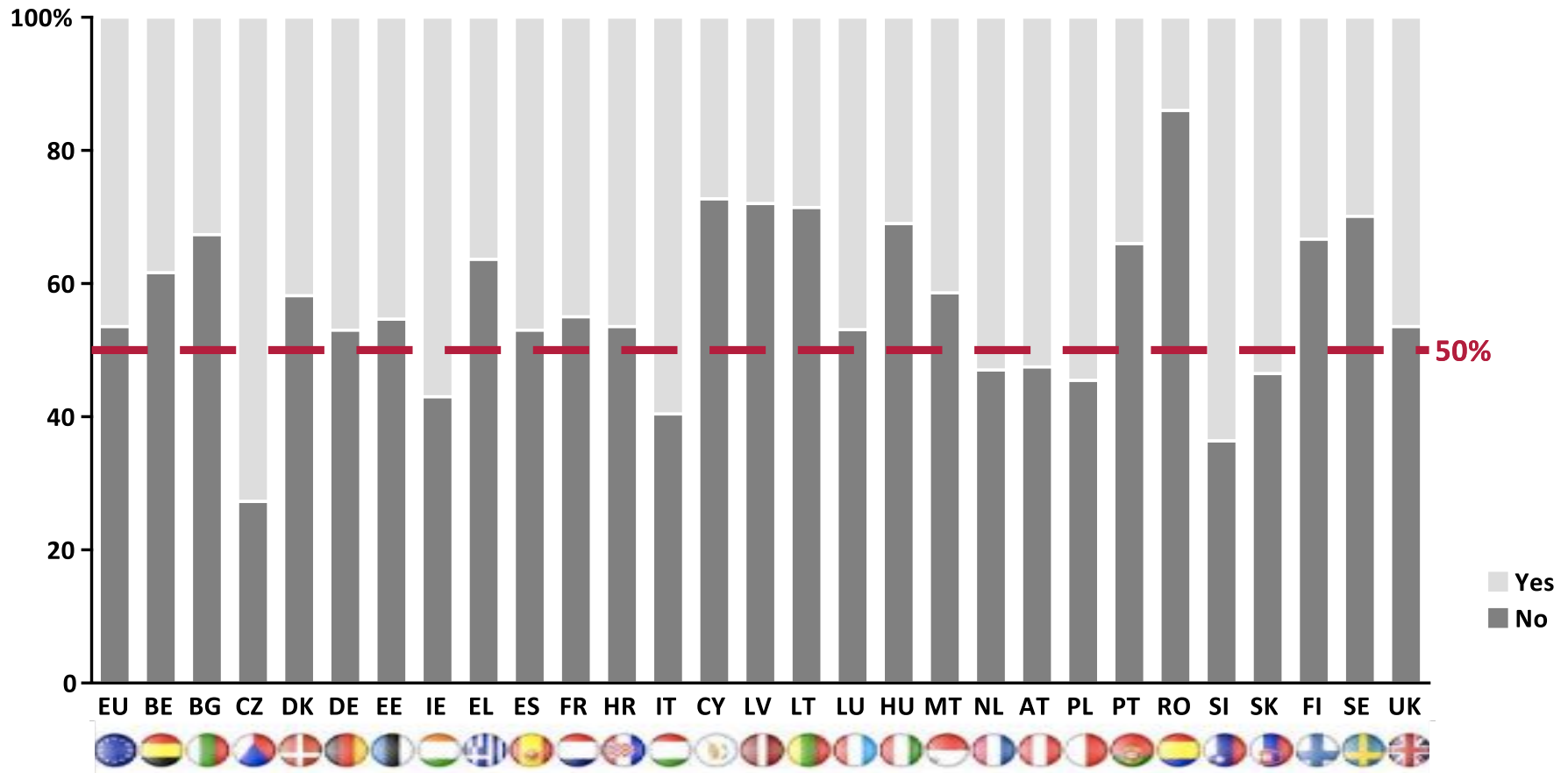


BUT MORE AMBIVALENCE ABOUT RECREATIONAL USE



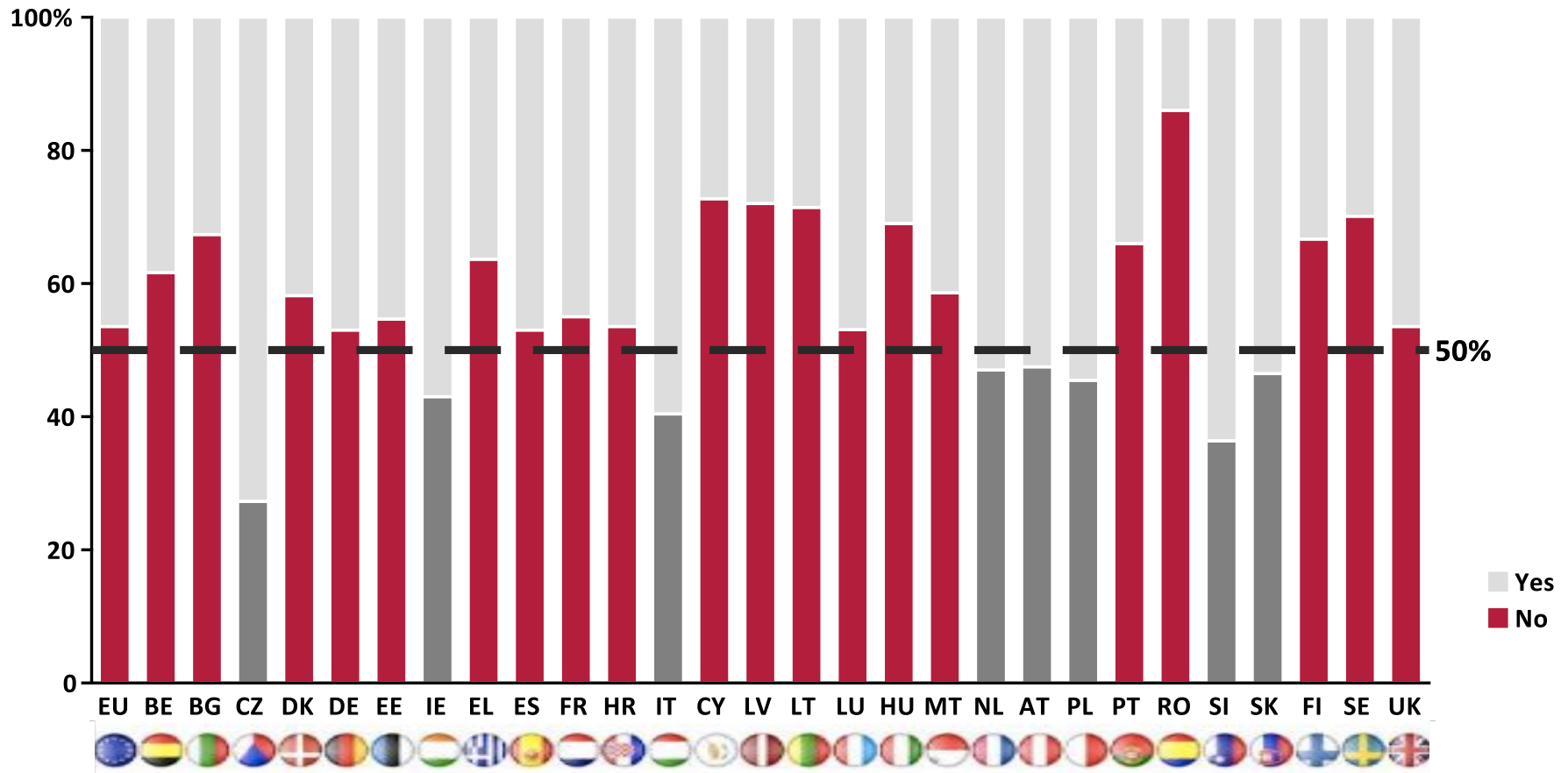
In Europe, even youth—generally the most pro-legalization age bracket—is split on the issue

Poll of 15 to 24-year-olds—should marijuana be legal across the EU?



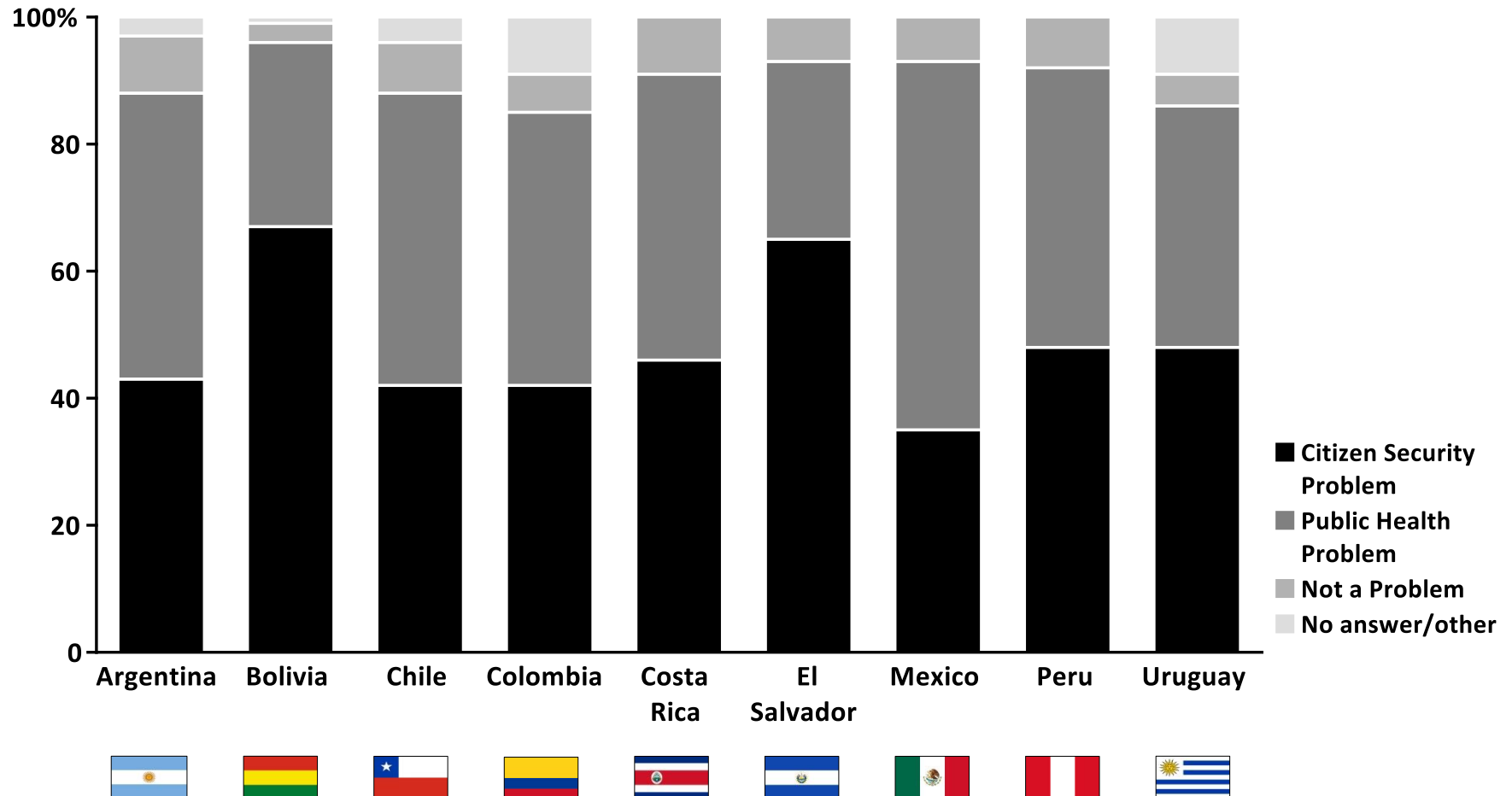
Over half of youth in most EU countries OPPOSE marijuana legalization

Poll of 15 to 24-year-olds—should marijuana be legal across the EU?



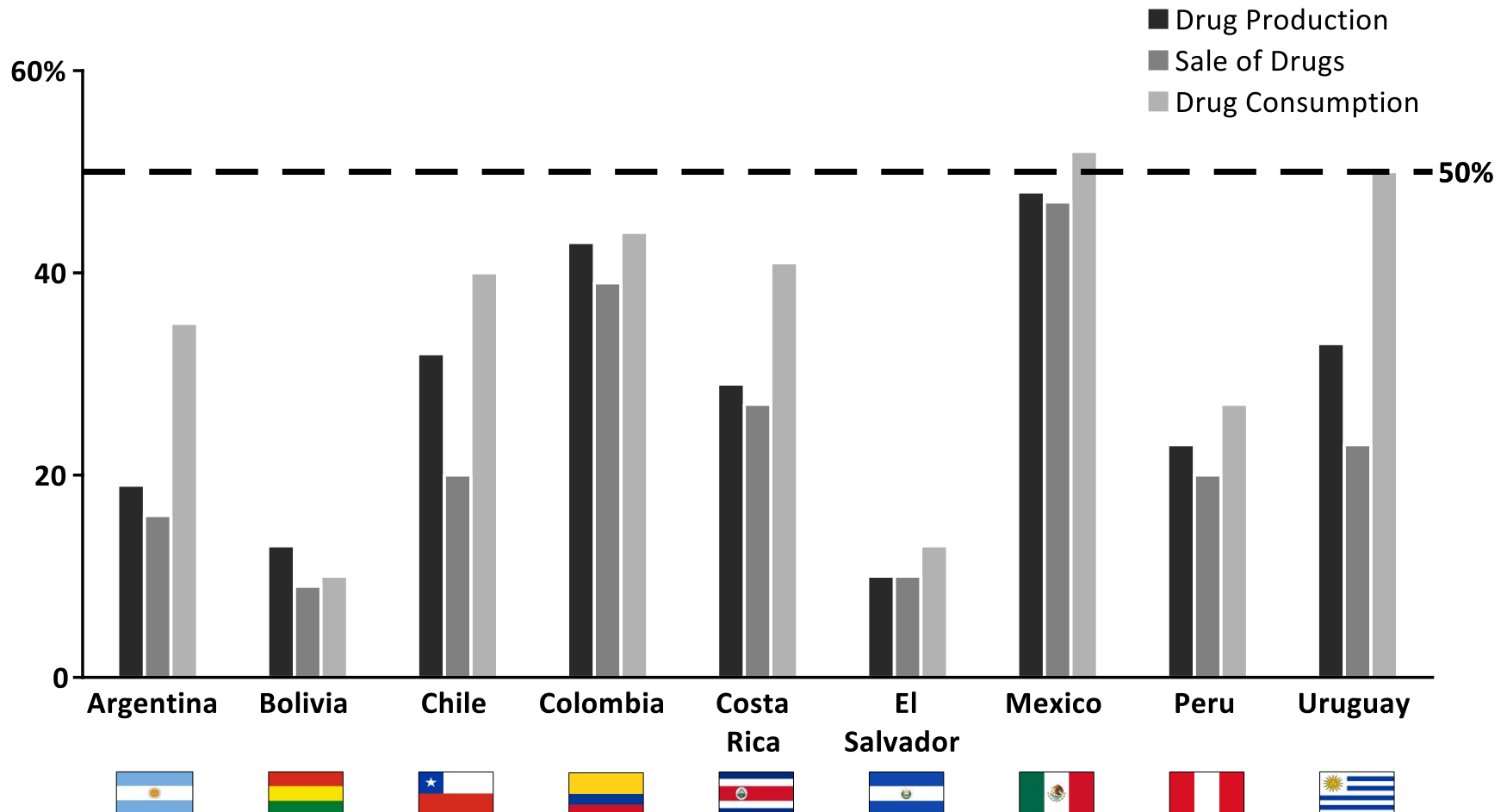
The Latin American public sees drugs as a mix between a security and a public health issue

Percent of population



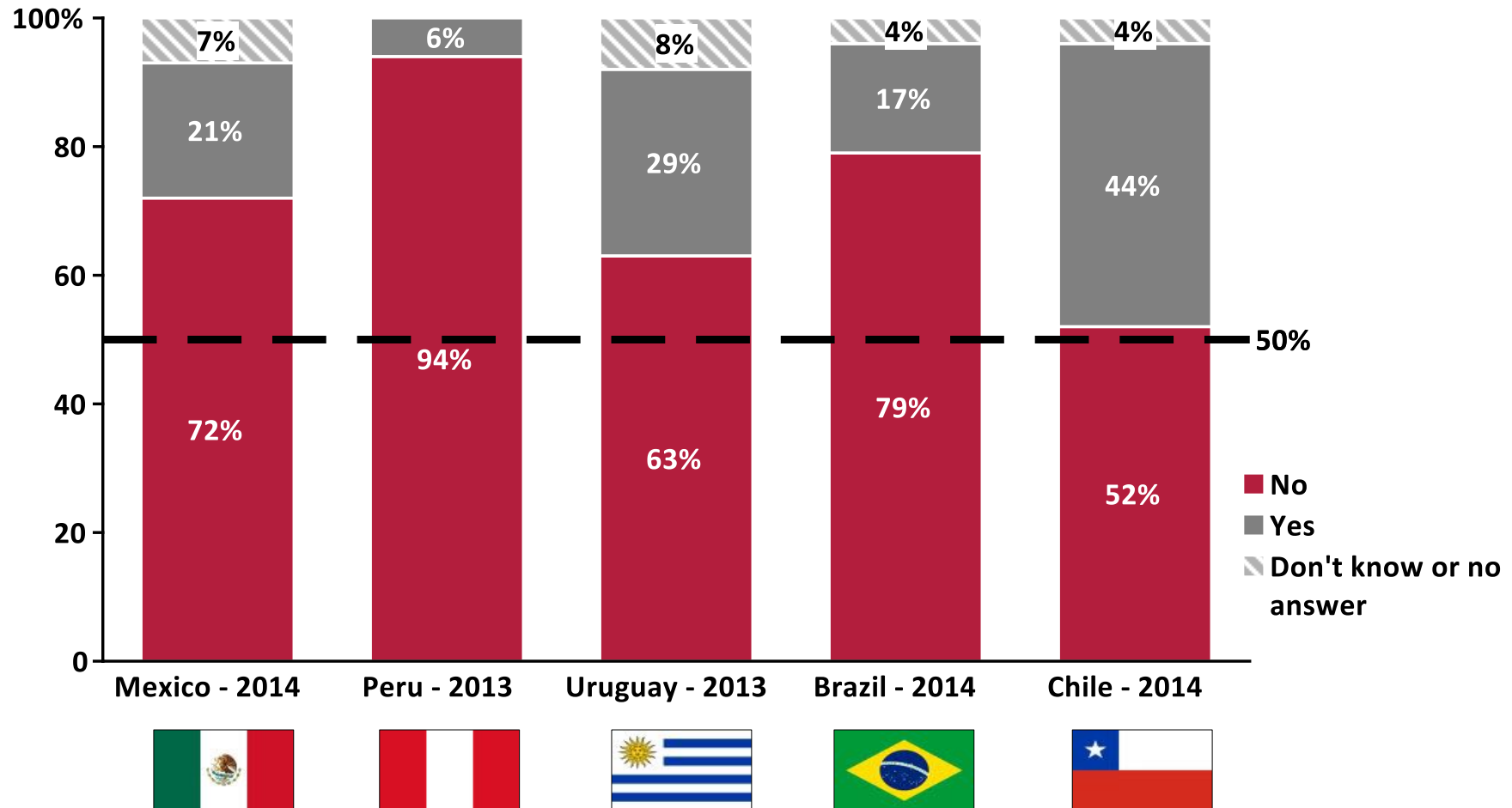
Reaction is mixed at best even if you ask Latins if they favor decriminalization OR legalization

Do you favor de-penalizing or legalizing the following activities?



Despite what the pundits say, support for pot legalization is a minority opinion in LatAm

Do you favor the legalization of marijuana for recreational use?



So what is this all about?



Legalization has birthed a marijuana industry, fueled by private equity and Wall Street



NYC-based private equity firm focused on cannabis



\$26 million round of funding closed July 2015



Partnership with Willie Nelson to develop a marijuana brand



Seattle-based private equity firm investing exclusively in pot



Secured the first institutional investment in cannabis



Launched the world's first global cannabis brand, "Marley Natural"



Perception:

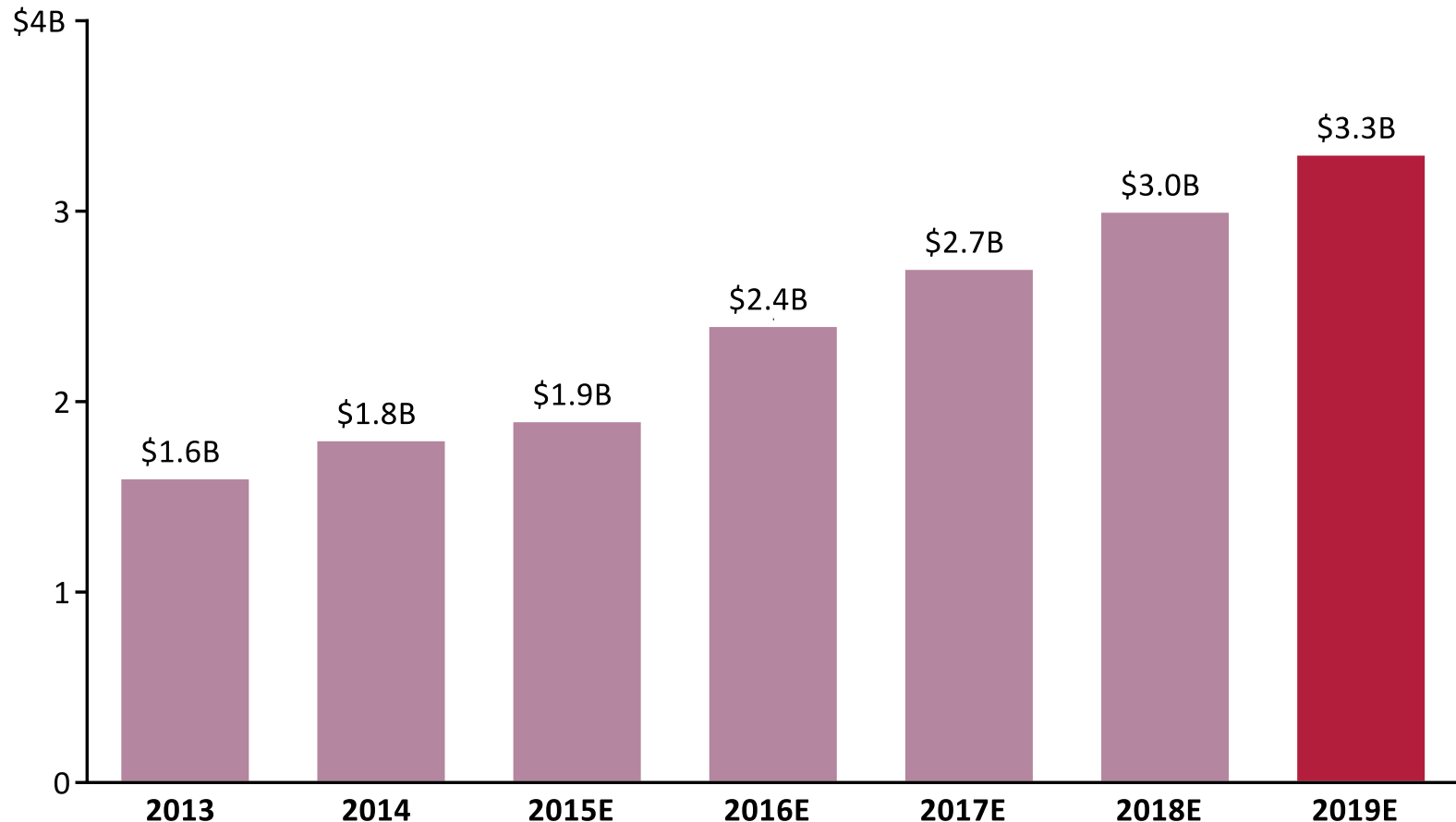
Reality:

THE LEGALIZATION OF MARIJUANA means ushering in an entirely new group of corporations whose primary source of revenue is a highly habit-forming product. Sounds a lot like another industry we just put in its place. Many facts are being ignored by this and other news organizations. Go to GrassIsNotGreener.com to see why so many major medical associations oppose marijuana legalization.

GrassIsNotGreener.com

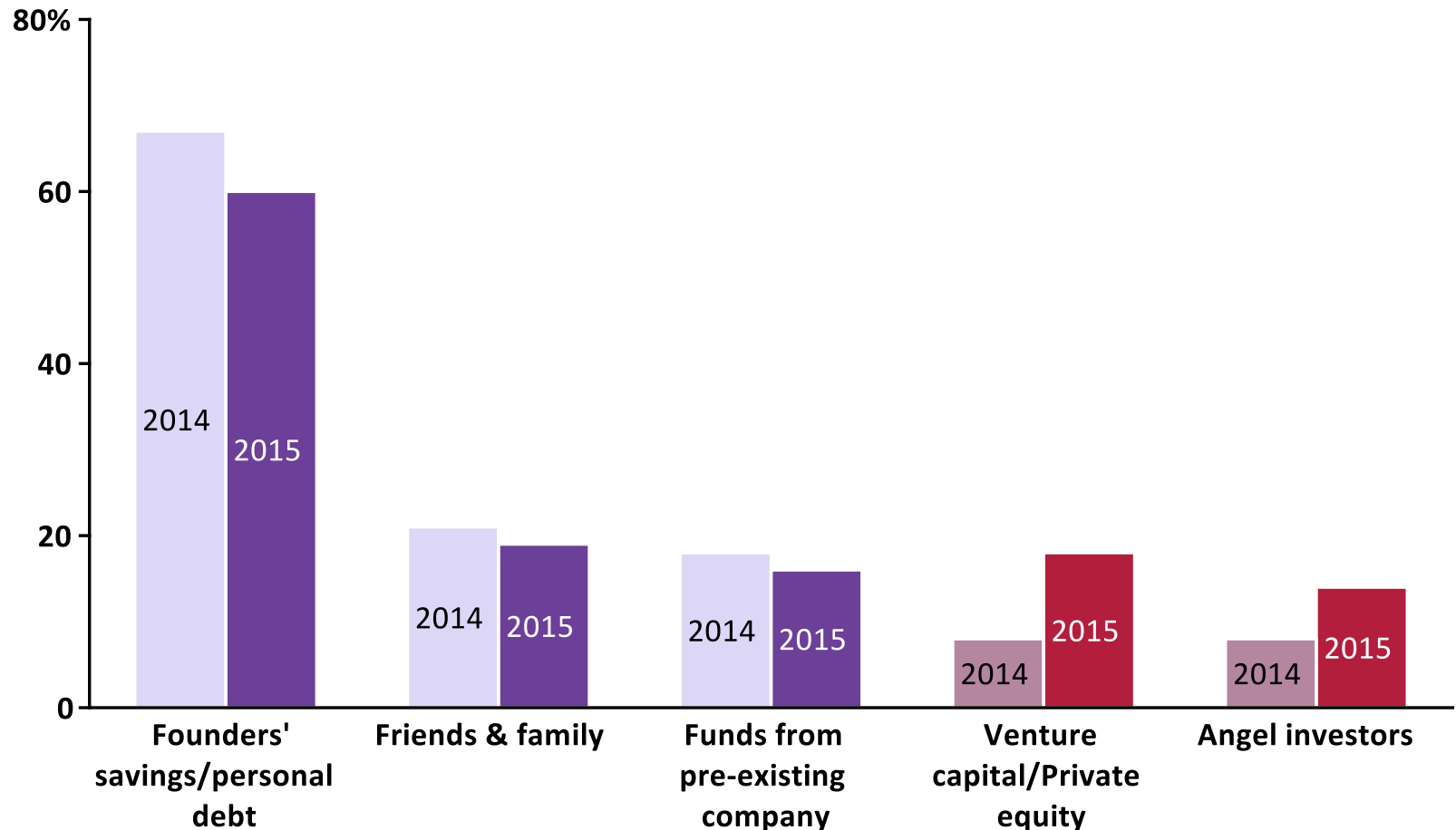
The U.S. marijuana industry is already a multi-billion dollar enterprise

U.S. marijuana industry sales (estimated, \$ billions)

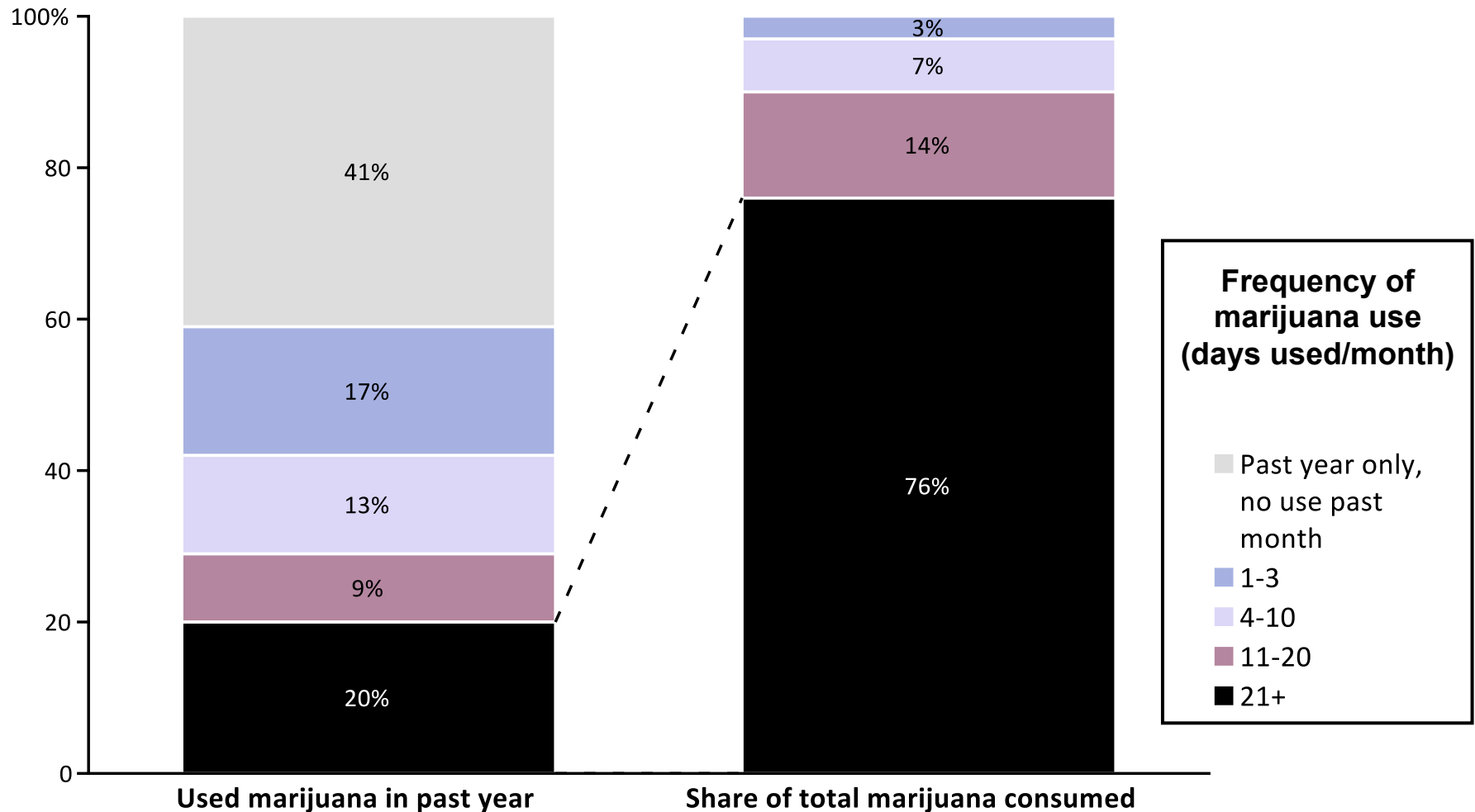


Not a backyard business anymore: institutional capital is increasingly important

%age of MJ startups using specified financing source

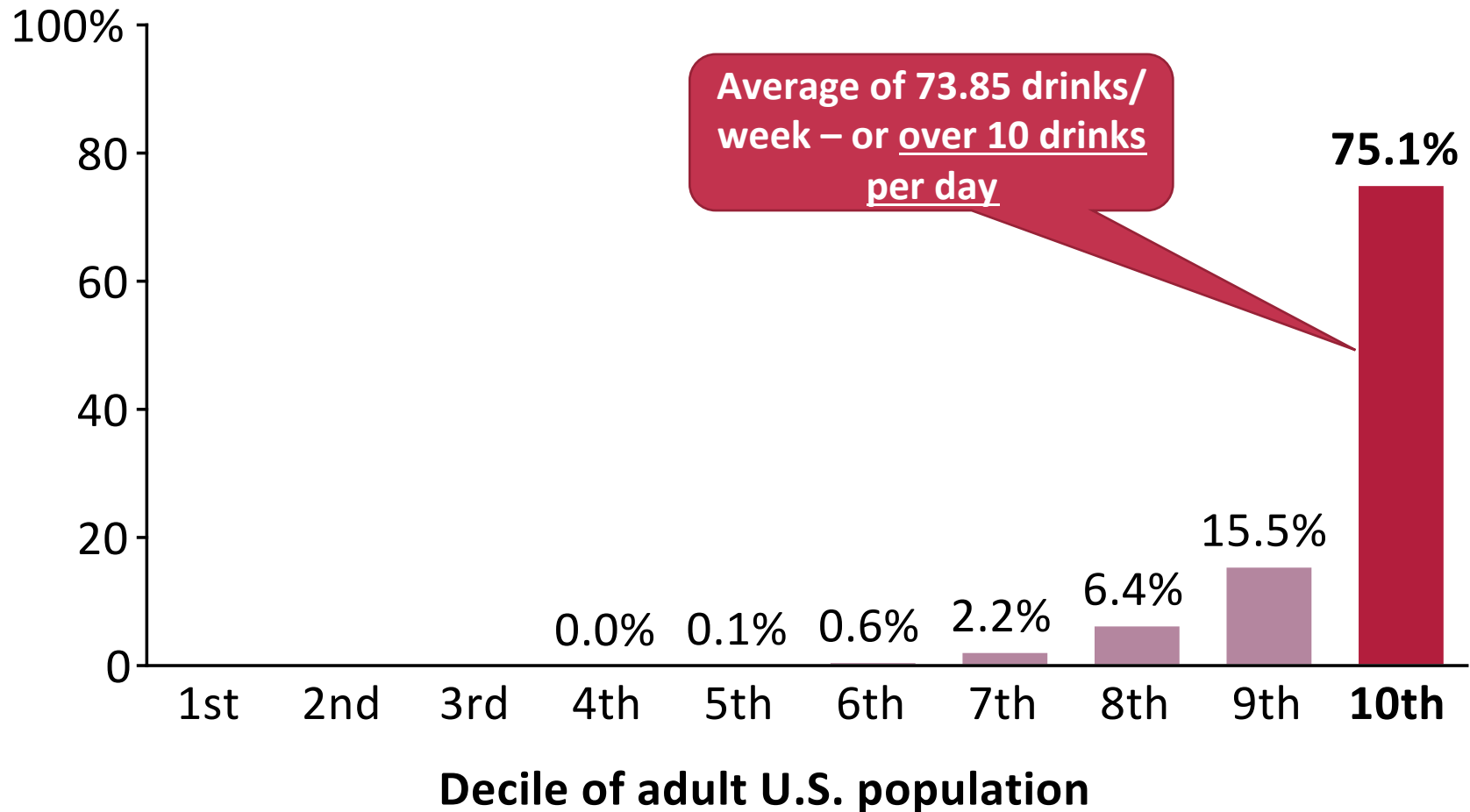


Heavy users dominate marijuana consumption



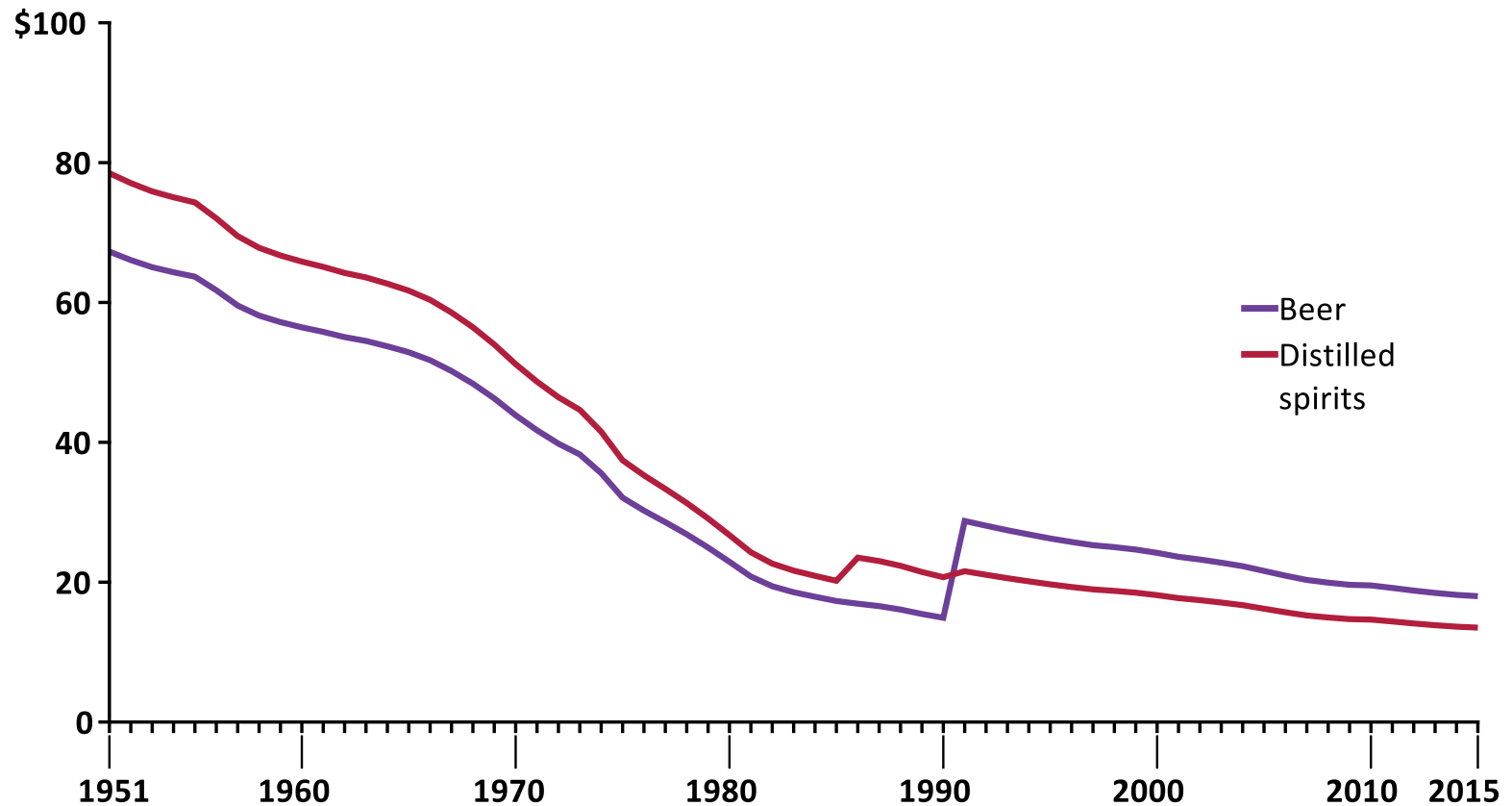
Alcohol companies depend on heavy drinkers to make money

% of total U.S. alcohol consumed

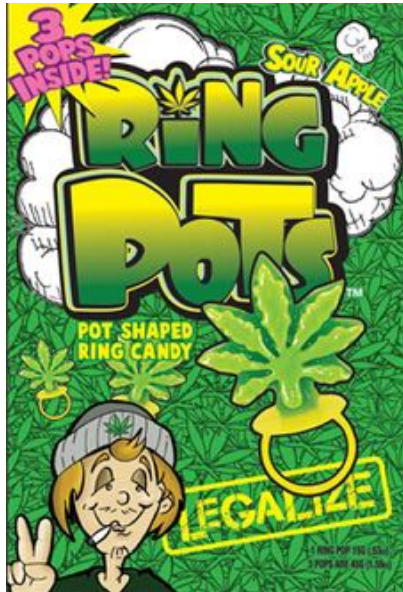


Excise taxes on alcohol have plummeted, falling by up to 80% since the Korean War

Federal excise tax per relevant unit volume (real value in 2015 dollars)



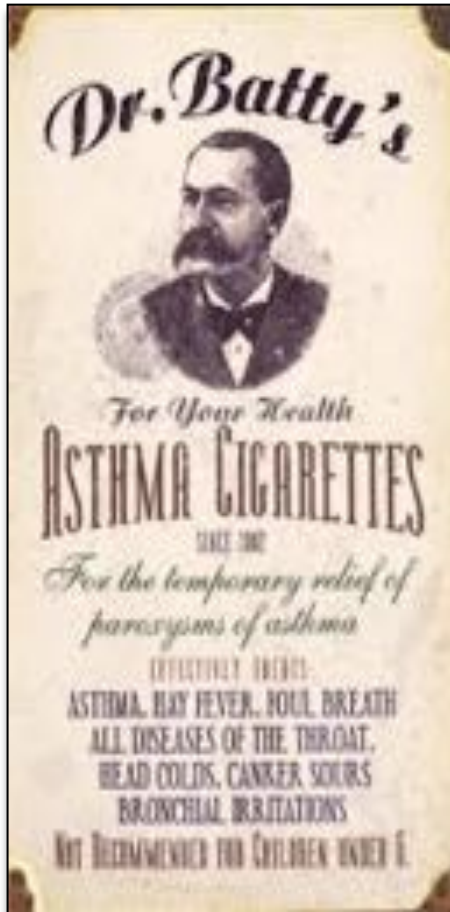
Targeting children



Marijuana is not “just a plant” anymore – derivatives contain up to 98% THC



The early days of big tobacco



DRAFT

I. THE IMPORTANCE OF YOUNGER ADULTS

Within five years, younger adults (18-24) will drop from 18% to 13% of the total adult population (18+). They will continue to decline in numbers until at least 1995, as the crest of the Baby Bubble pushes farther past age 25.

This shift in the population will cause smokers aged 18-24 to fall from 16% to 14% of all smokers by 1988. Even 13% would not be surprising, since smoking incidence has been declining more rapidly among younger adults than any other age group in recent years (see Appendix A).

Why, then, are younger adult smokers important to RJR?

Why, then, are younger adult smokers important to RJR?

1. VOLUME

Younger adults are the only source of replacement smokers. Repeated government studies (Appendix B) have shown that:

- Less than one-third of smokers (31%) start after age 18.
- Only 5% of smokers start after age 24.

introduction, with no cannibalization and no development/introductory costs.

As a company, Philip Morris held more than 40% of these 18-year-olds in 1983 versus RJR's 15-20%, yielding PM a .5 point in-going SGM advantage due only to "new" smokers.

- * This assumes 18-year-olds are 10% of the 18-24 group rather than a "fair share" of 14% because of population decline and the fact that some smokers start after age 18.

STATEMENT OF DAVID GOERLITZ
Former Model for Winston Cigarettes

BEFORE THE
SUBCOMMITTEE ON TRANSPORTATION AND HAZARDOUS MATERIALS
OF THE
HOUSE COMMITTEE ON ENERGY AND COMMERCE

of the models who appeared in the
even smokers. One of them, in fact,

Of course, children aren't the only targets of the tobacco industry. Once, when I asked an R.J. Reynolds executive why he and his colleagues didn't smoke, he responded point-blank that "We don't smoke the sh--, we just sell it . . . We reserve that 'right' for the young, the poor, the black and the stupid."

PROJECT:

Youth Cigarette - New concepts

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Youth Cigarette - New concepts

MARKETING INNOVATIONS' SUGGESTIONS:

APPLE FLAVOR

Apples connote goodness and freshness and we see many possibilities for our youth-oriented cigarette with this flavor. Apple cider is also a possibility.

SWEET FLAVOR CIGARETTE

We believe that there are pipe tobaccos that have a sweet aromatic taste. It's a well known fact that teenagers like sweet products. Honey might be considered.

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06.06.2005

Newsweek

**BIG
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“Big Marijuana”: a \$10 billion/year dream for the tobacco industry since the 1970s

“The use of marijuana ... has important implications for the tobacco industry in terms of an alternative product line. [We] have the land to grow it, the machines to roll it and package it, the distribution to market it. In fact, some firms have registered trademarks, which are taken directly from marijuana street jargon. These trade names are used currently on little-known legal products, but could be switched if and when marijuana is legalized. Estimates indicate that the market in legalized marijuana might be as high as \$10 billion annually.”

- 1970s report commissioned by cigarette manufacturer Brown and Williamson (now merged with R.J. Reynolds)





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The Landscape

2016 Ballot States: California, Nevada, Arizona, Massachusetts, ~~Maine~~

2016 Legislative States: Vermont, Rhode Island

Countries to Watch: Uruguay, Canada

DC situation: *The district on verge of legalizing retail/clubs;
Federal pressure mounting*

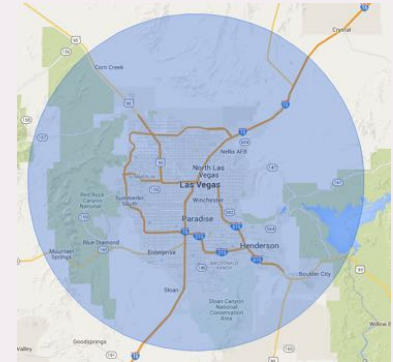
In Nevada, the home-grow ban would effectively criminalize home cultivation in all urban areas



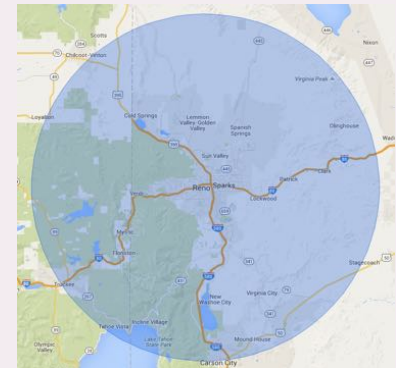
Criminalizes home cultivation w/in 25-mile radius of retail pot shops

Just one retail marijuana store in the center of any major city would exclude home grow from the entire metro area

Las Vegas: 25-mile zone would extend to Hoover Dam



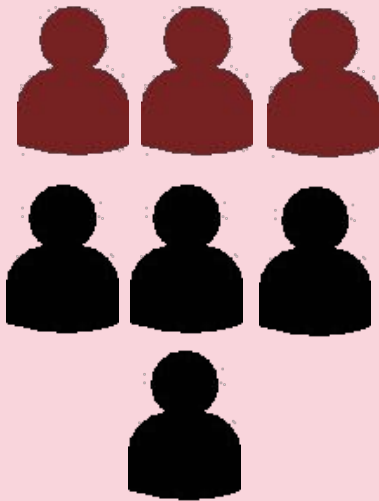
Reno: 25-mile zone would extend to north end of Lake Tahoe



The Nevada initiative provides competitive advantages to the pot and alcohol industries

- **Very limited local control:** Does not appear that localities can ban marijuana establishments within their jurisdictions
- **Alcohol wholesalers get a “first-to-market” advantage in obtaining distribution licenses** in the first 18 months of licensing activities
- **“Medical” marijuana businesses get a “first to market” advantage in obtaining licenses for retail sales, manufacturing, and cultivation** in the first 18 months of licensing activities
- No regulations can make operation of a marijuana business **“unreasonably impracticable”**

The Arizona initiative provides competitive advantages to the pot industry

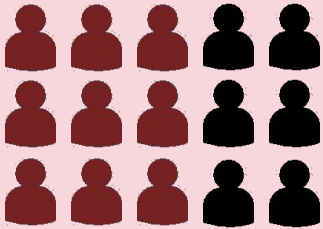


By law, 3 of 7 members of the AZ Marijuana Commission must be owners, directors, or managers of pot businesses

While the four members are not allowed to have any financial interest in a marijuana business, **the other three are required to have such an interest.**

- **This means the pot industry will only need one vote to get its way on any issue before the commission, including licensing decisions.**
- Moreover, since **a quorum for decisions is four members**, the industry reps would just need one other Commissioner in the room to win on any given matter.

The MA initiative gives strong advantages to industry, incl. *de facto* control of regulatory entity



**9 of 15 members
of the MA
Cannabis
Advisory Board
will be industry-
controlled**

Industry representatives:

- An “expert in marijuana cultivation”
- An “expert in marijuana retailing”
- An “expert in marijuana product manufacturing”
- An “expert in marijuana testing”
- A “board member or officer of a medical marijuana treatment center”
- A “registered medical marijuana patient”
- An “individual who represents marijuana retail customers”
- Two “attorneys with experience providing legal services to marijuana businesses, marijuana consumers or medical marijuana patients” in MA

Potential non-industry representatives:

- Two “experts in public health”
- Two “experts in law enforcement”
- Two “experts in social welfare or social justice”

Additional advantages to industry:

- **Limits on local control:**
 - Many measures require a plebiscite
 - Cannot ban delivery/transportation of pot
- State is permitted to **fix prices via capping supply**
- Existing marijuana businesses get a **“first-to-market” advantage via a priority in licensing** in the first year after legalization
- No regulations (state or local) can make operation of a marijuana business **“unreasonably impracticable”**

Initiatives allow for commercial sale & home production of pot edibles and concentrates

Edibles



- Retail sale and home manufacture permitted
- No health or safety restrictions related to the higher risk these products pose

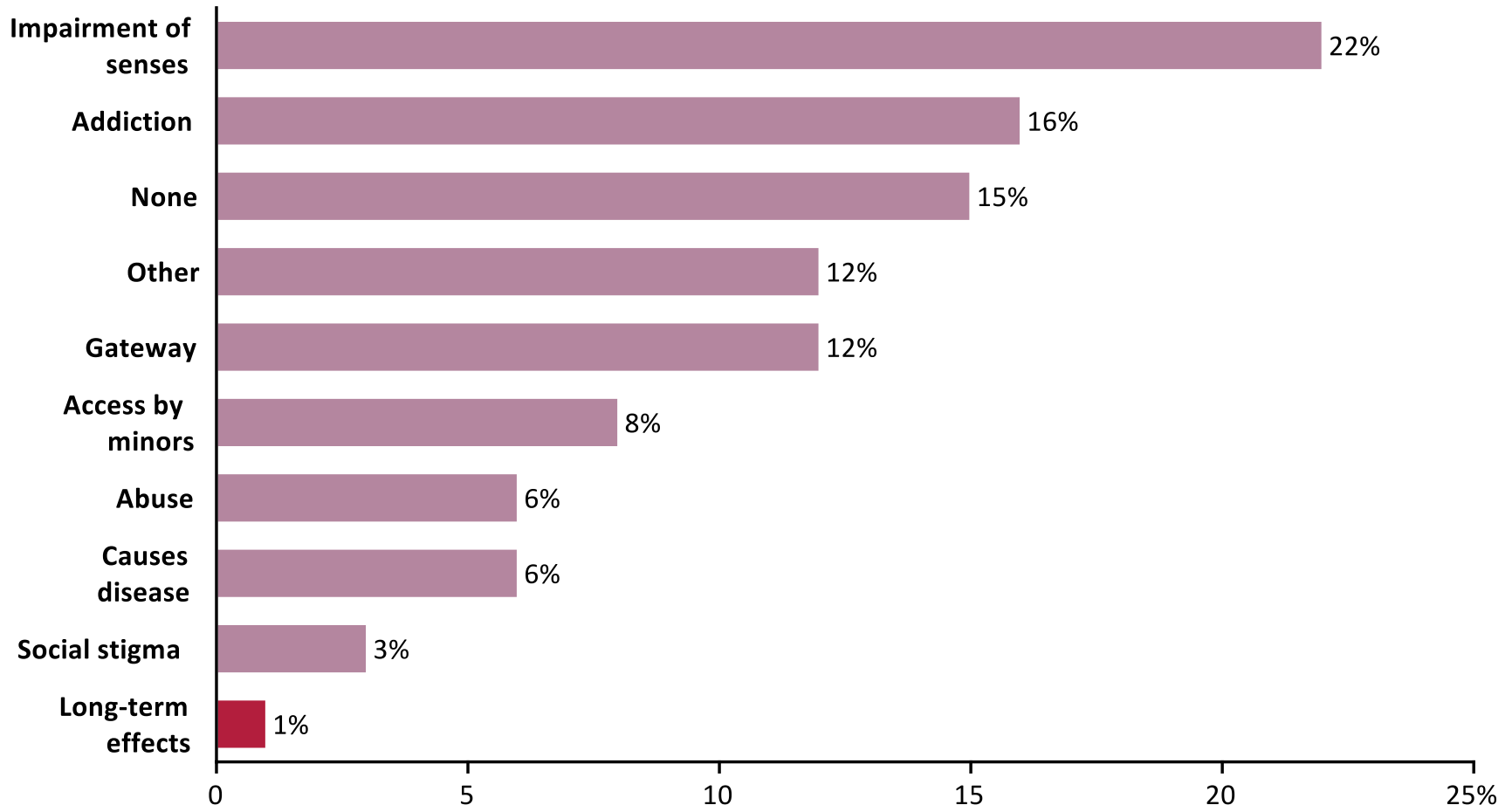
Concentrates



- Retail sale permitted
- Home mfg. via “chemical extraction” banned but unclear whether that would cover all forms of home production
- No other health & safety restrictions

Indeed, the long-term effects of marijuana use appear to worry people the least

What is your biggest concern about marijuana use?



Going beyond marijuana

“We're at a tipping point where it's starting to feel like marijuana legalization is no longer a question of if -- but when. **But what about the other drugs?** My colleagues and I at the Drug Policy Alliance are committed to ensuring the decriminalization of all drug use becomes a political priority. ...

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