

# REGULATORY PROPOSAL

PRESENTATION

**The Michigan Cannabis industry requires responsible operation / strict compliance and is highly capital intensive. This is a reality that simply can't be ignored.**

**The CRA seems to recognize this one hand with the following rules:**

*R 420.4 Application requirements; financial and criminal background*

*(v) The sources and total amount of the applicant's capitalization to operate and maintain the proposed marihuana facility in compliance with R 420.11.*

*R 420.10 Proof of financial responsibility; insurance.*

*R 420.11 Capitalization requirements; medical marihuana facilities licensing act. Rule 11. (1) An applicant for initial licensure under the medical marihuana facilities licensing act shall disclose the sources and total amount of capitalization to operate and maintain a proposed marihuana facility.*

*R 420.12 Denial of a marihuana license;*

*(n) The applicant or anyone meeting the definition of applicant has a pattern of convictions involving dishonesty, theft, or fraud that indicate the proposed marihuana business is unlikely to be operated with honesty and integrity.*

**RETAILERS ARE RESPONSIBLE FOR EXCISE TAX.**

# The Crux of the Issue

## THE MICHIGAN CANNABIS MARKET IS PLAGUED WITH ONGOING HEADACHES TIED TO SIMPLE LACK OF PAYMENT.

that basically have a revolving door of clientele . Here are some of the best excuses I have heard myself.... Oh I sent the ACH let me check again oh it will be two days, or I sent the check last week. ACH really pisses me off when someone thinks we are that stupid. I want to see everyone win especially the little guys who love Cannabis. I myself am becoming jaded. It's a fuck show and sad. CRA needs to step up for sure. It's a ripple effect.

Like Reply 3d



It should be COD, a lot of cultivators can't wait 30 days to get their money, had the prices not bottomed out then that would have been a different story, I think the CRA needs to take a real good look at this and copy the liquor control commission rules which are COD.

Like Reply 3d



I have been COD for the past six or seven months

Like Reply 3d



I struggled chasing money. Persistence was ignored. Even by the ap person. I had to show up at the pc and collect my money otherwise I wasn't getting paid. Such a shame. When unscrupulous companies are allowed to get away with anything they do.

Like Reply 3d

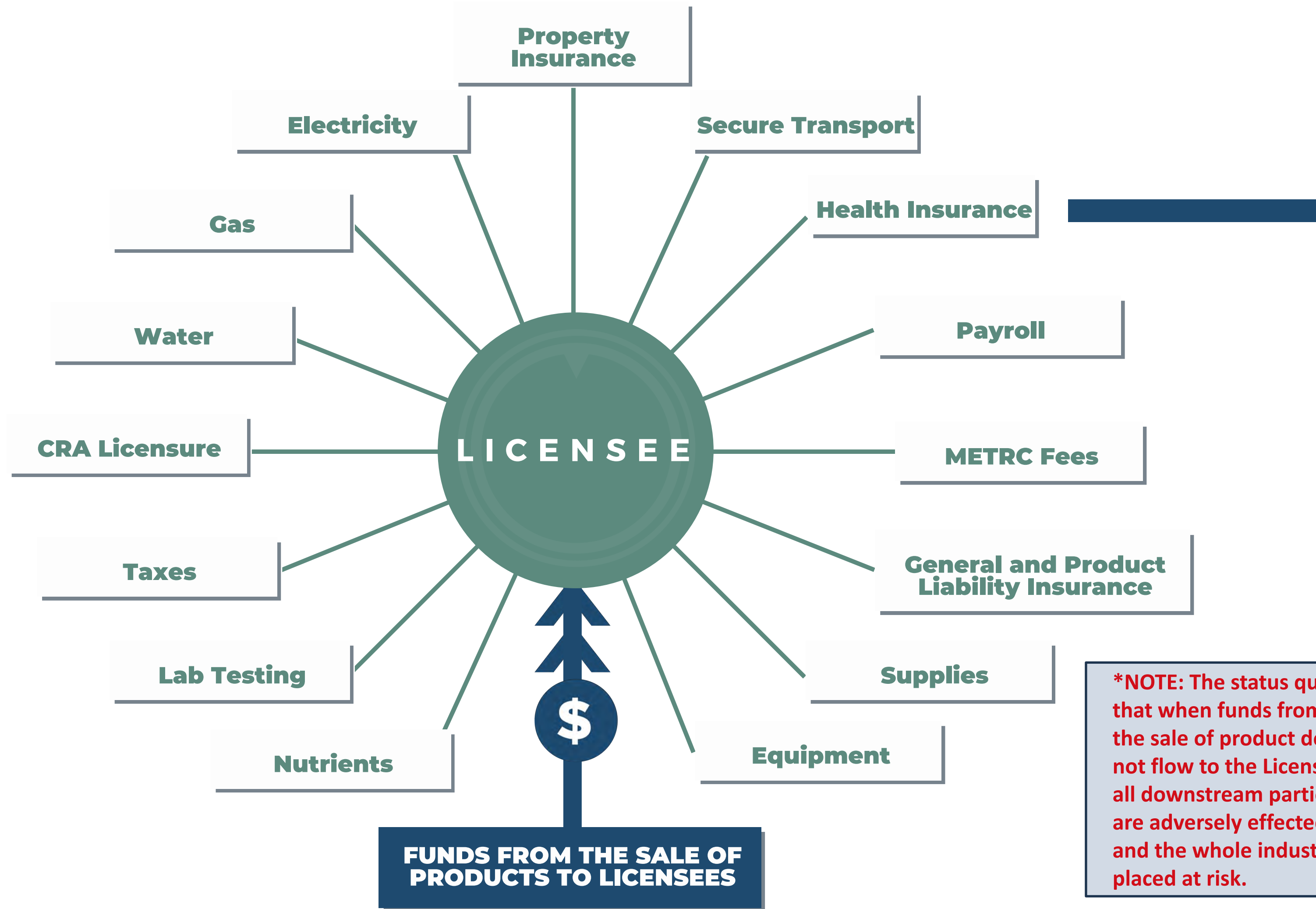


Cannabis is the only market that I have moved all new customers over to prepay. We went from 40+ active customers, to 10 or less in 2 years because of payment issues. We offered terms to everyone who passed a credit check. That was a huge mistake. I'm not in collections lol. I'm in packaging and sanitation.

Good luck, the norm is now if i owe you \$30k i don't pay until you've spent at least \$5k on attorneys chasing me down and then I will only pay you back \$1k per month for the next 30 months.

Like Reply 3d





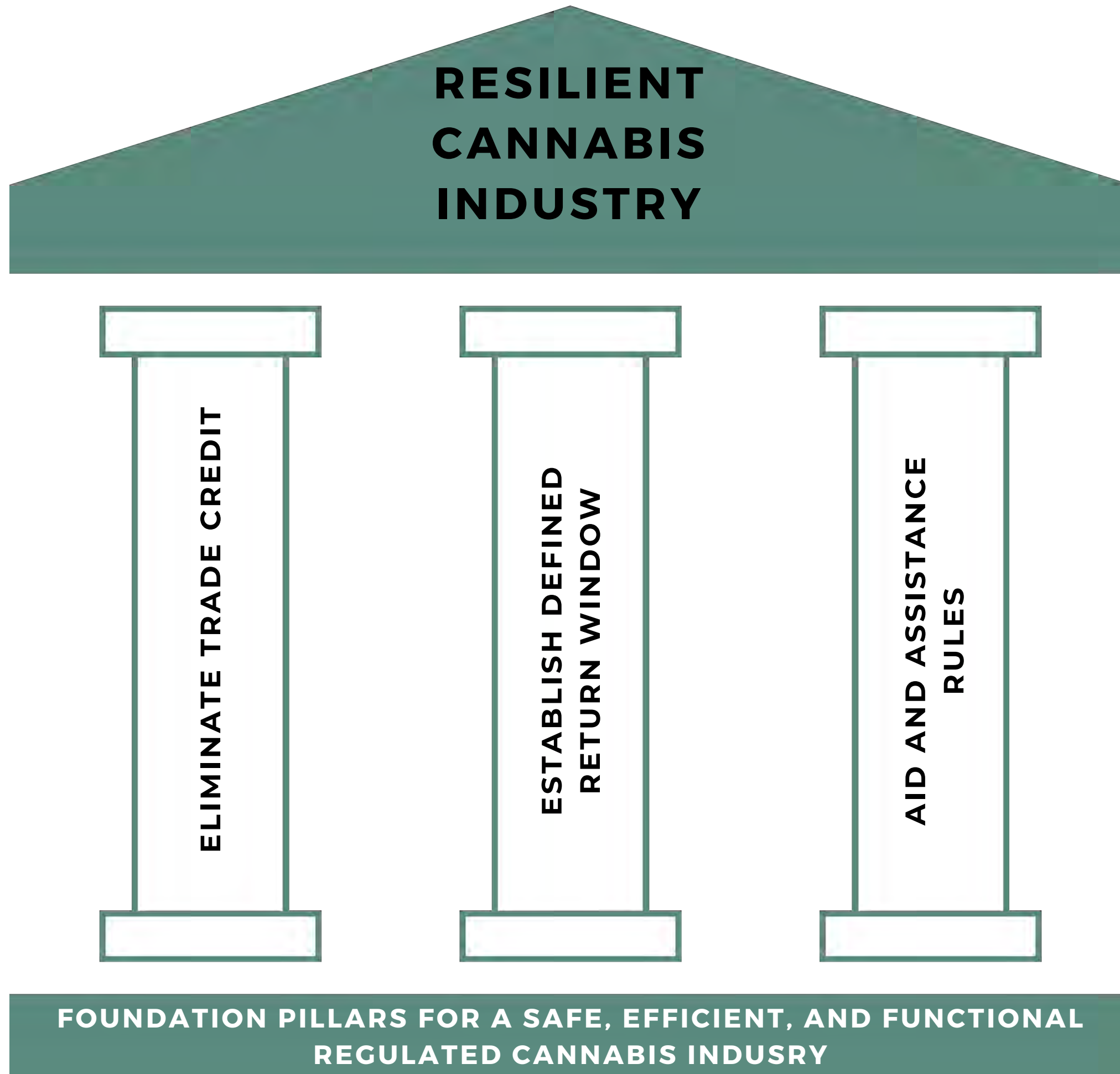


# The Opportunity



## REGULATE MARIJUANA LIKE ALCOHOL

In 2021 spirits sales passed \$2.1 billion in Michigan (~32,265 active licenses)  
In 2022 cannabis sales passed \$2.2 billion in Michigan (~4,605 active licenses)



PLEASE NOTE, THESE ARE NOT MUTUALLY EXCLUSIVE, RATHER THEY MUST BE IMPLEMENTED TOGETHER IN ORDER TO BE EFFECTIVE. WITHOUT ONE, THE ENTIRE FRAMEWORK FALLS APART.

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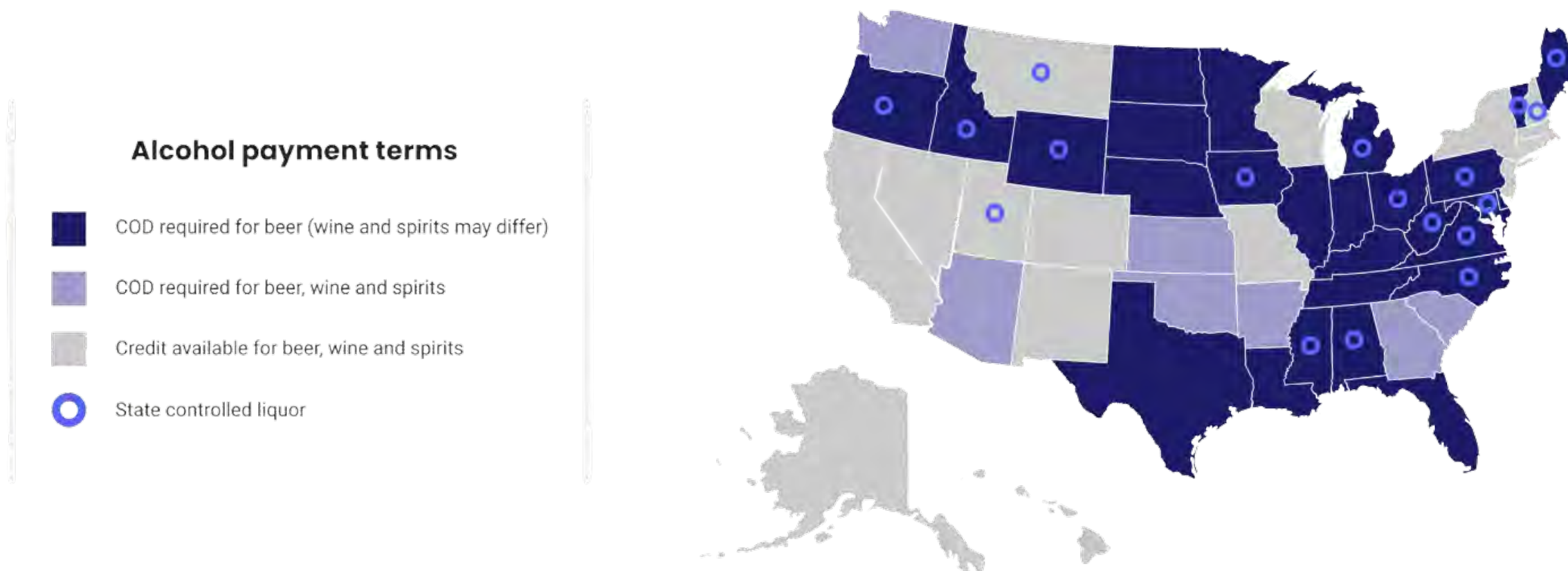
# Rule 1 - Eliminate Trade Credit

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- Responsible purchasing can most effectively be achieved through 'cash on delivery' purchases and elimination of trade credit.
- If a particular licensee does not possess sufficient liquidity at the time of purchase to pay for a marijuana product(s), the licensee should not be permitted to engage in the purchase, period.
- The current prevailing market practice whereby licensees merely hope to sell through the inventory that they are purchasing on credit, in order to be able to actually pay for the same inventory (i.e., a consignment sale), is a systemic and dangerous practice.
- Eliminating trade credit will drastically reduce the amount of disputes, legal actions, and overall administrative burden, thereby increasing market stability and making the system transparent, fair and safe for all participants.



- The sale or purchase of alcohol in Michigan has been cash only since 1998.
- The vast majority of states in the country have similar COD law(s).
- **Restrictions on credit have been adopted in some form in every state and are codified in the regulations implementing the Federal Alcohol Administration Act.**





## Rule 2 - Return Window

- I. Establishing a defined return window is essential to provide a definitive end point to purchase transaction and to create a clear chain of custody.
- II. Currently, a purchasing licensee can pay for a product at any time and return the same product (or a portion thereof) at any time.
  - This is a major safety concern because it is unclear as to which party actually owns the product when it has not been paid for and is sitting in the custody of another party.
  - It is also a major safety concern because a purchasing licensee could commingle the product with other product and return it, or some portion thereof.
- III. A defined return window is also necessary to prevent a purchasing licensee from renegotiating terms of a purchase by threatening to return a product(s).
- IV. Lastly, without a defined return window, a 'cash on delivery' rule is rendered moot as product returns can be used as an alternative means to circumvent Trade Credit rules obtain credit (See Rule 1 – Trade Credit).

## Rule 3 - Aid and Assistance

- I. This principle is the cornerstone of Michigan's alcohol trade practices regulatory structure. It is designed to provide a level playing field for all industry members. Licensees should be prohibited from giving anything of value to other licensees, including but not limited to: cannabis product(s), merchandise, furniture, fixtures, equipment, uniforms, cash or loans, labor, etc. Further, a licensee is prohibited from accepting aid and assistance from another licensee. This rule serves a variety of purposes including:
- It re-establishes that trade credit is a thing of value and cannot be extended to any licensee.
  - It ensures a fair and transparent marketplace by preventing the largest operators from "bribing" retailers with cash, gifts, financing, or other payment in-kind in order to circumvent trade credit rules and/or reduce competition and/or control price.
  - Eliminating 'pay-to-play' practices in the marketplace prevents monopolistic behavior by the largest licensees, which severely disadvantages smaller licensees who cannot afford to participate.
  - Lastly, aid and assistance rules ensure that the end consumer is afforded variety and choice at the point of purchase, not forced to pick products from whomever paid the most, which ultimately results in higher prices being paid by the end consumer.

## The Path Forward

The CRA has been presented with the following policy recommendations and has echoed that it would like to implement these proposed rules, however the CRA does not believe it currently has the rule making authority to do so.

Accordingly, we are now seeking the support of Michigan legislature to make sure these proposed rules become law.

The state of Michigan is uniquely positioned to establish itself as a thought leader and beacon for the rest of the country to follow. Michigan can and should be at the forefront of reshaping a heavily stigmatized industry. The path forward is to set forth the much-needed laws necessary to establish financial responsibility, accountability, trust and consumer safety.