

Oregon Recreational Marijuana Program



OLCC Supply and Demand Report
House Committee on Economic Development
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Supply and Demand Study



- Legislative mandate: Per ORS 475B.548, OLCC tasked with report by February 1 of each odd year to the Legislative Assembly
- Scope of report:
 - Approximate amount of marijuana produced by *OLCC-licensed recreational producers* (not home grow, not medical, not illegal)
 - Approximate amount of marijuana items sold by *OLCC-licensed marijuana retailers* (not medical dispensaries, not illegal market)
 - Whether the supply of marijuana in this state is commensurate with the demand for marijuana items in this state
 - Study Period: July 2017 to June 2018



Marijuana Markets in Oregon

- Four marijuana systems for production and consumption in Oregon:
 - Recreational – licensed by OLCC
 - Medical – registered by OHA
 - Home Grow – four plants per household, marijuana can be legally gifted for no consideration
 - Illegal
- Supply and Demand Report only evaluates Recreational (OLCC) market



Recreational Market Trends - Overview

- Recreational market was intentionally created (via Measure 91 and subsequent legislation) as a free market with low barriers to entry
- Major difference between Oregon and Washington/Colorado: Task in Oregon was to *transition* existing system of gray/illegal production into regulated market
- Market has been characterized by:
 - Unexpected level of exuberance for licenses
 - High levels of (seasonal) production
 - Declining prices (retail and wholesale)
 - Increasing sales and tax revenues
- Booming consumer market, price pressures for market operators

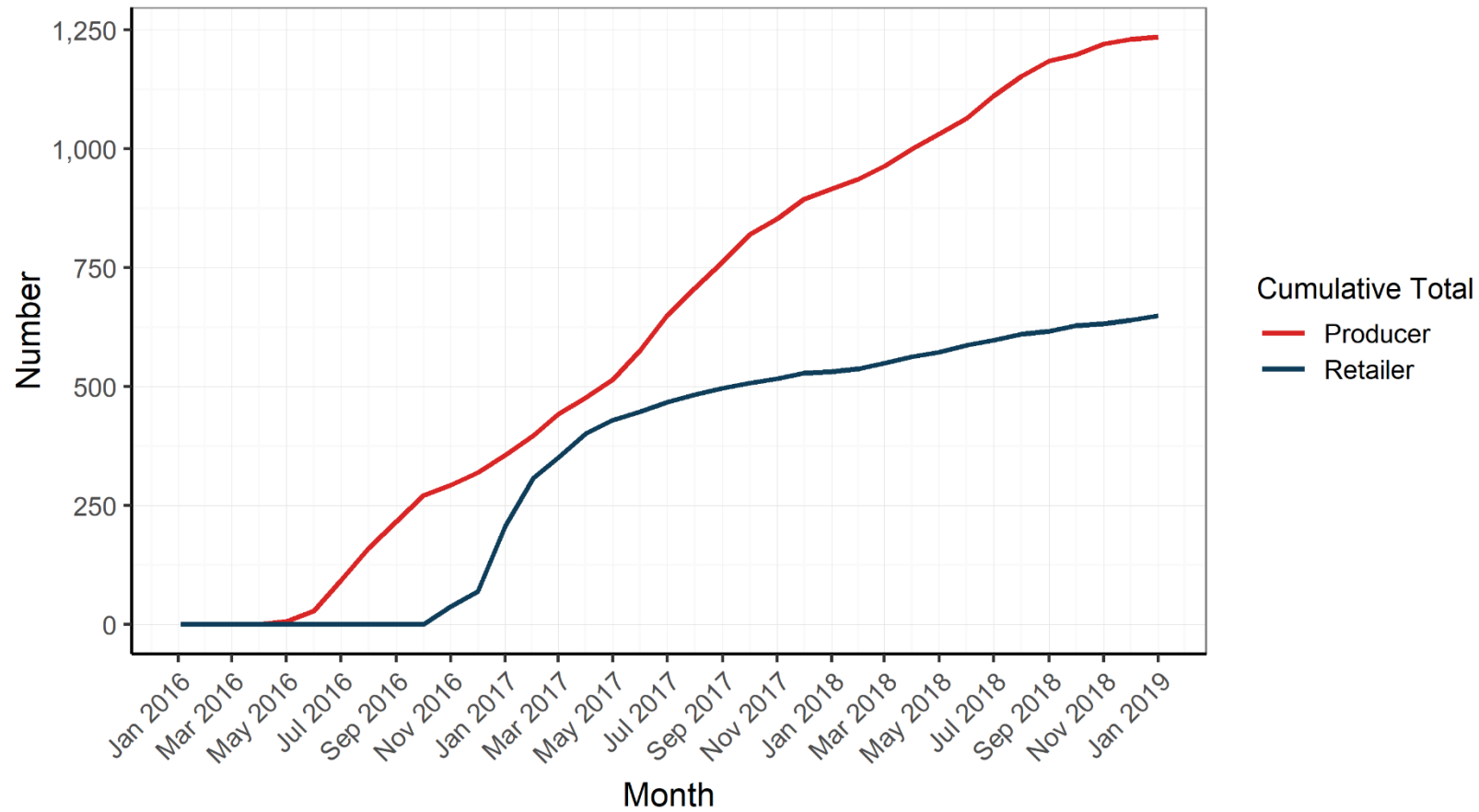


Recreational Market Trends – Licensure

- Initial estimates of licensure based on population-adjusted numbers for CO/WA *plus* 30%
- Initial estimate: 826 total licenses issued by the 2017-2019 biennium
- Current total: 2,099 (as of Feb 19, 2019)



Recreational Market Trends – Licensure



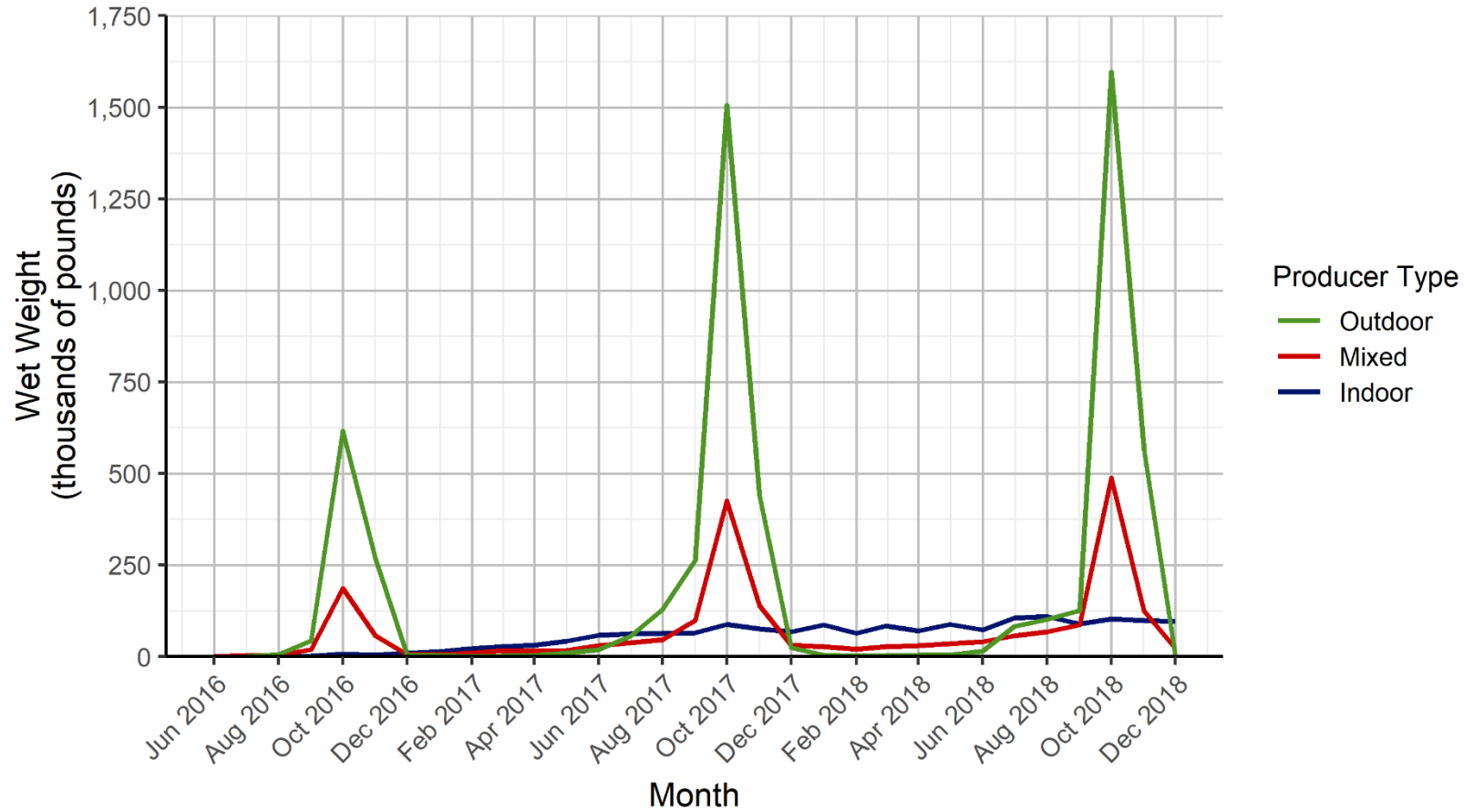


Recreational Market Trends – Harvests

- Oregon characterized by very high proportion of outdoor production
 - Of all licensed (flowering) canopy square footage, 85% is outdoor
- Amount of production driven by two factors:
 - Number of producers
 - Harvest per producer



Recreational Market Trends – Harvests

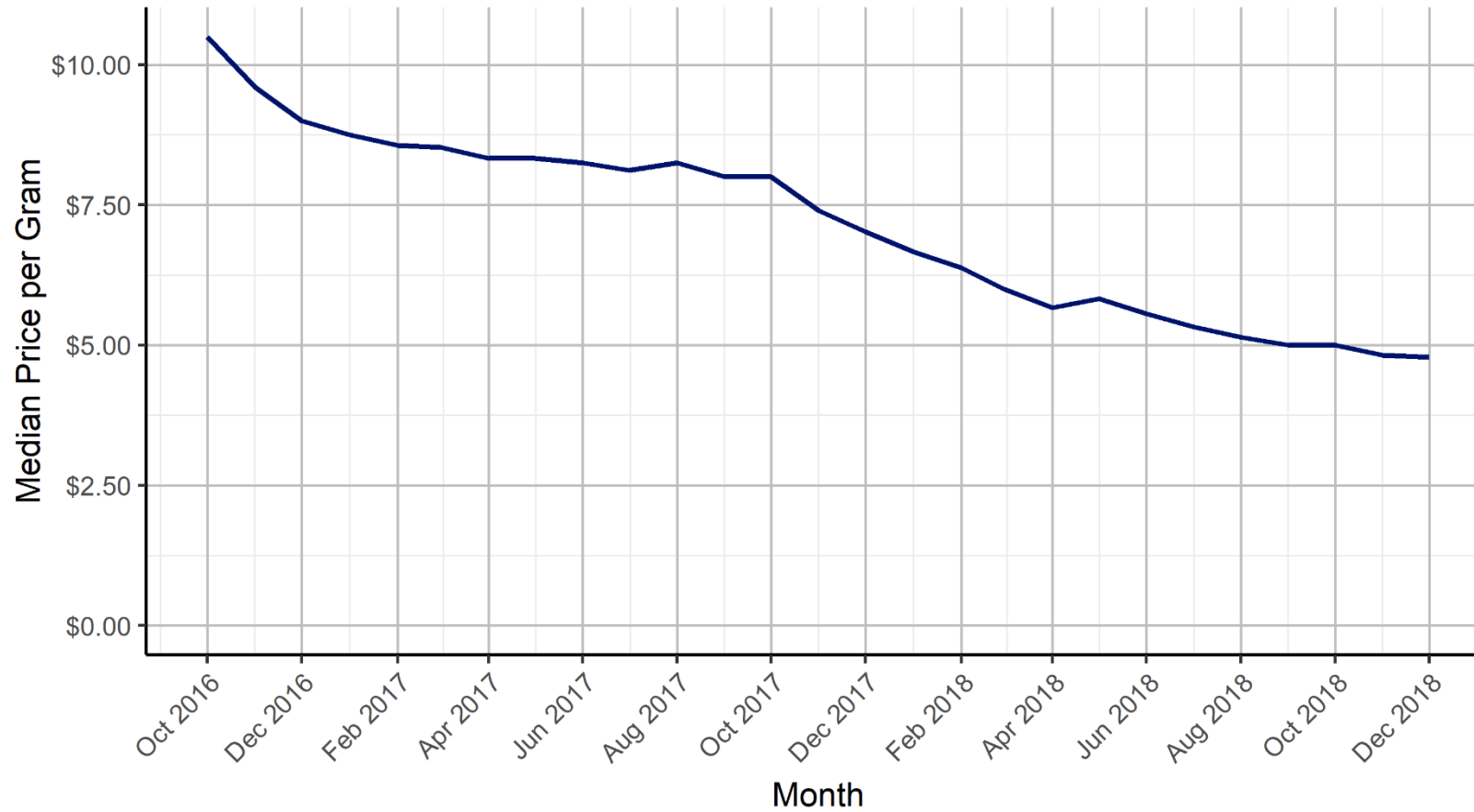




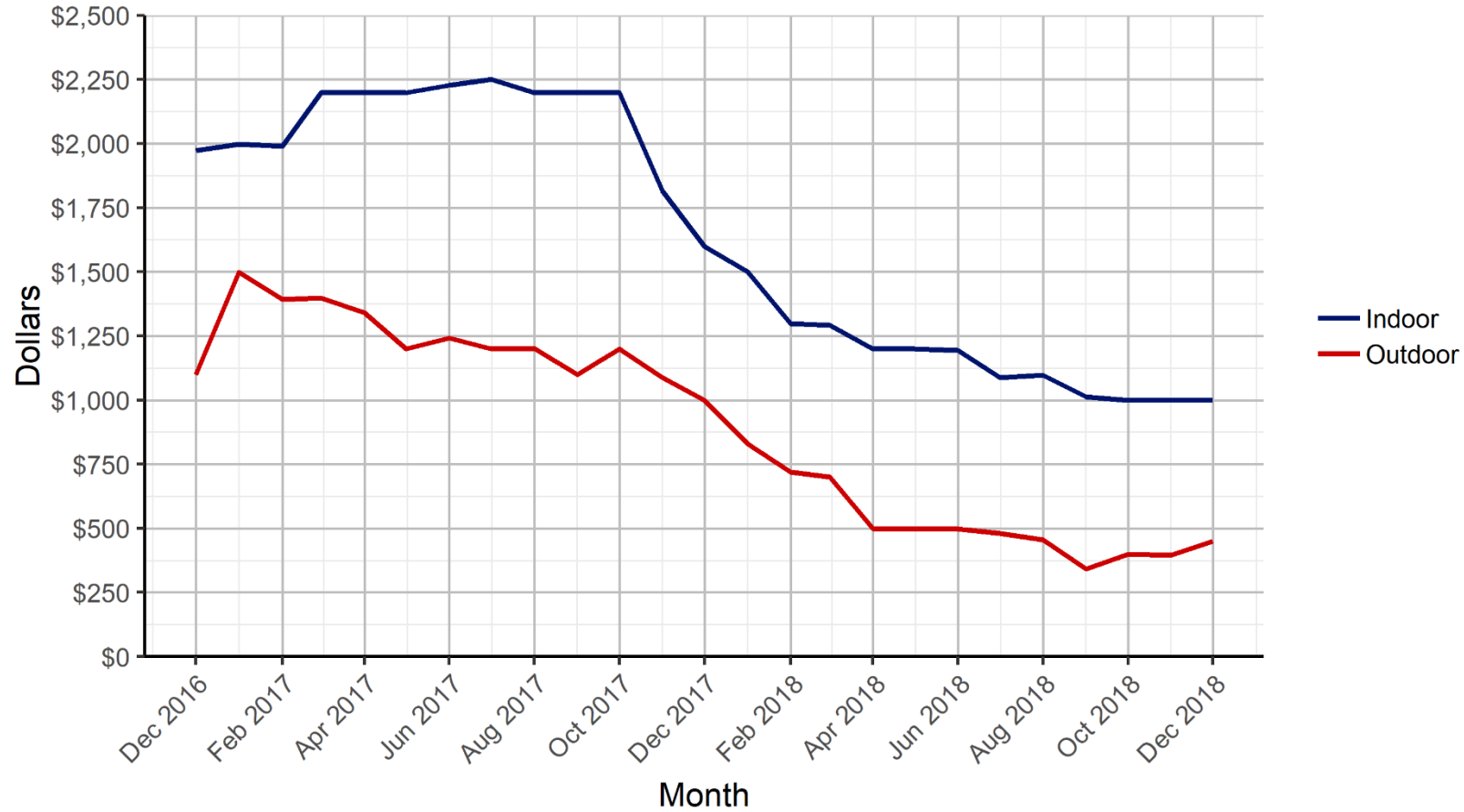
Recreational Market Trends – Prices and Sales

- Prices (retail and wholesale) fallen by half
- Total sales and tax revenues continue to increase
- Booming consumer market, successful competition with illegal market
- But increasing market pressure for licensees, potentially raising incentive for out-of-state diversion

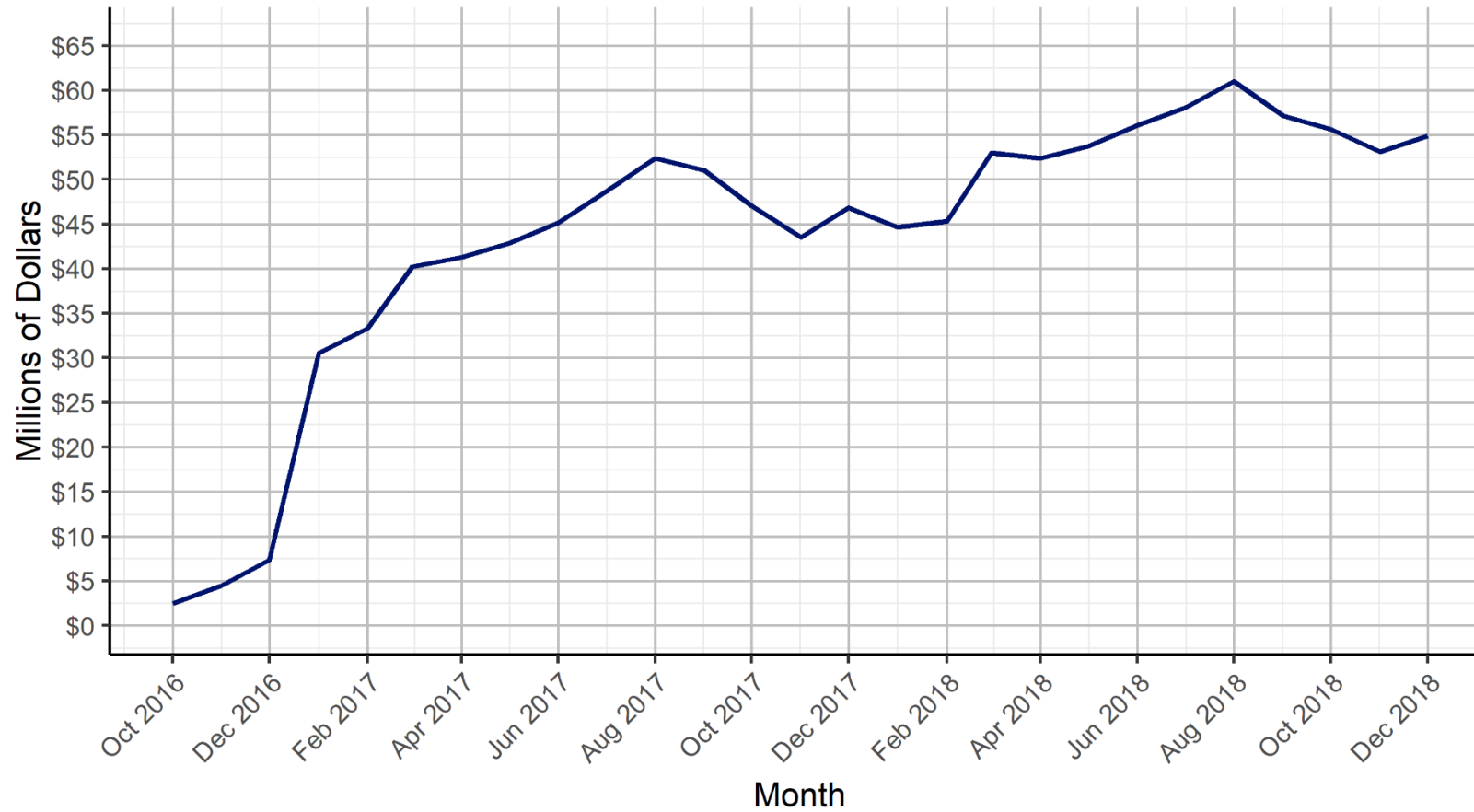
Recreational Market Trends – Retail Price per Gram



Recreational Market Trends – Wholesale Price per Pound



Recreational Market Trends – Total Dollars Sold





Demand versus Supply – Basic Findings

- Current annual OLCC market production could satisfy all adult demand in Oregon
- OLCC production represents 55% of all state 21+ consumption
- Wet Weight production between July 2017 and June 2018 was 4.2 million pounds
- If all pending Producer applications were approved, annual wet weight production would rise to 8.6 million pounds
- Annual demand is 50% of annual supply
- Inventory levels continue to rise; as of January 1, 2019, OLCC market has theoretical supply of 6.5 years' worth of THC

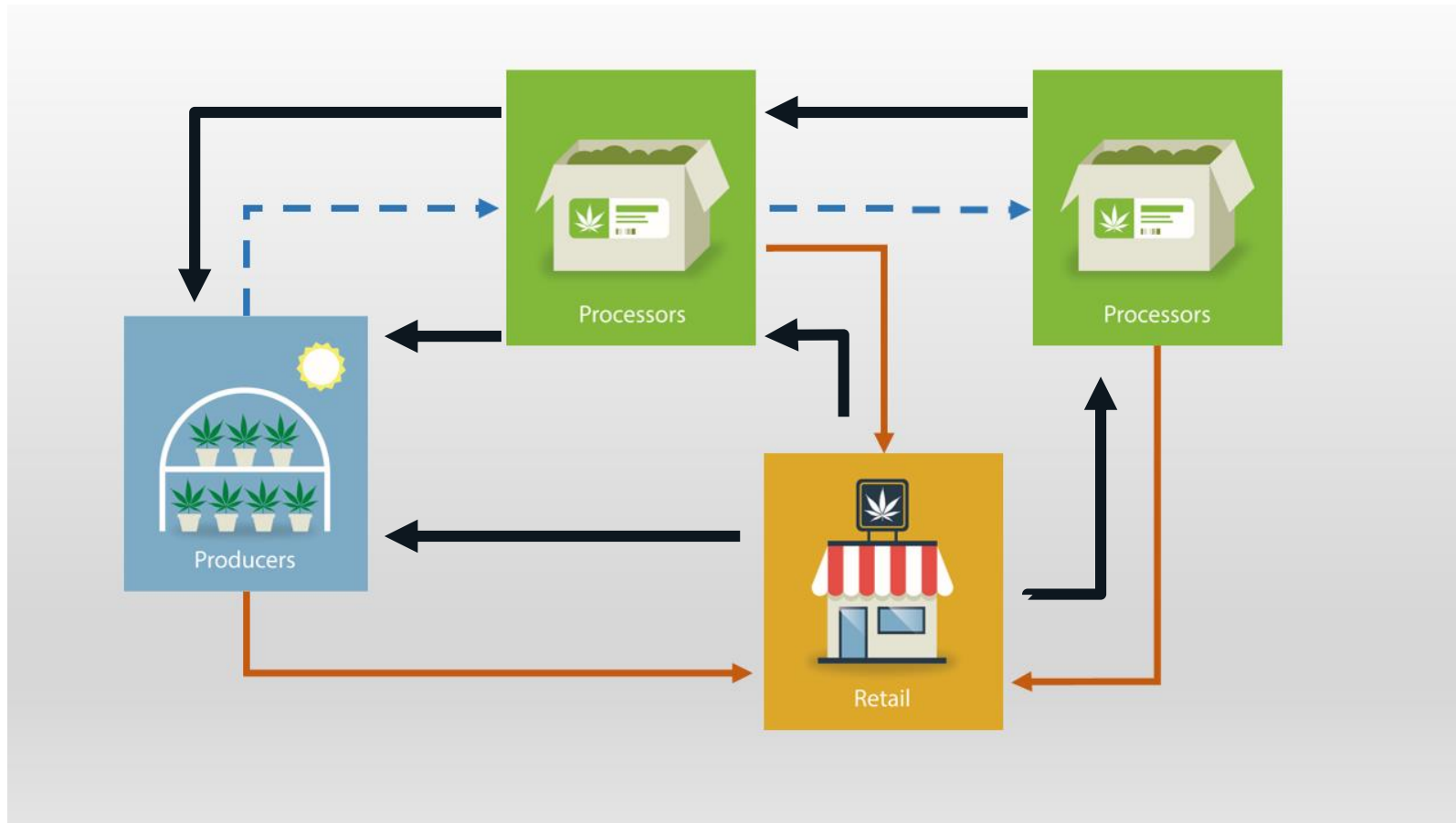


Demand versus Supply – Overview

- Estimation methodology (briefly):
 - Total amount of THC sold at Recreational Retailers
 - Convert to original wet weight required as input
 - Compare to actual wet weight harvested in same period



Demand versus Supply – Overview

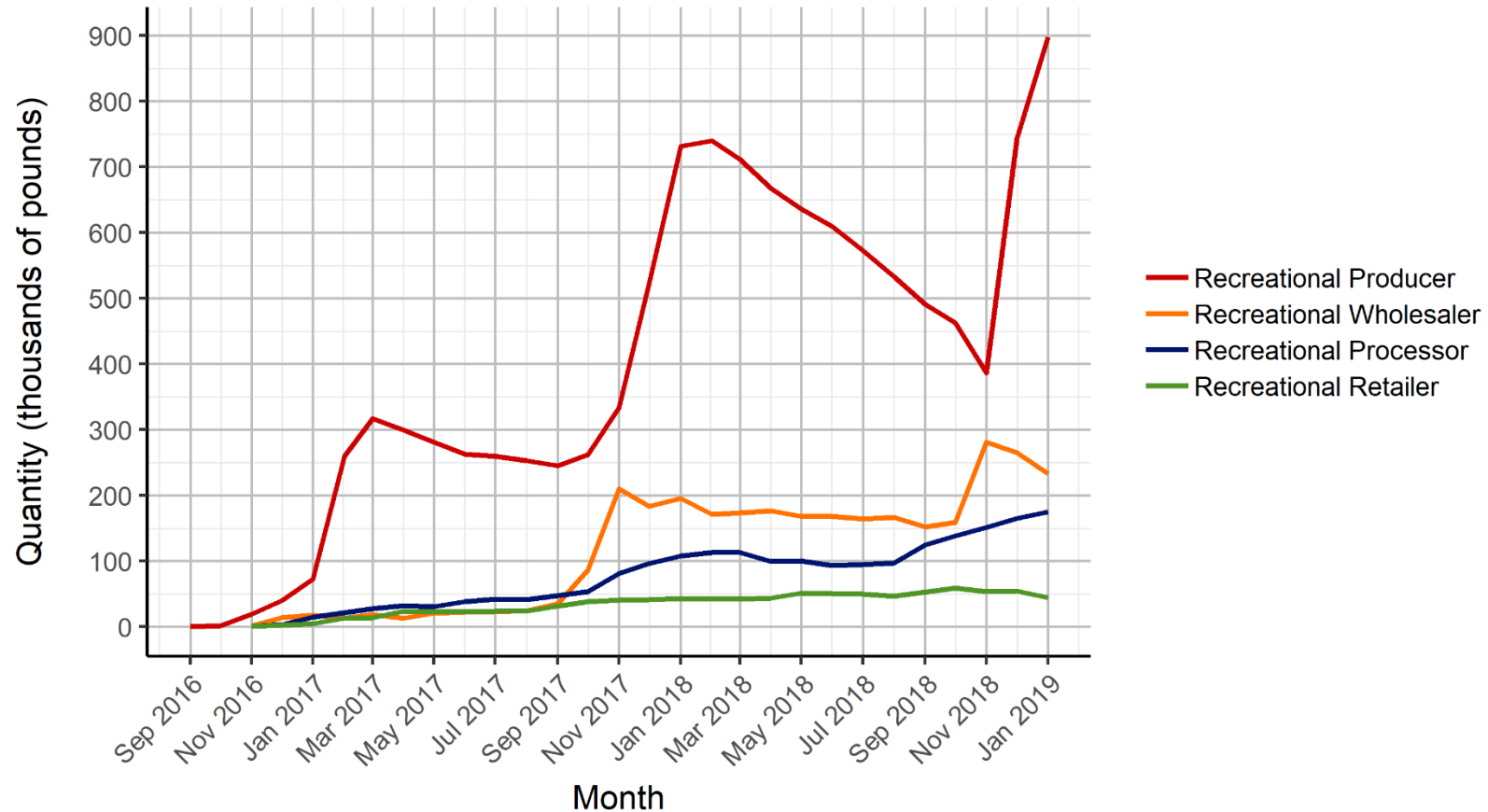




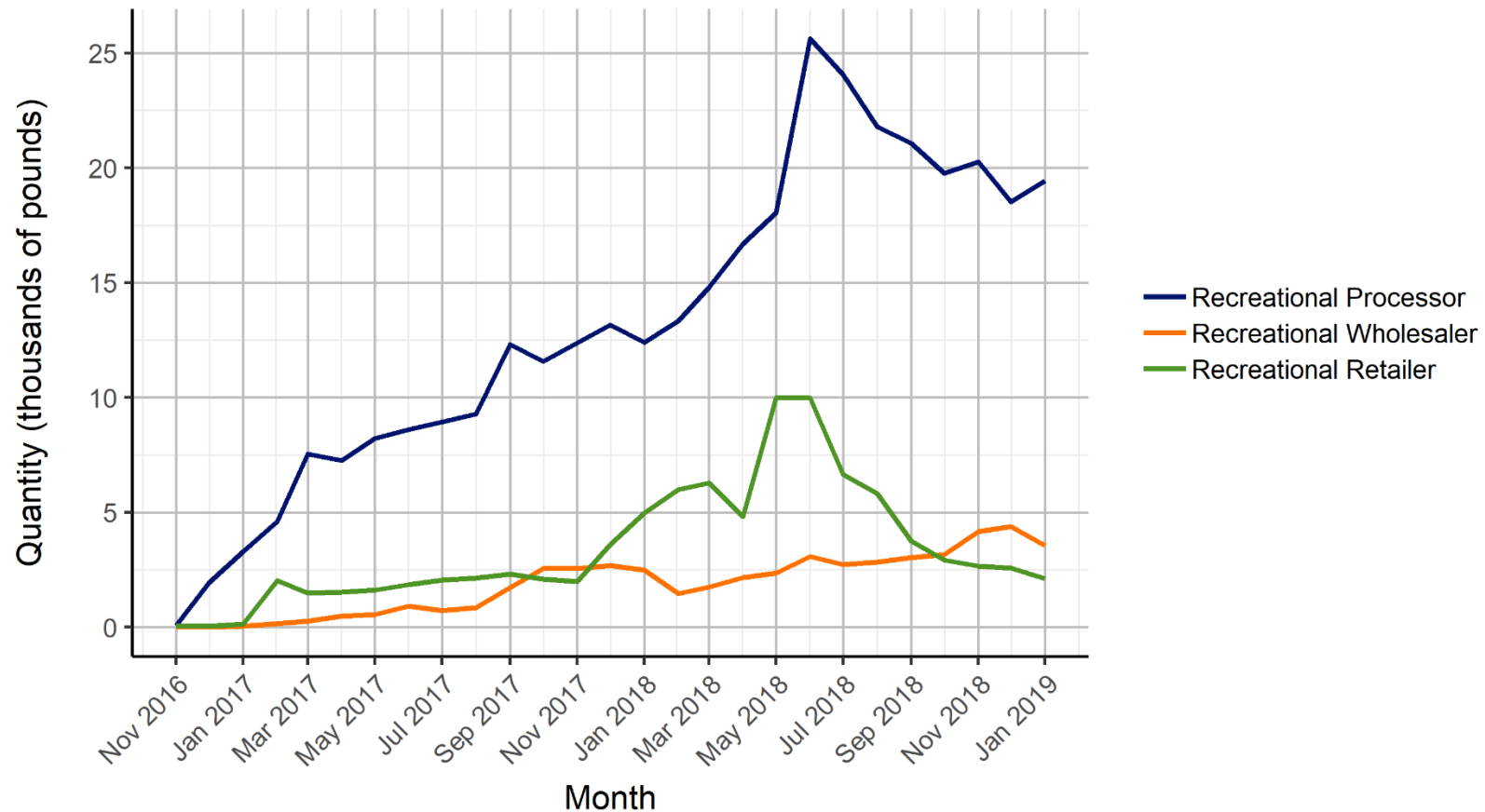
Demand versus Supply – Inventory

- Inventory levels continue to rise; each successive year sees new baseline
- Shift to more shelf stable products to build stock – taking advantage of bargain basement input prices

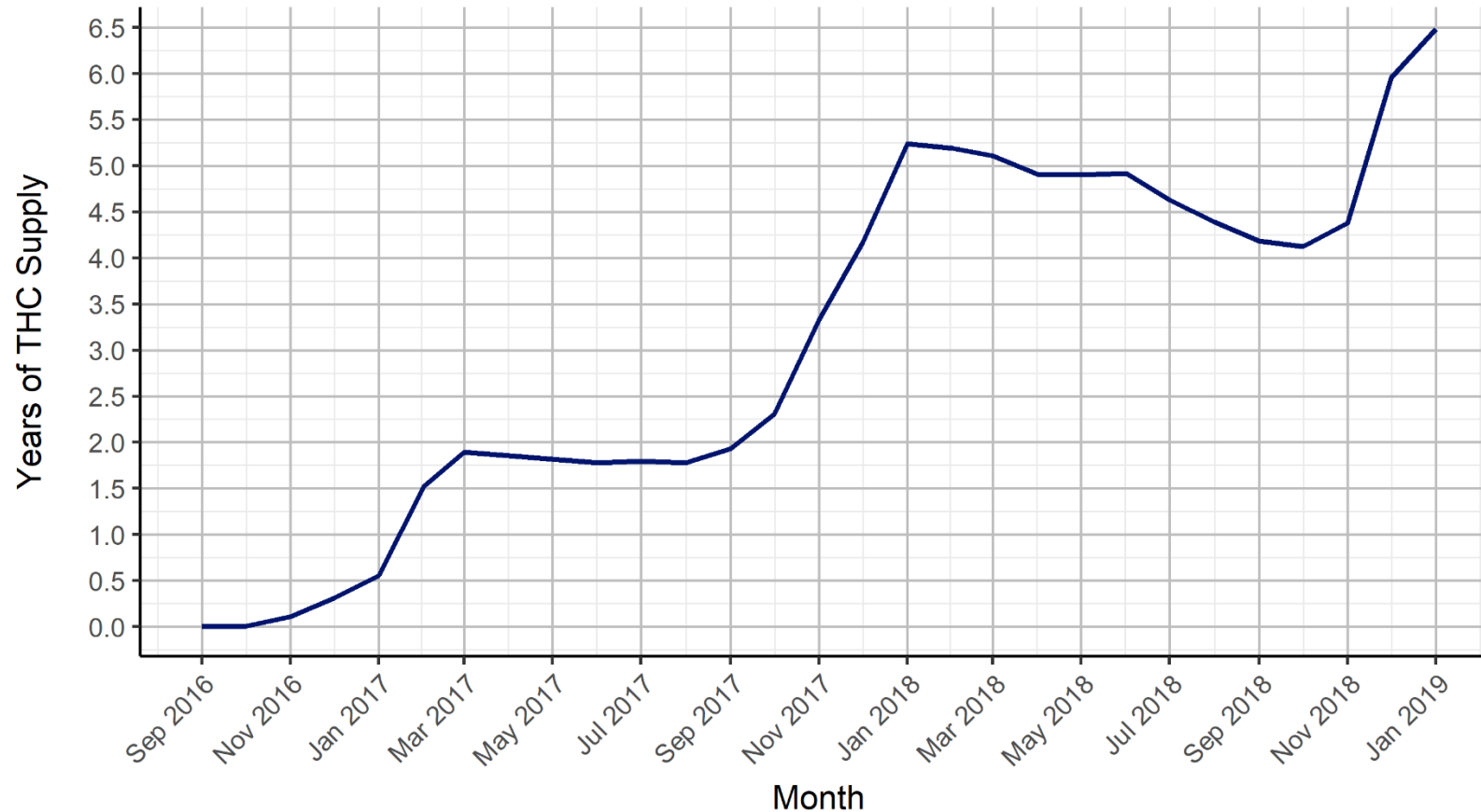
Demand versus Supply – Inventory of Usable Marijuana



Demand versus Supply – Inventory of Extracts/Concentrates



Demand versus Supply – Years of Theoretical THC Supply





Policy Considerations

- Cap or Moratorium (e.g. SB 218)
 - Stabilizing mechanism – slows or stops the upward trend in production and downward trend in prices
 - Key questions:
 - Applied retroactively or as of future date?
 - Which applications get processed (submitted date and/or threshold for level of completeness)?
 - Purchase of applications (“buying a place in line”)



Policy Considerations, cont'd

- Moratorium won't in and of itself decrease supply to meet demand – if goal is supply = demand then either:
 - Demand must rise to meet stabilized level of supply,
 - Supply must decline to meet level of demand, or
 - A little of both

Policy Considerations within Moratorium Framework



- Option 1: Let market forces winnow market operators
 - Change of business structure (i.e. buyouts and cash infusions) make Oregon companies attractive to outside capital and provide cash flow
 - But buyouts keep number of licenses at same level
- Option 2: Increase license (or other) fees
 - Current fees extremely low, demand for licenses high
 - Current fee structure for services (e.g. change of location, business structure changes) do not adequately capture level of work involved in all cases
- Option 3: Reduce canopies
 - Change max canopy: indoor and outdoor canopies reduced
 - Change canopy ratio: outdoor canopy reduced (e.g. from 4:1 ratio to 2:1 ratio)
 - If reducing canopies: When to implement? Length of implementation timeline?

OLCC'S MISSION

Support businesses, public safety,
and community livability
through education and the enforcement
of liquor and marijuana laws.

