

WHAT'S IN THAT WHITE CARGO VAN?

With recent cannabis legalization, new commercial fleets are springing up to transport pounds of marijuana and hundreds of thousands of dollars in cash. Navigating wildfire growth, ever-changing regulations, and federal illegality, it's a fast learning curve for these new cannabis entrepreneurs – the legal ones, anyway.

BY CHRIS BROWN



Today in California, a utility tractor navigates an endless canopy of leafy green marijuana in a 44,000-square-foot warehouse in Santa Barbara's wine country. The tractor exits into the sunshine, where workers transfer its load into an unmarked cargo van to begin the seed-to-sale journey.

Further south, a cellphone beeps in Santa Ana. The manager of a pot dispensary opens an app that signals her shipment will be arriving within 15 minutes. Following protocols, the manager completes a visual sweep of the store's exterior and sends an "all clear" text to the driver.

Some 600 miles north in Eureka, a lab attendant clips and bags two ounces of marijuana flower under the supervision of the grower and the mechanical eye of a video camera. The attendant hands the bag to the grower, who kisses it, a superstition to bless this 50-pound batch of

weed before state certification testing.

Failure could mean a loss of hundreds of thousands in revenues.

In an office in Fresno, an armed agent with a backpack stands in front of a wall-to-wall mural. The mural ascends, revealing a security door with a keypad. He punches a code and enters a windowless room. The agent opens the backpack and pulls out stacks of bills, looking for space on a storage rack already filled with hundreds of stacks of bills.

In Sacramento, a marijuana dispensary owner walks into the federal Franchise Tax Board office where she'll exchange a duffel bag filled with \$338,654 in cash for a receipt — excise taxes paid to the federal government.

On a San Jose cul-de-sac, two detectives in an unmarked sedan watch three Millennials enter a McMansion with garbage bags full of weed. The cops do nothing, for now.

NO ORDINARY INDUSTRY

This was just another day in the movement of cannabis and its profits across the State of California.

In many ways, its transportation and logistics are no different than any other business fleet: Decisions are made to outsource distribution or stay in-house. Vehicles are selected and converted to meet specific delivery requirements. Routing software and telematics systems are used to minimize travel time and maximize the revenue of each stop. Drivers are hired, trained, and monitored.

But cannabis is no ordinary industry: As of January 2019, cannabis was legal for recreational or medicinal use in 33 states and the District of Columbia. With a projected 13.7% compound annual growth rate through 2025, the legal cannabis market is growing faster than any industry today.

Cannabis generated \$8.3 billion in



PHOTO: HARDCAR SECURITY

bined with its lightning growth has created spider webs of regulations on state, county, and local levels. And the inability to bank with FDIC-insured institutions has created a cash business unprecedented for its size.

The manual transfer of currency — from in-store transactions and supplier disbursements to employee payrolls and even federal tax payments — is allowing a sub-industry of vendors to step in and provide secure transactions and transportation.

Today in California, the farmers, distributors, manufacturers, security consultants, tech entrepreneurs, scientists, and migrants from other industries are on a fast learning curve when it comes to transporting cannabis and cash.

Right now, the preferred method is small fleets of unmarked cargo vans.

ARMORED ICE CREAM TRUCK

“Cash doesn’t ask questions; neither does cannabis. It’s easier than moving people,” says Jeff Breier, COO of Hardcar Security. Breier spent 17 years in Latin American hot zones protecting Fortune 500 clients.

Breier brought his expertise in executive protection to Hardcar, where he guided the design and install of military-grade armoring on Hardcar’s fleet of 10 Ford Transit cargo vans. “The glass alone is worth more than a motor and transmission,” he says.

The Transits are also equipped with GPS tracking, a remote-controlled starter interrupt, and a customized alert system that contacts Breier and law enforce-

ment in the event of an incident.

Nabis, an Oakland-based cannabis distributor that also handles logistics, software programming, and sales, runs a fleet of 15 vans, a mix of Mercedes Sprinters and compact Nissan NV200 models.

The Sprinters are used for intercity runs while the NV200s deliver smaller quantities to retailers in metropolitan areas. The company averages 350 deliveries a month.

“The Sprinter is as large as you can get without becoming a truck, which would have to stop at the weigh stations,” says Nabis cofounder and CEO Vincent Ning.

Ning is referring to the 10,001-lbs. gross vehicle weight rating threshold to register as a commercial vehicle under federal Department of Transportation (DOT) guidelines and in most states. DOT-regulated vehicles are legally barred from carrying marijuana.

Although marijuana’s relatively light weight allows distributors to spec their vans outside of the DOT’s purview, cargo room is at a premium.

“When you’re on the road with such a high-value product, you want to maximize every square inch in the van. We’re transporting product in terms of grams more than pounds,” says Drew Milburn, COO of Vertical Companies, which cultivates, extracts, manufactures, distributes, and sells cannabis products.

Each cartridge in a vape pen, for example, is about a half gram, so hundreds of items might weigh only one pound. In comparing the product’s weight to value, “Jewelry might be the only other thing that comes close,” Milburn says.

consumer sales in 2017 and could earn \$23 billion to \$30 billion by 2025, according to New Frontier Data, an industry analytics group.

This industry was once controlled by drug cartels and supplied by renegade pot growers in California’s Emerald Triangle and the Pacific Northwest. Since the passage of Proposition 64 in November 2016 legalizing recreational adult use of cannabis in California, their off-the-grid mentality is being usurped by standardized business practices, Harvard MBAs, and millions in venture capital.

That said, the black market still controls the majority of sales. And as state legalization initiatives expand, marijuana remains illegal on a federal level — classified as a Schedule 1 narcotic, a category reserved for drugs such as heroin and LSD, “with no currently accepted medical use and a high potential for abuse.”

The industry’s illicit history com-



PHOTO: NABIS

With its fleet of 15 vans, Oakland-based distributor Nabis makes 350 deliveries a month to retail dispensaries from its warehouses in Northern and Southern California. Cofounder Vincent Ning uses his fleet telematics system together with in-house data to reduce overtime pay, which accounted for 20% of delivery costs.

Vertical's fleet consists of 10 Ford Transit cargo vans, half-ton and three-quarter-ton models, as well as off-road utility tractors used on its farms and indoor cultivation centers.

Like produce shippers, the cannabis industry relies on refrigerated vans — “reefers” in trucking parlance — to preserve valuable plant clones, edibles, and concentrates. The units come with auxiliary power in case of engine failure.

Breier calls one of the refrigerated Hardcar vans “an armored ice cream truck.”

CONFIGURING ‘CANNAVANS’

For truck and van upfitters, adapting to new regulations that affect vehicle design and functionality is a matter of survival and a source of new business — sometimes in industries they never expected to enter.



Since 1983, Dominick Vitelli has been designing and manufacturing custom stretch limousines, from the executive palaces to those worthy of MTV’s “Pimp My Ride.”

In 2013, Vitelli was approached by friend Seth Doulton, former rodeo cowboy and monster truck builder, who became the State Board of Equalization agricultural liaison to the cannabis industry. Doulton was tasked with devising the specs that would form the regulations governing a cannabis transport vehicle in California.

Vitelli’s company, Quality Coachworks, worked with Doulton and the state for two years on bringing those plans from paper into a cannabis transport vehicle.



With 12 variations of van conversions containing more than 50 modifications, the “Cannavans” come with touchpad climate controls, insulated floors and walls, reinforced doors and roofs, welded side doors, and door hinge covers — an extra protection for break-ins.

The van bodies are built with programmable digital lockboxes that can be loaded with orders based on delivery stops. To mitigate liability, the lockboxes can be configured to only release the combinations upon arrival.

About 75% of the Cannavans are armored, Vitelli says. Full armoring eats up 900 lbs., so Vitelli says some clients prefer to armor just the cab, which still satisfies their insurance policies and saves on fuel and parts wear and tear.

The vans are also equipped with a five- to nine- camera system that records the cargo, driver, and perimeter of the vehicle, as well as GPS tracking. The upfits run from \$30,000 to \$50,000 in addition to the cost of the vans.

The “aha” moment for Todd LaPant, COO of Nor-Cal Vans, came after a friend with a soil business that supplies cannabis farms tipped him off to the pending passage of Prop. 64.

After researching the market with his wife, LaPant concluded that many cannabis deliveries could be satisfied with a more basic solution. “Not every delivery needs to be with an armored car,” he says.

LaPant guided Nor-Cal Vans, known for its shuttle bus and paratransit conver-



sions, in the creation of a line of industry-compliant and factory-warranted conversions for Ford Transit and Transit Connects starting at \$6,000.

The Nor-Cal upfit is constructed with a rear steel double-door partition, a disabled and sealed side sliding door, and a non-accessible partition between the cab and cargo area. Instead of a single lockbox, the solution turns the entire cargo area of the van into secure locked storage.

Telematics and alarm systems can be added, though the conversions don’t come with armoring. One of Nor-Cal’s



What’s in a Cannavan? Quality Coachworks’ cannabis delivery vehicle is designed to comply with regulations while providing secure and efficient transport. (1, 4) Surveillance camera system: Records the cargo, driver, and perimeter of the vehicle. Not regulated, but popular with cannabis transporters. (2) Telematics: Vehicles transporting cannabis in Calif. are required to be tracked via GPS. (3) Bulletproof glass, part of an armoring package. (5) Padlock for added security. (6) Programmable digital lockboxes: configured to only release the combinations upon arrival. (7) Caging: Calif. requires cannabis to be locked in a box, container, or cage secured to the inside of the vehicle.

customers uses an armored car service for cash deliveries, according to LaPant.

When Johnny Jaime, fleet manager at South Bay Ford in Hawthorne, Calif., saw a van making a delivery to a pot dispensary he said, “That’s it, that’s the ticket.”

South Bay Ford has been selling refrigerated vans, the ones preferred by pharmacies and seafood restaurants, for more than 25 years. The dealership sells the most in Ford’s western region.



Jaime, the self-styled “Reefer King,” knew he could create a cannabis-certified van and make a killing, but the dealership’s owner was initially reluctant. Understanding that the cannabis industry had formed a national association gave the owner the comfort level to get onboard.



The South Bay Ford reefers are insulated and built with refrigeration units that precisely regulate and monitor temperatures from 20 to 60 degrees. The up-fits start at \$30,000.

Jaime and other Ford dealers are able to offer finance and lease packages to cannabis operators through Ford Motor



Credit, the only captive finance company in the space right now. Since marketing the units at a cannabis trade show in mid-2018, “It’s been nonstop phone calls ever since,” Jaime says.

Other upfitters are looking to exploit this open market, though new fleet operators beware: Oakland distributor Nabis initially contracted a “mom-and-pop” shop but got burned by shoddy workmanship.

“That was the first vehicle they had done for the cannabis industry,” Ning says. “It was compliant, but they didn’t really know what they were doing.”

SUSIE IN HER MINIVAN

In the fledgling cannabis industry, a single supply chain model has yet to win out. These distributors are developing their own processes that they hope will give them first-mover advantages when the preferred model emerges.

Breier of Hardcar Security and business partner Todd Kleperis, a contact from Breier’s security industry dealings in China, set up Hardcar in 2016 to handle both cannabis distribution and cash-in-transit. The pair stepped into an industry moving massive amounts of cash yet lacking in basic security protocols.

“Honestly, it’s been Susie in her minivan until we arrived,” Breier says.

In addition to cannabis transport, the company offers a private vault service (“a mini Fort Knox” in heavily fortified buildings) and will act as an intermediary between cannabis companies and some credit unions, which includes making deposits.

Hardcar deposits millions of dollars into the Federal Reserve for the largest growers and distributors in California. The irony is not lost on Breier: “They’re used to dumping a duffel bag of money on the table at the IRS, and no one likes that,” he says.

Before Nabis, Ning founded a data platform called Scaphold that sold to Amazon. Looking for his next gig, Ning and childhood friend Jun Lee offered to help a couple of friends who owned cannabis brands to deliver their products.

As they cultivated their network and secured venture funding, Nabis opened warehouses in Southern and Northern California and moved from deliveries in the trunks of their personal cars to an owned fleet.

Nabis grew first as a fulfillment distributor, delivering to more than 80% of the retail dispensaries in the state. “It



seemed like a pretty large need in the industry to have a logistics provider, because larger companies like FedEx or UPS wouldn’t do it,” Ning says.

After exposure to the needs of their clients, Ning and Lee developed the company’s internal software into a client-facing tool that allows their customers to manage their own logistics and market their products to new customers.

“We saw a pretty big opportunity to help the brands we work with get more products into other dispensaries that they weren’t in yet,” Ning says.

OWN THE CHAIN

For Jake Hendrickson, managing partner of Sacramento-based Truth Enterprises, the moment came when he realized Prop. 64 was likely to pass. “We



said, ‘Now is the time.’”

Hendrickson and his three business partners — a software executive, a former cannabis nutrients company owner, and the former chief of staff to then-Sacramento mayor Kevin Johnson — bought a 40-acre farm in Yolo County and secured two one-acre permits to grow marijuana.

They then bought a 55,000-sq.-ft. warehouse in West Sacramento from Frito Lay and began working with the city to obtain distribution, manufacturing, transportation, and cultivation licenses under one roof.

The partners thought they’d use most of the warehouse for cultivation, until they saw the large number of cultivation licenses being issued to their future competition. “We decided to forget cultivation for now and pivot to distribution,” Hendrickson says.

On whether to outsource distribution or do it yourself, Hendrickson is clear: “Some of the biggest brands believe they’ll never need us,” he says. “We want them to be the best cultivators or manufacturers, and we’ll get their products to the most retailers cheaper and more efficiently than they can.”

On the other hand, Vertical believes in complete integration, from cultivation to production, distribution, and retail. “Vertical explains it in a nutshell,” says Vertical’s Milburn. “We own the supply chain from seed to shelf.”

With more than 200 employees and operations in three states, Vertical owns and operates 4 million square feet of indoor and outdoor cultivation that supplies 227 owned retail distribution outlets. Vertical’s C-suite draws from healthcare, alcohol sales and distribution, e-commerce, and financial advising, and includes former NBA baller Al Harrington.

Milburn, a Marine vet who comes from a logistics and manufacturing background, understands the efficiencies of outsourcing distribution in established industries. Yet with its wildfire growth and patchwork of regulations, he thinks the cannabis industry isn’t one of them, at least for now.

“We’ve learned that controlling the input is as important as controlling the output,” he says. “In cannabis, the more

you own the chain, the greater your chance of survival.”

Edgro (a pseudonym used for his safety) is vertically integrated, but on a smaller scale. “I’m on the cultivation side,” he says. “I’m in distribution as well. I’m the bridge from the farms that we know to the city.”

Edgro has a stake in a 40-acre farm in the Emerald Triangle as well as an indoor “grow” in Southern California. He uses a small crew in personal vehicles to move product and cash from the farms to his regional distributors who handle local sales.

lenges for its transport.

What started as word-of-mouth relationships between growers and pharmacies evolved into collectives that assembled patient lists. Lawyers were hired to draw up statements certifying patients’ orders, which were kept during conveyance.

“It was all in this binder, and if you got pulled over, you’d hand it to law enforcement,” Edgro says. “Basically, you didn’t say anything. You’d just point at the binder.”

The paperwork didn’t necessarily



While the State of California regulates commercial cannabis activity through the Bureau of Cannabis Control (BCC), Edgro conducts business the old-fashioned way — he’s still in the black market.

A BACKPACKING INDUSTRY

A series of California State Assembly bills in 2015 laid the groundwork for the present-day regulations and the creation of the BCC within the Department of Consumer Affairs.

Before then, “It was a backpacking industry,” Nabis’ Ning says. “People would get their friends, their family, or their employees to just drive it across the state. It was super unscalable.”

Edgro’s operation traces its roots back even further to the cannabis Wild West, after California legalized medical marijuana in 1996. Supply to the first pharmacies came from the black market and a lack of regulations presented chal-

quell confiscations and delays. “It was always debatable in court, depending on where they stopped you and what was going on,” he says.

This process didn’t change dramatically until the lead in to Prop. 64, when state regulators began reaching out to stakeholders to form the framework for the licensing, regulation, and enforcement of recreational and medicinal cannabis activity.

When the market opened to recreational sales on Jan. 1, 2018, the BCC issued temporary regulations that require cannabis to be transported in a locked container or cage secured to the inside of an unmarked vehicle. Shipments must also be tracked via GPS.

The BCC also requires a manifest (the evolution of Edgro’s binder) to accompany every cannabis delivery, even for test samples.

To accommodate unexpected changes, Nabis and Hardcar’s software sys-

tems can adjust manifests on the fly and transmit them to drivers. Hardcar keeps printers in its vehicles to show hard copies to law enforcement.

The manifest is a component of California's Cannabis Track-and-Trace system, which is designed to document every product with radio transmitter (RFID) tags from seed to sale. However, the system is not yet fully operational.

In theory, deviation from the manifest, from a discrepancy in load weight to stopping for an unexpected bathroom break, could result in a fine or confiscation of a load. Yet without electronic tracking, Hardcar's Breier says manifests are easily faked.

He hasn't yet seen enforcement, in part because the police don't yet know what to look for, he says.

HARDENING TARGETS

"Cannabis can be sold in less than an hour with one phone call," Breier says. "It's the most fence-able product on the planet."

That fact, along with shipments of hundreds of thousands of dollars in cash, define how cannabis distributors plan their routes and manage their personnel. "You can't just leave one of these vehicles in the parking lot to go have lunch without some sort of fear," Milburn says.

While these distributors did not report any safety incidents personally, they all have stories. Breier recently spoke with a dispensary owner whose driver was robbed at gunpoint; the owner chalked it up as a cost of doing business, he says.

According to Breier, dispensary parking lots and home deliveries are the most vulnerable link in the chain of custody. For dispensary runs, Hardcar created a set of protocols that alerts the destination to the driver's arrival.

In preparation for the drop off, the protocol instructs dispensaries on an "advance," a sweep of an area for threats, and how to react if a threat is perceived. After the scan is completed, the dispensary guard uses an app to signal all clear and waits to escort the Hardcar agent into the building.

To speed up the security vetting process, Hardcar is developing a computer-generated "safe word" for each delivery to be exchanged by the agent and the

guard, Breier says.

While the GPS tracking regulation may seem burdensome to the mainstream commercial fleet world, for cannabis transporters, the need for constant on-the-road surveillance has turned these distributors into telematics evangelists.

"You want to know if your high-value product is making any unnecessary stops along the way," Milburn says.

In addition to vehicle tracking and route optimization, Ning is using his fleet telematics system together with in-house data to analyze the economics of a stop. When he discovered that overtime pay accounted for 20% of delivery costs, he started swapping out drivers at the midpoint of cross-state runs.

Hardcar uses its telematics system to route drivers around California's eight internal border control checkpoints and possible detention by federal authorities.

Hardcar's system is also coded to red flag "Murder Mountain," an infamous area in Humboldt County where cannabis workers have gone missing. "We'll route drivers a hundred miles out of the way to avoid it," Breier says.

Like legal distributors, Edgro sends a lead car about three miles ahead to secure the area and communicate back to the product car before the transfer is made. He mitigates risk by limiting the flow of information on stops and timetables between drivers.

The transportation side of Edgro's business consists of delivering pounds of marijuana to the south and returning its profits to the farms up north. Edgro's drivers, who are armed, usually carry \$300,000 to \$500,000 in cash per run.

MITIGATING RISK

Transporting cannabis and cash requires added controls around driver hiring and training.

"The incidences that I've heard of where someone was robbed looked like they could've been inside jobs," says Summer Jenkins, an underwriter for Next Wave Insurance Services, which serves the cannabis market.

After discovering a shortfall from a cash delivery, Ning adjusted the company's collection procedures. Nabis drivers must now count every bill in front of a

retail buyer and then bag, seal, and sign over the cash before it leaves the building.

Nabis also keeps an eye on its drivers and cargo through onboard surveillance cameras, a non-regulated security feature gaining traction in the industry. Like Vitelli's upfits, the Nabis vans have deposit-only safes that only the facilities managers can open.

Ning makes sure to hire drivers who don't know each other to avoid the possibility of collusion during training. Yet after they're onboarded, investing drivers in the company's mission is just as important. "We like to keep them in the office and get to know them too," he says.

The Nabis office has a stocked refrigerator, and employees bond through rock-climbing outings and regular fly-ins for company visioning meetings. It feels like a tech startup, with extra security: "We have cameras that cover every square foot of our office," Ning says.

Hardcar's drivers are predominantly ex-military, many returning from tours in Iraq and Afghanistan. Breier pays his agents \$25 an hour, well above the average for route delivery drivers of light trucks.

"My agents are instant coffee," he says. "We add a little Hardcar water and they're literally good to go."

"My people are pretty well-trained; not military-trained, but they're not going to do anything stupid," Edgro says of his drivers. "They've been through real-life situations to where I know I could trust these guys if there's anything going on."

Edgro understands the need for employee camaraderie too: "We have celebration parties, like when we do big moves, or for the harvest season," he says.

Insurance carriers and brokers serving the cannabis market are partners with operators in mitigating these risks, but fast growth creates challenges. "I've seen cannabis businesses start out making \$100,000 a year, and the next year they're making \$10 million," says Jenkins, who specializes in excess and surplus lines.

Next Wave's cannabis policies come with safety and security requirements that take time to implement, Jenkins says, which can be a challenge for a business still in the permitting process and not yet gaining revenue.

Jesse Parenti, a director at Nine Points Strategies, a risk management service for cannabis companies, says a standard cost of insurance for most businesses in any industry is 0.5% to 1.5% of total revenue, which can be sticker shock for a cannabis company just starting out.

“When they think they’re paying \$2,000 [per vehicle] for coverage, and I come back with \$30,000 to have the coverage they need, they go, ‘Whoa,’” says Parenti.

“Insurance for this business is no less than rape,” Milburn says. “They put us in such a category of risk; it almost makes it impossible for a fledgling company to succeed in terms of fleet.”

“We write hardship-placed businesses that would make a standard carrier stay awake at night,” says Jenkins. “And we price accordingly.”

However, Jenkins maintains that, statistically, cannabis transportation doesn’t have the same level of issues one would expect for such a new industry. “Our loss ratio is outstandingly low,” she says.

Premiums will drop when more admitted carriers create competition and when there are enough claims to produce actuarial data to better assess risk, says Jenkins.

WINGING IT

While mainline industries benefit from mature rulemaking processes and years of real-world experience to craft them, this is not the case with cannabis. “Everybody is winging it,” Breier says.

Not unlike real estate development, cannabis businesses must abide by state, county, and city regulations. “Forget about breaking the rules when you cross state lines,” says Michael Bright, an industry consultant. “They have to worry about driving five miles from the manufacturer to the dispensary. And [the rules] seem to change every month.”

Regulators realize the need to craft rules that make sense operationally. “They tell us, ‘We just work in an office — we need your input to shape these laws correctly,’” says Hendrickson of Truth Enterprises.

Hardcar granted the BCC permission

to use its protocols as part of the agency’s transportation guidelines. Breier is also working with the state to move its Track-and-Trace system from paper to electronic manifests and is trialing two invoicing systems for their compatibility with the states’ software.

Addressing a cannabis trade event in Los Angeles in September 2018, Lori Ajax, California’s “pot czar” and the first



Nabix cofounders Vincent Ning (white shirt) and Jun Lee (black jacket) run their company like a tech startup. Employees bond through rock-climbing outings and regular fly-ins for company visioning meetings. The Oakland headquarters has a stocked refrigerator and security cameras covering every square foot of the office.

chief of the BCC, said her staff was fielding “hundreds of emails every day” on the ever-changing regulations, which made it “very difficult to train our own employees.”

Regarding the Byzantine regulations for Los Angeles alone, “You were real about ‘What were they thinking?’ and in many cases, you were right,” Ajax told attendees. “We’re looking forward to finalizing regulations. This year has been incredibly trying.”

In spite of these efforts, frustrations have spilled over to both operators and vendors.

“California is so over-regulated, we’ll be belying up to a urinal one day with a California regulation sign that says, ‘Must piss to the left,’” Breier says.

“They’re over policing the wrong group,” Milburn contends. “If I take the time to get licensed, what are the chances that I’m the guy messing up? I’ve got the most to lose.”

Nor-Cal Vans’ LaPant has spent more than six months trying to get the BCC to evaluate and certify his invention for the internal locked storage requirement. “Neither the BCC nor the California

Highway Patrol has responded to our emails or voice messages,” he says.

Hendrickson looked for clarification from the state on specific labeling requirements but to no avail. “I’m looking at a pile of about \$10,000 in labels that I’ve printed,” he says. “A regulation came out a week later that made those labels non-compliant and now they’re just sitting here.”

Without the ability to bank electronically, the industry’s distributors are shouldering an added burden by collecting excise taxes manually for the California Department of Tax and Fee Administration (CDTFA).

Hardcar’s drivers collect taxes as part of the delivery process, not always with success. “Every day I’m chasing excise tax for the state,” Breier says. “It’s bad enough that they don’t pay us for it.”

Hardcar has been working with the BCC to define methods of collection and transfer of quarterly taxes. However, the agency has yet to create any safety guidelines to share with licensees. “Imagine Susie in her minivan and she’s got \$100 grand in cash for excise taxes,” Breier says. “She’s way more at risk than Hardcar.”

BLACK OR WHITE

According to New Frontier Data, the illicit market will continue to dwarf legal sales, even through 2025. Yet legal operators understand that strict adherence to the rules is a matter of survival. “The businesses that have an active license, they protect it like it’s their first-born child,” says insurance underwriter Jenkins.

“The reason we named the company Truth Enterprises is we wanted to be very transparent and above board knowing this is a new industry with a lot of scrutiny,” says Hendrickson, adding that one of company’s first hires was a compliance officer. “We’ve all worked way too hard to jeopardize our licenses.”

“The ones that I’ve tried, they won’t do anything with me without a license,” Edgro says. “Their mentality right now is to play by the book and keep everything in line. You’re going to just go completely black market, or fully comply. There’s no in-between.”

Licenses have little regard for black market operators who are unfettered by regulations and taxes. “They hate law enforcement, they hate paying taxes; they’ll stay black market as long as humanly possible,” says Breier.

“At this point you have to be willing to change or forfeit your space in the industry,” Milburn says. “You can’t have a business without it running like a business, otherwise you’re a bootlegger. That’s a small mentality and this is a big industry.”

Edgro says he is willing to change, but bureaucracies, and lack of capital, stand in his way.

He put in an application for a manufacturing and distribution license but can’t cover the application fee of \$28,000. A social equity program may provide relief but the funds have yet to be released. Partnering is an option, if he can find one.

Edgro thinks his experience in the black market will be beneficial as a legal distributor, if that happens. “In order to be a good transporter, you have to think like a criminal in order to prepare yourself for one,” he says.

Yet the decision to pursue a legal path comes with ironic consequences. The application requires Edgro to detail any current cannabis operations — but if the application is denied, he must promise to terminate his business immediately.

With or without funding, the state’s licensing backlog won’t be alleviated soon. In the meantime, “I still have to do the gray things in order to make a living because I’ve pretty much left everything to do this,” he says. “Right now, I’m willing to just wait and cross that bridge when I have to.”

Edgro understands this can’t last forever, and law enforcement is beginning to fulfill this realization.

In 2018 the California attorney general launched a 12-week operation — the largest in the nation — that netted 52 arrests related to illegal grows. At the same time, the City of Los Angeles initiated a crackdown on 105 unlicensed operations, from retail shops and grows to delivery services.

For Edgro, it’s business as usual, and business is still good in the black market. “There are more guys who don’t want to go into the legal market and deal with all

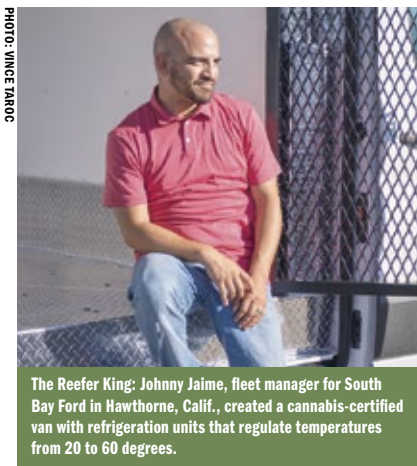
this stuff than there are guys that want to do it the right way,” Edgro says. “At least the guys that I know.”

BIG TRUCKS

Where do cannabis businesses go from here? The rosy revenue projections are cluttered by everyday concerns. Licensing backlogs are restraining legal growth while predatory taxes are fomenting the illicit market.

Markets confined by state boundaries are suffering drastic supply swings.

In Oregon, an overproduction of marijuana has caused wholesale prices to drop 50% annually in the last two years.



The Reefer King: Johnny Jaime, fleet manager for South Bay Ford in Hawthorne, Calif., created a cannabis-certified van with refrigeration units that regulate temperatures from 20 to 60 degrees.

The glut has snared once market-leading vendors such as Portland-based CannaGuard Security, which recently filed for bankruptcy.

A federal resolution would resolve these issues. Most market watchers think federal legality is no longer a matter of “if” but “when,” though the timeline is unclear.

The federal Farm Bill, passed in December 2018, legalized industrial hemp for commercial use. This also opens the market for other non-psychoactive hemp extracts such as cannabidiol (CBD), used to treat skin disorders, arthritis, sports injuries, and anxiety.

Many see hemp — used to make paper, clothing, and biodegradable plastics — and CBD as having greater market potential than recreational use marijuana. “If the marijuana market is as big as your thumb and index finger, the market for industrial hemp will be about as big as a car,” says industry consultant Bright.

Though pot’s staunchest opponents nationally — former Attorney General Jeff Sessions and U.S. House Rules Committee Chairman Pete Sessions — have left their pulpits, the political willpower in D.C. isn’t strong enough to legalize cannabis on a federal level just yet. U.S. Senate Majority Leader Mitch McConnell has “no plans to endorse the legalization of marijuana.”

However, legislation introduced in 2018 may give the industry what it needs.

The Senate’s STATES Act, introduced in June 2018 with bipartisan support, would remove cannabis from the Controlled Substance Act and leave legalization up to individual states.

Most importantly, the bill would allow cannabis businesses to bank with FDIC-insured institutions and transact electronically, while crossing state lines would only be an issue if traveling into illegal states.

There is no fast track for a 2019 vote on the STATES Act or a companion bill in the House. However, President Trump has expressed willingness to sign legislation if it comes across his desk.

Big tobacco and alcohol, sectors already feeling the effects of the growth of cannabis, are waiting in the wings. Cigarette brand Marlboro’s parent company, Altria, and Constellation Brands, which is the Fortune 500 owner of Corona, Robert Mondavi, and Sveda Vodka, have stakes in large cannabis brands.

Meanwhile, pharmaceutical companies already own the majority of cannabis patents worldwide.

Passing the STATES Act, if it happens, would open the floodgates to interstate commerce. At that point, “It will be handled like any other commodity,” says Nor-Cal Vans’ LaPant.

“Farmers will plant thousands of acres of it,” he says. “The big corporations will come in, and it’ll be transported across the country on semi-trucks and railcars. And it will totally change the industry at that time.”

“Large-scale trucking is on the horizon,” says Milburn. “That’s when we start to outsource. We’ll be looking at the professionals to scale this thing.”

“I have two agents who have their CDLs (commercial driver’s licenses) and they’re ready to rock,” Breier says. **BF**