

HUMBOLDT COUNTY GROWERS ALLIANCE

2020 HCGA Policy Strategic Plan

On February 24, HCGA's policy committee approved a policy strategic plan designed to preserve, protect and enhance Humboldt County's world-renowned cannabis industry.

2020 has the potential to be a major year for change for the California cannabis industry. On one hand, Humboldt's small and independent cannabis businesses are facing severe challenges from an overtaxed and overregulated legal market with limited access to legal retail. At the same time, 2020 has the potential to bring forward new opportunities in areas including appellations, interstate commerce, and possible tax reform, that could fundamentally reshape the future of Humboldt County's cannabis community.

The strategic plan sets out major five policy priorities for 2020:

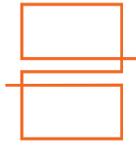
1. Reduce and streamline taxes.
2. Protect the integrity of appellations and county of origin.
3. Reduce regulatory burden on independent businesses.
4. Reduce barriers to cannabis cooperatives.
5. Ensure the viability of Humboldt businesses in interstate commerce.

Reduce and Streamline Taxes

In HCGA's membership survey, tax reform overwhelmingly emerged as the top policy priority for members. California cannabis taxes are uniquely high, with combined state and local cannabis-specific taxes approaching 40% in some areas of the state. The California cannabis tax structure is also highly complex, and includes a cannabis excise tax at retail, a weight-based cultivation tax, and multiple local taxes in each of California's hundreds of cities and counties. The combination of high taxes and a complex tax structure is especially harmful to small and independent producers with limited access to capital, and is one of the key reasons why over 70% of cannabis sold in California remains in the unregulated market.

In 2018 and 2019, tax reform legislation was introduced in California's legislature, but failed early in the process. In 2020, prospects for tax reform appear to be stronger. Many portions of the legal industry are beginning to buckle under the pressure of the nation's second-highest cannabis tax burden, and the LAO released a report in December that recommended eliminating the cultivation tax and considering alternative tax structures. In response, the Governor's Office has signaled an openness to considering tax reform in 2020.

Despite these positive signs, tax reform will also face pushback from opponents who are concerned about decreased tax revenue to the state, and decreased benefits for organizations that benefit from Prop 64 allocations. With opposition likely to continue, HCGA will work in coalition with other stakeholders to push tax reform across the finish line.



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Protect the Integrity of Appellations and County of Origin

In 2019, HCGA successfully passed SB 185, legislation strengthening California’s appellations and county of origins programs. In 2020, HCGA will continue this work with a focus on ensuring that appellations represent terroir with integrity. In practice, this means supporting regulatory and legislative assurances that appellations will be tied to full-sun, in-ground cultivation that expresses all aspects of the environment in which cannabis is grown, and closely monitoring CDFA’s draft appellation regulations to ensure that appellations are reflective of *terroir*.

Alongside this state-level work, HCGA will work to expand appellations and county of origin protections into interstate and international commerce. Over the long term, the value of appellations depends on their recognition by other states and other countries. However, California is currently the only U.S. state with a cannabis appellations or county of origin program. HCGA will work on any interstate commerce legislation that may be introduced in California, and collaborate with out-of-state and national industry trade associations to ensure that origin protections are front-and-center in any interstate commerce conversation.

Reduce Regulatory Burden on Independent Businesses

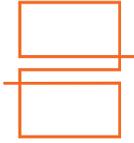
The overall cost and complexity of regulation was one of the most common challenges cited in HCGA’s membership survey. Since the adoption of final regulations in January 2019, a number of regulatory barriers have put severe strain on independent businesses, with the most burden falling on the smallest businesses. HCGA will closely work with legislators and regulatory agencies to address major regulatory issues including track and trace, trade samples, access to processing, access to transportation, compositing, and use of shared spaces.

Reduce Barriers to Cannabis Cooperatives

In December, HCGA’s policy committee approved a policy platform on cannabis cooperatives that included three planks:

1. Cooperatives should be allowed to utilize collective processing, nursery, and storage spaces without obtaining additional licenses.
2. There should be no cap on the total size of a cooperative.
3. The restriction on the size of cooperative member-farms should be increased from 10,000 square feet to four acres.

In the short-term, cooperative reform may be perceived as a lower priority compared with larger, day-to-day challenges in the transition to the regulated market. Over the long-term, however, HCGA believes that cooperatives will be essential to Humboldt’s success in national and international markets. Based on the experience of other agricultural industries, cooperatives are the cornerstone of the ability for smallholder agriculture to compete on a level playing field with consolidated agribusiness, and barriers to effective cooperatives should be addressed as soon as possible.



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Ensure the Viability of Humboldt Businesses in Interstate Commerce

HCGA anticipates 2020 will include significant activity on federal and interstate cannabis policy. With attitudes on cannabis changing, and a presidential election set for November, 2020 is likely to be a crucial year for beginning to negotiate the details of a federal cannabis legalization framework. This conversation will occur on several different tracks: in potential interstate commerce legislation at the state level, among trade associations in different states, at the level of national trade associations, and potentially even at the presidential level in the 2020 election season.

HCGA will pursue the following policy priorities in these conversations:

- Support the passage of any interstate commerce legislation introduced in California, with implementation conditional on federal approval or tolerance of cannabis commerce between consenting legal states.
- Ensure that any interstate commerce compact includes a balance of import-oriented and export-oriented states.
- Ensure that any interstate commerce compact includes protections for appellations and county of origin.
- Participate in national policy conversations to raise awareness on Humboldt County, legacy cannabis cultivation, and sungrown cannabis. In conversations outside of California, HCGA has found that other regions are often unaware of the unique considerations related to small-scale, legacy, outdoor cannabis cultivation.
- Monitor developments at the Congressional level and developments in the 2020 presidential primaries and general election.