

# Falling prices in California marijuana wholesale market alarms some growers; others unfazed

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Outdoor marijuana grows across California are experiencing falling wholesale prices. (Photo by Bobby Cochran Photography)

Years of rising marijuana production across California appear to be taking a toll on the state's wholesale market, with prices said to be dropping by up to 60% since at least mid-June for outdoor-farmed flower.

The downward pricing pressure hasn't hit every cultivation sector in the state – many indoor growers appear to be on better footing, for instance, with wholesale prices reportedly down 10%-20% compared to outdoor farmers.

But many insiders expect the trend to continue for months, if not years, because of the ever-growing amount of marijuana cultivation in California.

“Probably a conservative estimate is we're producing about twice what the domestic market can consume, and that's with current permitting levels,” said Ross Gordon, policy director for the Humboldt County Growers Alliance (HCGA).

“We're looking at prices that are as bad or worse than they've ever been,” Gordon said. “It's the No. 1 thing on pretty much every farmer's mind right now.”

According to multiple industry sources, the price drops have had a bigger impact on outdoor cultivators. Indoor growers, by contrast, have been more insulated from what Northern California farmers are calling a market crash.

Those who haven't been hit as hard have avoided such terminology and instead call the drop a “correction.”

Many outdoor farmers typically hold on to much of their outdoor harvests from each fall to sell in the following spring or summer, when there's typically less supply, which traditionally has resulted in a wholesale price spike.

For instance, in Trinity County – one of the three famed Emerald Triangle counties – a “significant amount” of the 2020 fall harvest went unsold for that very reason, said Karla Avila, executive director of the Trinity County Agriculture Alliance (TCAA).

But this year, there was no spring price spike. And Humboldt’s outdoor farmers now must compete with cultivators using [light-deprivation techniques](#) that give them two or three harvests per year, one of which already hit the wholesale market in the spring.

Currently, Gordon said, outdoor farmers in Northern California are seeing wholesale prices of \$200-\$500, down from \$800-\$1,000 a year ago. Even light-deprivation crop prices are down to \$600-\$800 from \$1,300-\$1,600.

Avila said farmers the TCAA represents are seeing about the same prices.

“Until small, craft cannabis farms can operate similarly to a small, craft winery or brewery, we are faced with commodification and possibly, the end of good weed,” Avila told *MJBizDaily* via email.

### **Reports vary**

To be sure, not everybody has seen a price drop.

Data firms such as New York-headquartered LeafLink and Connecticut-based New Leaf Data Services – the latter produces the Cannabis Benchmarks report – said they haven’t yet picked up any major market fluctuations outside the norm.

“We are seeing flower prices in CA across a broad range, with most transactions within \$550 to \$3,350 per pound; with a roughly \$400 spread between outdoor and greenhouse, and a roughly \$700 spread between greenhouse and indoor,” New Leaf Data CEO Jonathan Rubin wrote in an email to *MJBizDaily*.

“At this point in the season, we are not seeing prices trend” significantly downward, he wrote.

A LeafLink spokesperson wrote that, “from the data on LeafLink’s wholesale platform, there is no evidence of a wholesale price crash in California in the past 6 weeks. In fact, prices have remained mostly consistent across all major product categories in the last 12 months.”

That stands in stark contrast to reports from the Emerald Triangle, where industry officials say a price crash began around June.

“What I am hearing is ... any sort of outdoor product from last year is absolutely not moving at all, and if it is moving, the price point is as low as \$275 to \$500 max,” said one industry insider from Mendocino County who requested anonymity to speak candidly.

“The market is super-flooded,” the source said. “There’s a huge glut. Nothing is moving. ... Talking to the old-, old-timers, no one has ever seen it this bad. And it’s on both sides, the white and black (markets).”

But in Southern California, according to cultivation consultant and distributor Scott Raquiza, indoor farmers haven’t seen as much of a price hit, provided they’re growing premium-quality cannabis.

Those who are growing buds known as “mids,” or midgrade quality flower, could be in serious trouble, he said.

“This is just a market correction. Last year was a fluke with COVID,” Raquiza, the chief cannabis

officer at Cream of the Crop Gardens in Perris, California, said, referring to the higher prices wholesalers were receiving for pounds during 2020 and the height of the coronavirus pandemic.

But, Raquiza said, there's definitely price "compression" happening compared to what pounds were fetching on the wholesale market in 2020.

"For commercial grows, non-AAA, you're probably at a 40% price compression. Outdoor is 50%-60% price compression, and premium indoor is only 10-20% price compression," he summarized.

Raquiza, who tracks California wholesale pricing, said that currently equates to about \$2,000 per pound for quality indoor flower, as low as \$200 per pound for last year's outdoor harvest and \$700-\$900 for the fresh new light-deprivation crops.

"If you're going to call it a crash, it's going to be on the outdoor product that didn't sell last year," Raquiza said.

### **Factors at play**

Industry insiders agreed that a glut of product is behind the wholesale price drop. It's an issue other recreational marijuana markets have had to grapple with in recent years, including when product in Oregon fetched only [\\$50 a pound in 2018](#).

"There's a supply problem. ... All you saw in the first quarter and early second quarter of this year was, 'Hey, we're opening up a million square feet,'" said Adrian Sedlin, the CEO of Santa Barbara-based CannDESCENT, a larger commercial grower.

"There's 12 times as much licensed production as there is licensed sales in dispensaries."

HCGA's Gordon said the state has a "structural oversupply problem."

Gordon estimated California has roughly 1,700 acres of cannabis production that's operational, while the state's cannabis consumers account for only about 1,000 acres worth of sales annually.

"There's hundreds of acres still in the pipeline in places like Santa Barbara County. And if nothing changes, that's going to come online, and basically things are being permitted that there's no market for," Gordon said.

The industry insider who requested anonymity also noted that there's been a surge in temporary "provisional" cultivation licenses since December, with an increase of roughly 22% of grow licenses, according to the source's calculations.

"At that point, there were 6,150 active cultivation licenses, and now there are 7,911," the source noted. "Let's just say they're outdoor. That's another 400 acres of production."

California doesn't have a statewide cap on the number of cultivation permits that can be issued.

And because wholesale prices were boosted by COVID-19 last year, many farmers either reinvested in additional cultivation infrastructure or held on to some of their crop from last year in hope of riding a typical spring/summer price spike that never arrived.

"As always the wholesale price dropped in the winter of 2020, but this time when January 2021 came around, the wholesale price didn't increase like the year before," Santa Barbara-based grower Autumn Shelton told *MJBizDaily* via email.

“By this summer, when prices should have been at their high, (they) trended down to winter prices instead,” Shelton wrote. “This will be a very difficult year for many cultivators and distributors that weren’t prepared for this kind of price drop.”

### **Wholesale not likely to rebound, experts say**

California sources widely agreed that the price drop won’t reverse anytime in the near future and that stakeholders should prepare themselves accordingly.

“I expect it to continue to go down, as we get closer to the start of the fall harvest,” Cannadescent’s Sedlin said.

“We’re going to start from a lower place than we have in a while, and ... it’s going to be interesting to see how people play it, when we get to November-December, and what are people going to do with their product?”

HCGA’s Gordon and others in the Emerald Triangle are particularly worried about small homestead farmers who rely on their once-a-year fall harvest to keep them afloat.

“I think there are going to be a lot of farmers that this is not sustainable for,” Gordon said, adding that he’s hearing “more and more panic” from HCGA members.

“Most people are buckling in and looking at the next two to three years – before we have interstate commerce – and saying, ‘How can we get through this? Can we operate at a loss for two to three years at a loss?’”

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# Small North Coast cannabis farms face daunting future

*BILL SWINDELL*

“We didn’t think it was going to be this bad,” said Ben Blake, co-founder of Esensia, which has farmed premium cannabis on a quarter-acre plot in Mendocino County for 15 years. “This is kind of a last battle for these growers.”

There were warnings throughout the years, especially in this region that has grown some of the best cannabis strains through the decades in a microclimate suited perfectly for the crop.

North Coast marijuana eventually gained a prestige similar to Napa Valley and its wine. That occurred when then-Lt. Gov. Gavin Newsom stopped by to meet with small cannabis farmers in Garberville in 2015, as he pitched passage of Prop. 64 as part of his quest for the governor’s office.

Those growers expressed their fears with one telling him: “I don’t have millions of dollars. Make it viable for all of us.”

A key moment came in 2017 when the state Department of Food and Agriculture scrapped a proposal to place a 1-acre cap on cannabis farms and issued regulations that opened the door to large-scale cultivation.

Local governments in California have the final say on the size and scope of cannabis farms and businesses. Some, such as Napa County, have fought against any significant cannabis-growing sector, while others have opened their areas more to the sector.

That includes Lake County, where Santa Rosa-based CannaCraft has its Kindness Farms on more than 100 acres that allows the processor to grow more than 40,000 plants.

There were 6,235 cannabis cultivation licenses in the state last year, with Humboldt County having the largest number, followed by Santa Barbara and then Mendocino counties. The latter has about 1,100.

Additionally, growers also noted the cultivation tax makes it harder to compete, when tacked onto other charges when cannabis eventually lands at the retail market. In past years, the tax would be around 10% of the revenue for regional growers. But with depressed prices, that percentage will go up much higher.

“Value is being extracted along the way by taxes and packaging and testing. And all of these regulatory costs that have been added onto the product is taking value out of the supply chain, so that the amount of value that farmers can get has plummeted,” said Allen of the state growers’ association.

Allen and others are asking for a suspension in cultivation taxes this year to help small farmers get through. But any reduction would affect state revenues as California took in more than \$1 billion in overall state excise, cultivation and sales taxes in 2020 from cannabis.

A 2019 report from the state’s Legislative Analyst’s Office noted the trade-off.

“On one hand, for example, reducing the tax rate would expand the legal market and reduce the size of the (illegal) market. On the other hand, such a tax cut would reduce revenue in the short term, potentially to the extent that revenue could be considered insufficient,” according to the report.

Nicole Elliott, director of the California Department of Cannabis Control, said in a statement her newly formed agency was committed to helping small cannabis businesses and noted Gov. Newsom has allocated \$100 million in grants to help small cultivators who “often have unique regulatory needs.”

Coincidentally, the wholesale price drop comes just as the movement for cannabis legalization is the furthest along it has ever been in Congress, making federal repeal not a question of if it happens, only when.

Senate Majority Leader Charles Schumer of New York has sponsored legislation that would remove all federal prohibitions on marijuana, and the House has passed a bill that would stop federal bank regulators from penalizing banks that work with cannabis-related businesses, which would make accessing capital much easier for these farmers.

Thirty-six states allow weed for medical use, while 18 states permit recreational use.

Small growers said if they were able to sell their prized crop across state lines or even directly to consumers like other crops, they would be able to have a sustainable business for the future.

“It’s just been snuffed out by a thousand cuts,” Esensia’s Blake said.

In past years, a pound of premium cannabis could sell wholesale after taxes from \$1,000 to \$1,500 per pound, he said. It will be much less for 2021 and could go as low as \$700 per pound, though Blake said, “no one really knows for this fall.”

Blake said on some farms, “some (weed) may not be sold for any price.”

Esensia should be well-positioned as Blake thinks he has a good strategy: He built his brand name in the marketplace; worked closely with local retailers, such as Sebastopol’s Solful; and developed the company’s own top-shelf strains that it can sell to other cannabis farms.

“It’s going to be a real test,” he said. “I think we have built the ship strong enough.”

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