

SICPA



FUTURE OF CANNABIS

Presentation to: FTA

Presented by: Alex Spelman

Title/Department: Business
Development Director

Company: SICPA/Meyercord

Date: December 16, 2021



Enabling trust

PRESENTER BIO



As the Vice President of Business Development, Alexander (Alex), oversees SICPA's relationships with more than 45 U.S. states and 160 municipalities, all of which use SICPA's products for supply chain verification and control, including the SICPA track and trace programs in CA, MA and MI.

He continues to develop new opportunities for SICPA in emerging markets subject to excise tax including alcohol and OTP. This includes supporting SICPA cannabis programs in Humboldt, Mendocino and Yolo counties, Canada and the Barbados Medical Cannabis Licensing Authority.

Alex brings more than 24 years of experience assisting state and local agencies in developing and adopting regulatory, policy and enterprise technology initiatives,

Prior to joining SICPA, Alex spent more than 12 years at Accenture and several years at Oracle

AGENDA



- Where is the current Federal Perspective?
- How might the supply chain evolve?
- Who might have regulatory responsibility?
- What types of solutions might be needed?
- What is happening outside the US?



I. WHAT IS THE CURRENT FEDERAL PERSPECTIVE?

CANNABIS IS ILLEGAL

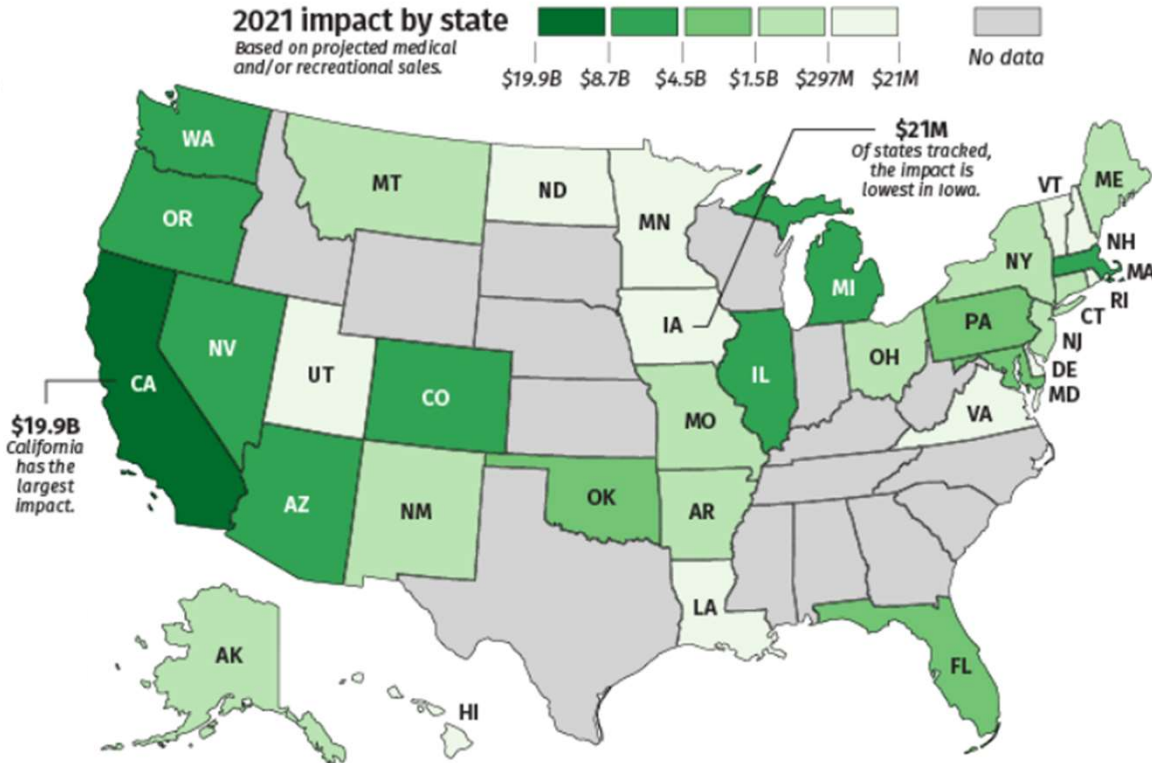
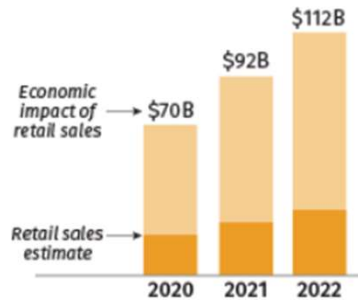


Economic Impact of Marijuana

From jobs to taxes to real estate, the impact of the marijuana industry has a large - and growing - impact on the broader economy.

US impact estimates

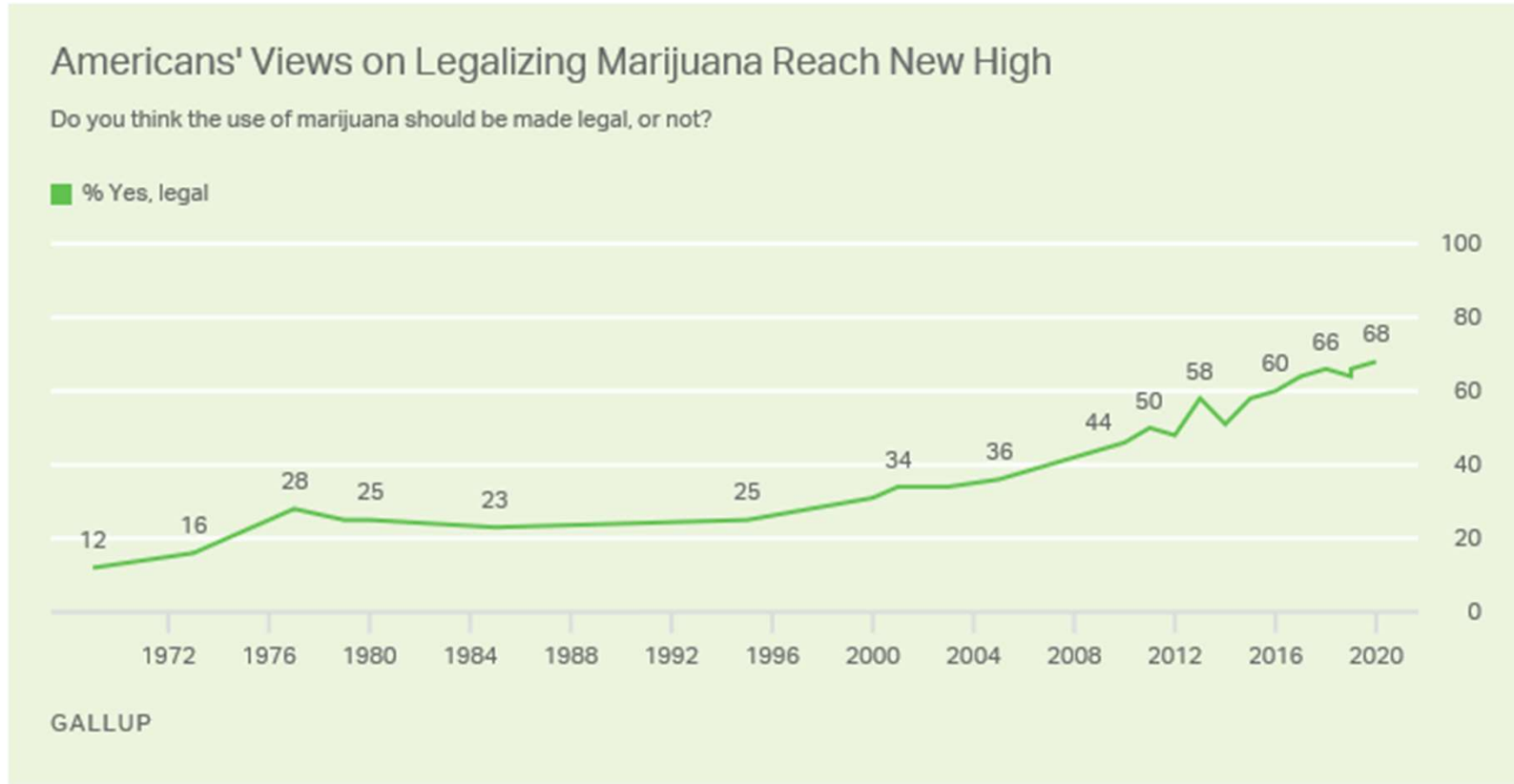
The economic impact of the marijuana industry is forecast to be \$92 billion in 2021, according to estimates from the latest MJBizFactbook.



Source: MJBizFactbook, MJBizDaily analysis

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SOCIETAL CONSENSUS



FEDERAL LEGISLATIVE EFFORTS

In 2018 [the Farm Bill](#) was signed into law and included provisions that legalized the industrial production of Hemp

[Marijuana Freedom and Opportunity Act](#) would deschedule cannabis from the CSA. The [STATES Act](#) would ensure state-level marijuana legalization is recognized in federal law. [STATES REFORM Act](#) would levy a federal tax and give oversight to TTB.

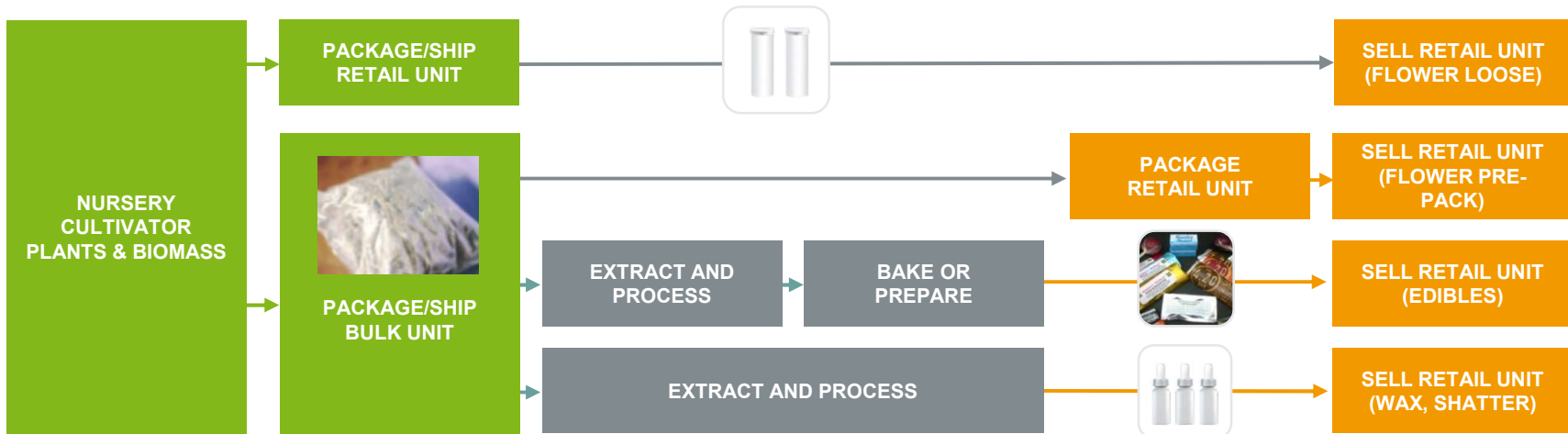
The House passed the [SAFE Banking Act](#) as a standalone bill in 2019 to ensure access to financial services for state-legal marijuana businesses,

At the end of 2020 the US House of Representatives moved to federally decriminalize cannabis when it passed the [Marijuana Opportunity, Reinvestment and Expungement \(MORE\) Act](#) – the first time a chamber of congress voted to end federal marijuana prohibition.

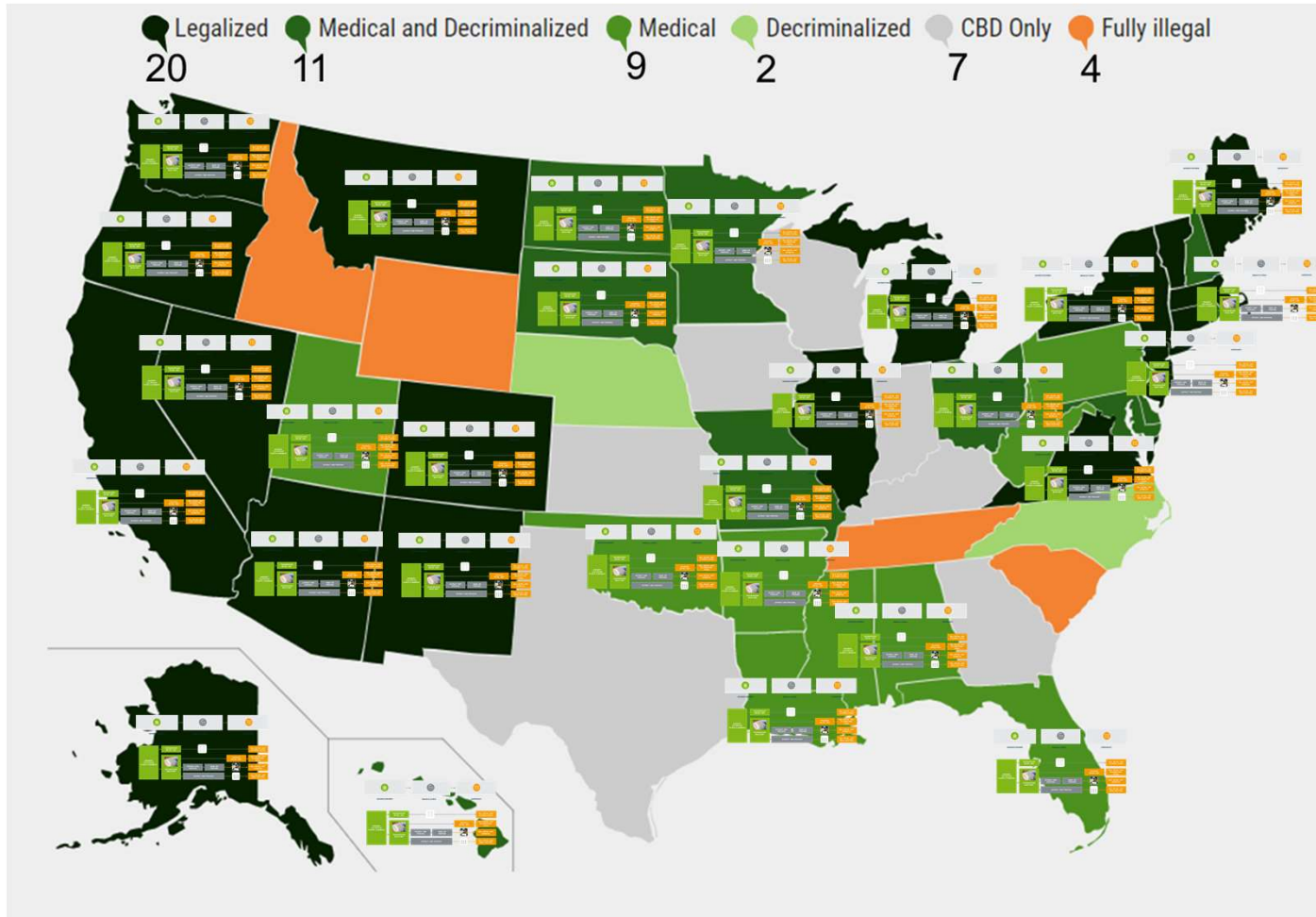


II. HOW MIGHT THE SUPPLY CHAIN EVOLVE?

HOW IS SUPPLY CHAIN STRUCTURED?



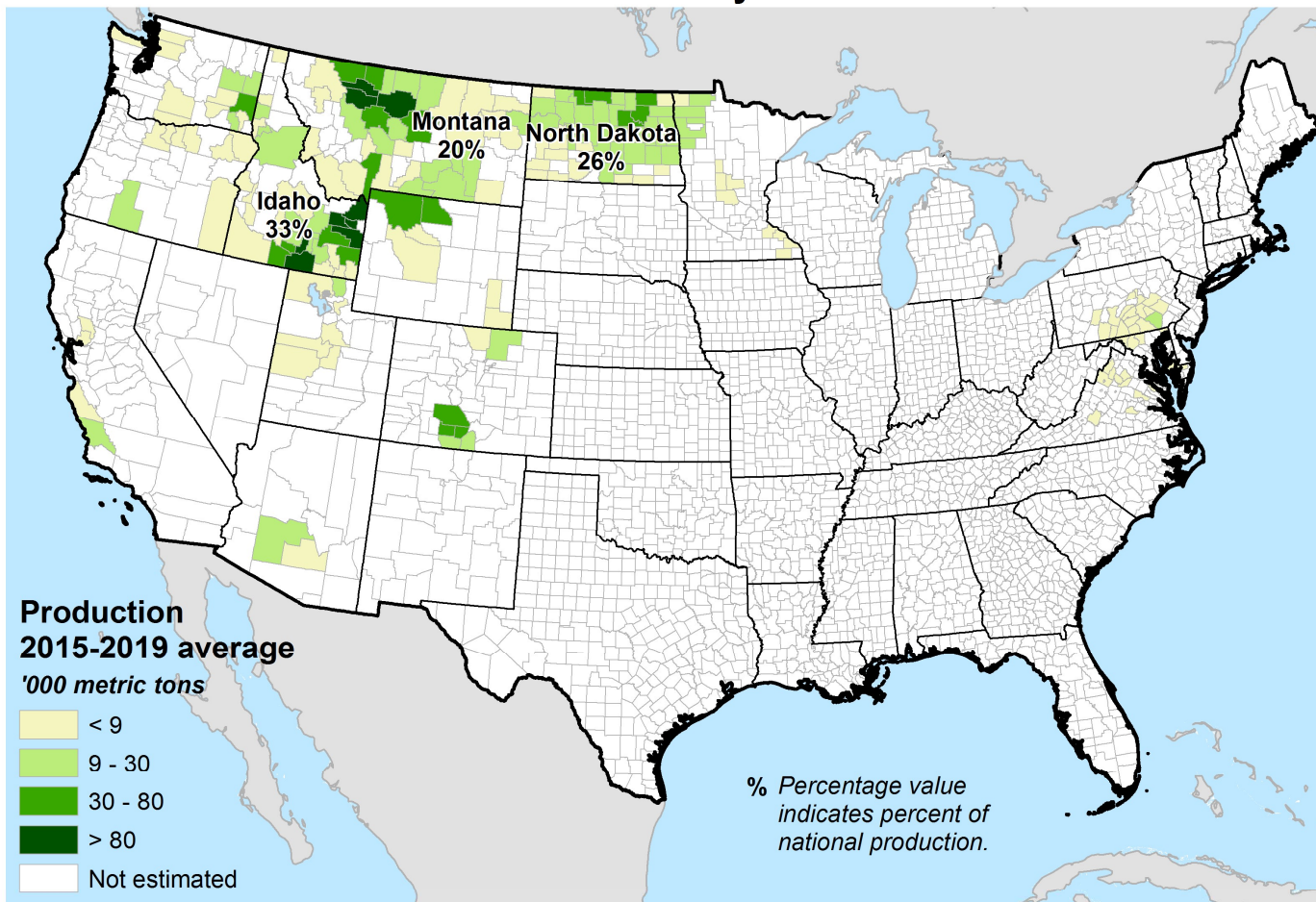
BUT NO INTERSTATE COMMERCE



THIS IS NOT HOW IT WORKS FOR OTHER CROPS....



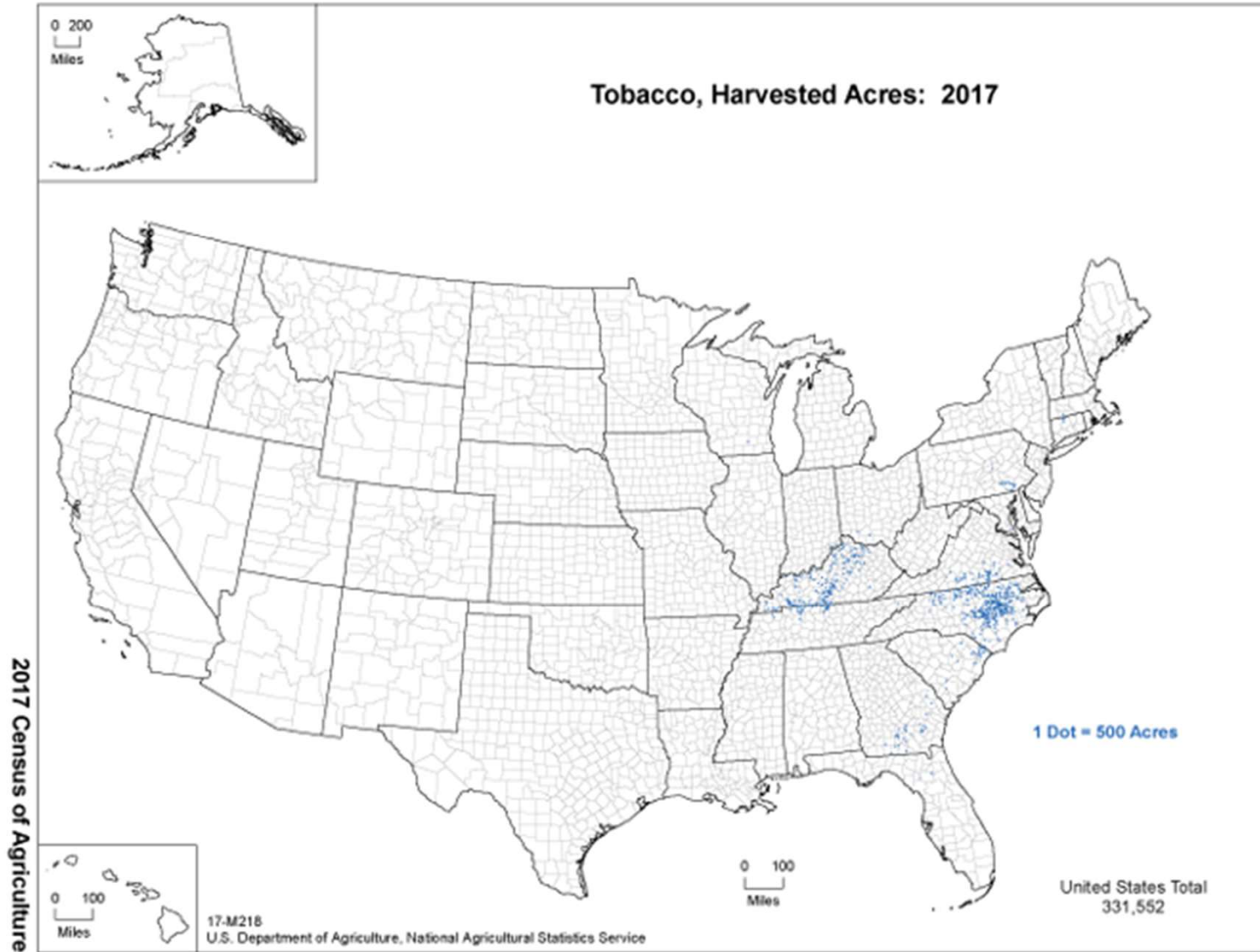
United States: Barley Production



USDA Foreign Agricultural Service
Global Market Analysis
International Production Assessment Division

Source: U.S. Department of Agriculture,
National Agricultural Statistics Service

.... OR TOBACCO

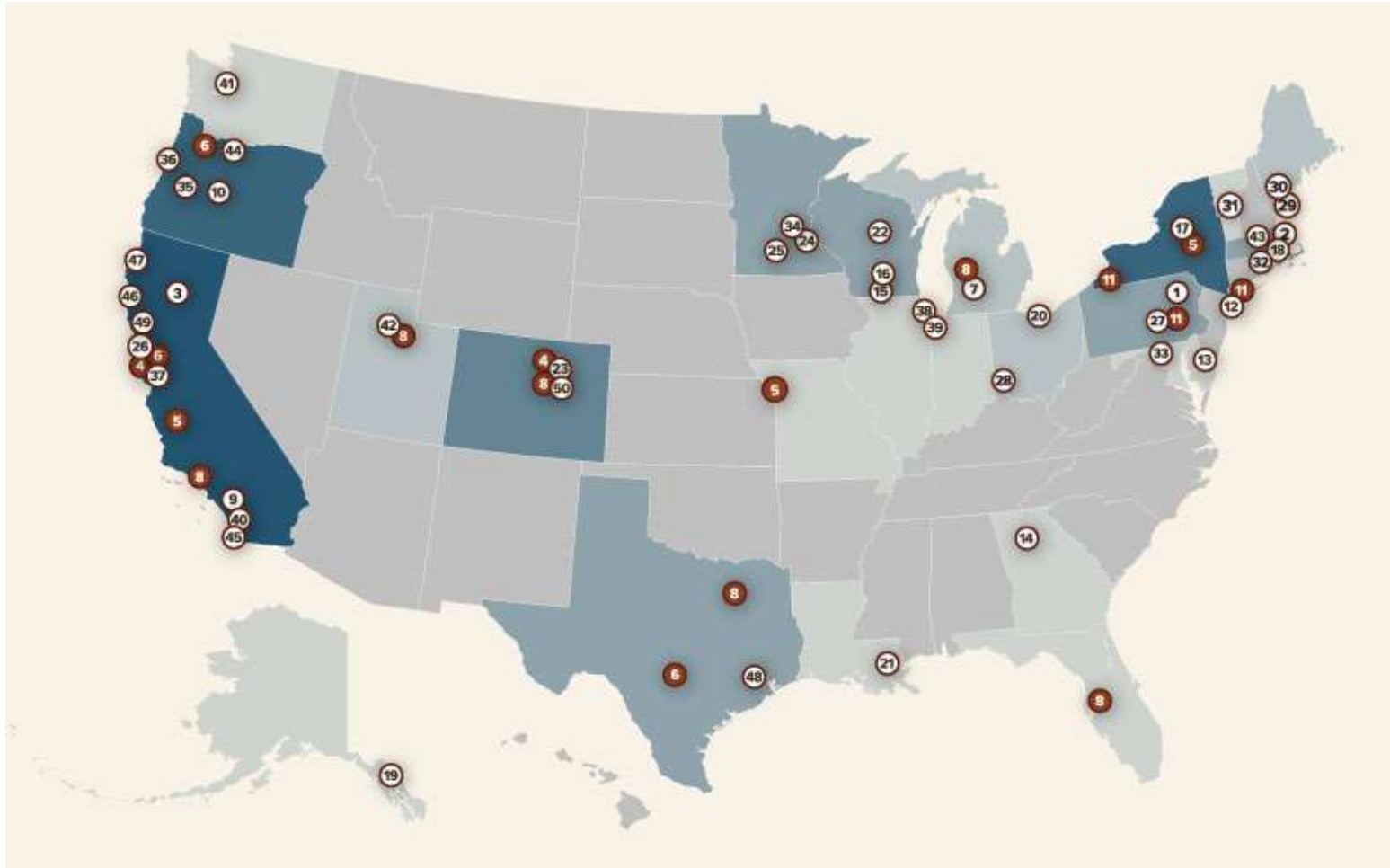


SO WHERE IS CANNABIS LIKELY TO COME FROM IN THE FUTURE?



WHAT ABOUT MANUFACTURING....

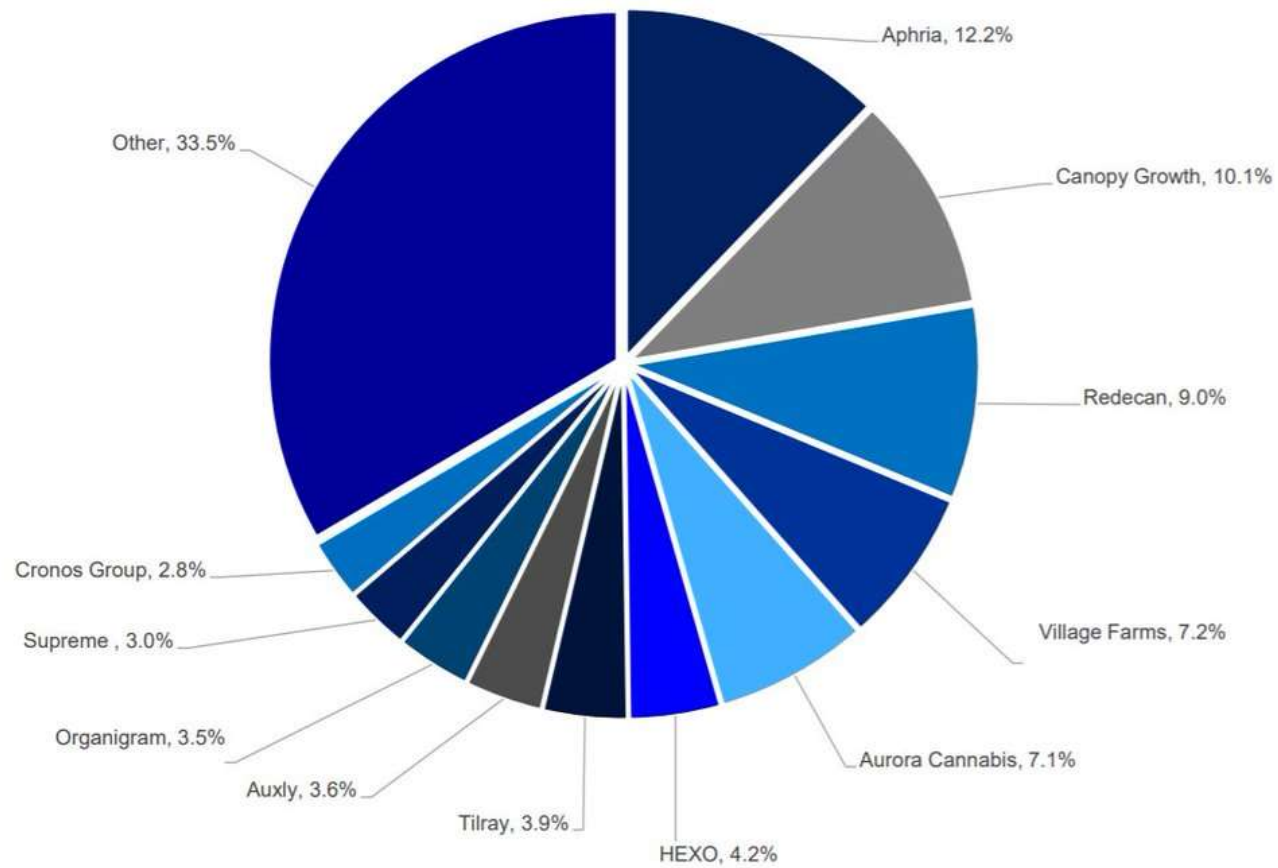
Brewers Association's Top 50 Brewing Companies By Sales Volume, 2018



OR RETAIL?



Producers Retail Market Share (October 2020- December 2020)



POSSIBLE OUTCOMES

- Industry consolidation to create economies of scale
 - Operators such as Kiva, Ascend Wellness, Holistic Industries and Jushi are already operating in multiple states under parallel licensing.
- Legacy 'sin' companies will be active
 - Truss and Molson Coors Joint Venture
 - Altria investment in Kronos group
 - Constellation Brands investment in Canopy Growth
- Cultivation activity migrates to lowest cost, highest yield production areas
 - Historical outdoor cultivation areas in the West Coast and Appalachia will be the primary beneficiaries
 - Indoor cultivation will likely be regional (e.g., craft producer model)
- Product manufacturing centralizes based on logistics and access.
- Existing entities engage the market
 - Existing tobacco and alcohol distributors have multi-state networks tied to broad retail bases
 - Broader retail leveraging tobacco, cigarette and alcohol licensing/permit models



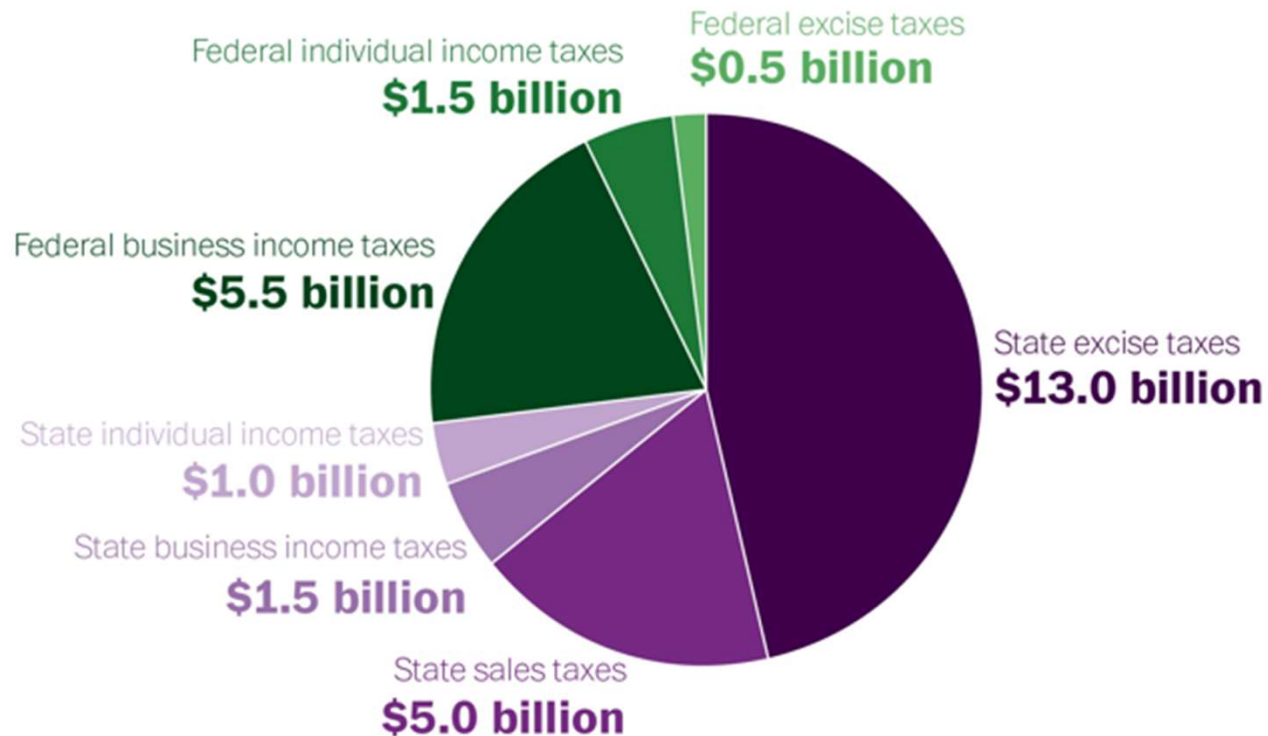
III. WHO MIGHT HAVE REGULATORY RESPONSIBILITY?

SHOW ME THE MONEY!



\$28 billion in taxes waiting to be collected

Potential yearly state and federal tax revenues from a fully legal marijuana industry



THERE WILL BE ADJUSTMENTS



- Weight-based cultivation taxes will be impacted (CA, ME and AK)
 - But there likely will be other economic and tax impacts from the loss of local cultivation operations in many states
- Products will be produced and exported
 - States will need to reconcile tax treatment on production but not sale and import and sale
- Potential for online sales depending on federal perspective
 - Online sales are legal in Canada, does US Cannabis follow US PACT ACT restrictions?
- Likely bifurcation of oversight and Taxation on cannabis
 - Look to existing 'three tier' models for taxation and regulatory oversight

TAX & REGULATORY MODEL – US ALCOHOL



MANUFACTURER

The Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) regulates aspects of alcohol production, importation, wholesale distribution, labeling, and advertising.

Federal Government also decides who can drink (minimum age)

TTB also collects Federal Excise Taxes (FET) on Domestic Removals or Imports on Beer, Wine and Distilled Spirits.

DISTRIBUTOR

States decide whether to allow sale of alcohol in the State, whether to allow importing alcohol into the State and how to distribute alcohol throughout the State

States collect State Excise Taxes (SET) and Sales Taxes related to the distribution and sale of alcohol within their jurisdiction.

State and Local jurisdictions can decide to prohibit and/or restrict sales (e.g., Dry Counties, Operating Hours).

RETAILER

TAX & REGULATORY MODEL – US TOBACCO



MANUFACTURER

The Food and Drug Administration

(FDA) regulates the manufacture, import, packaging, labeling, advertising, promotion, sale, and distribution of cigarettes, including components, parts, and accessories

Federal government also decides who can consume (minimum age)

TTB permits the manufacture, importer, or export of tobacco and collects Federal Excise Taxes (FET)

DISTRIBUTOR

States decide whether to allow sale, importing and how to distribute

States collect State Excise Taxes (SET) and Sales Taxes related to the distribution and sale of tobacco within their jurisdiction.

Certain **States** permit additional **Local** jurisdiction taxes (e.g., AL and VA)

State and Local jurisdictions can decide to prohibit and/or restrict sales (e.g., Flavor Bans, Menthol Bans).

RETAILER

TAX & REGULATORY MODEL – CANADA CANNABIS



MANUFACTURER

DISTRIBUTOR

RETAILER

HealthCanada authorizes and licenses indoor and outdoor cultivation, processing and sale (sale for medical purposes).

The Canadian Revenue Authority (CA) collects Federal and Provincial Excise Duties from cannabis licensees who package cannabis products and GST/HST for distribution to Provinces

Provincial and Territorial Governments authorize and license the retail sale of cannabis for non-medical purposes

Provinces can collect provincial sales tax (PST) related to the distribution and sale of cannabis within their jurisdiction.

Provincial and Territorial Governments can set minimum age and consumption restrictions.

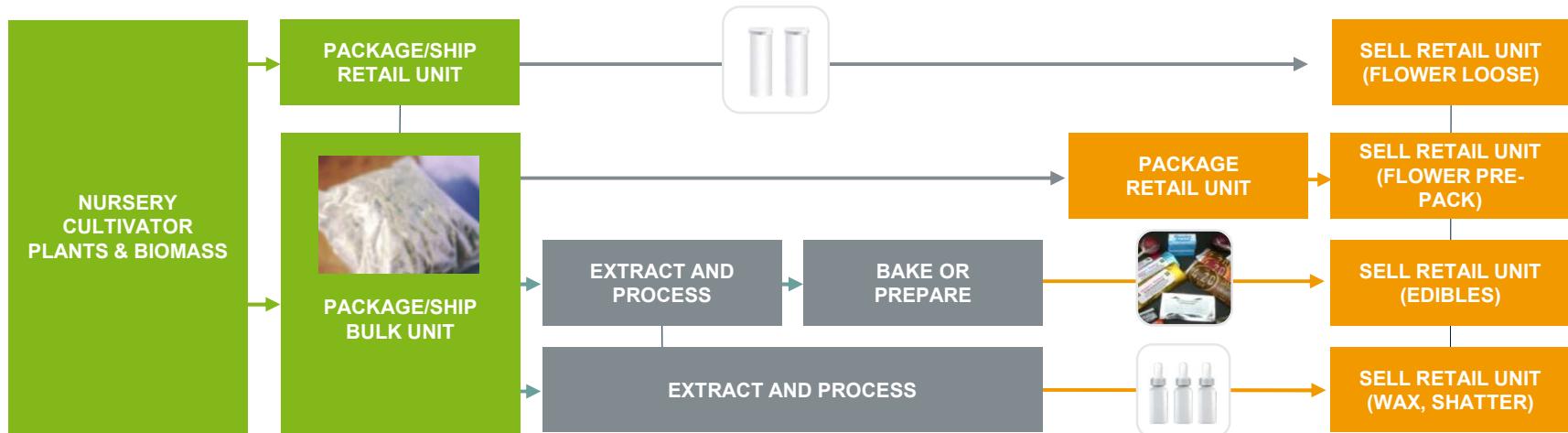
WHAT MIGHT THE US LOOK LIKE

- Federal Government is likely to have a roll in manufacturing oversight
 - TTB and/or FDA responsibility for manufacture, import, packaging, labeling, advertising, promotion.
 - USDA may also be involved given its current role with Hemp and historical areas of responsibility.
- Traditional bifurcation of regulatory responsibilities and taxation.
 - States oversee distribution and sale
 - FET and SET + options for additional local taxes
- Federal Government will likely defer to states in certain areas
 - Minimum age requirement will likely be set nationally
 - States and Local jurisdictions will be allowed to restrict activities.

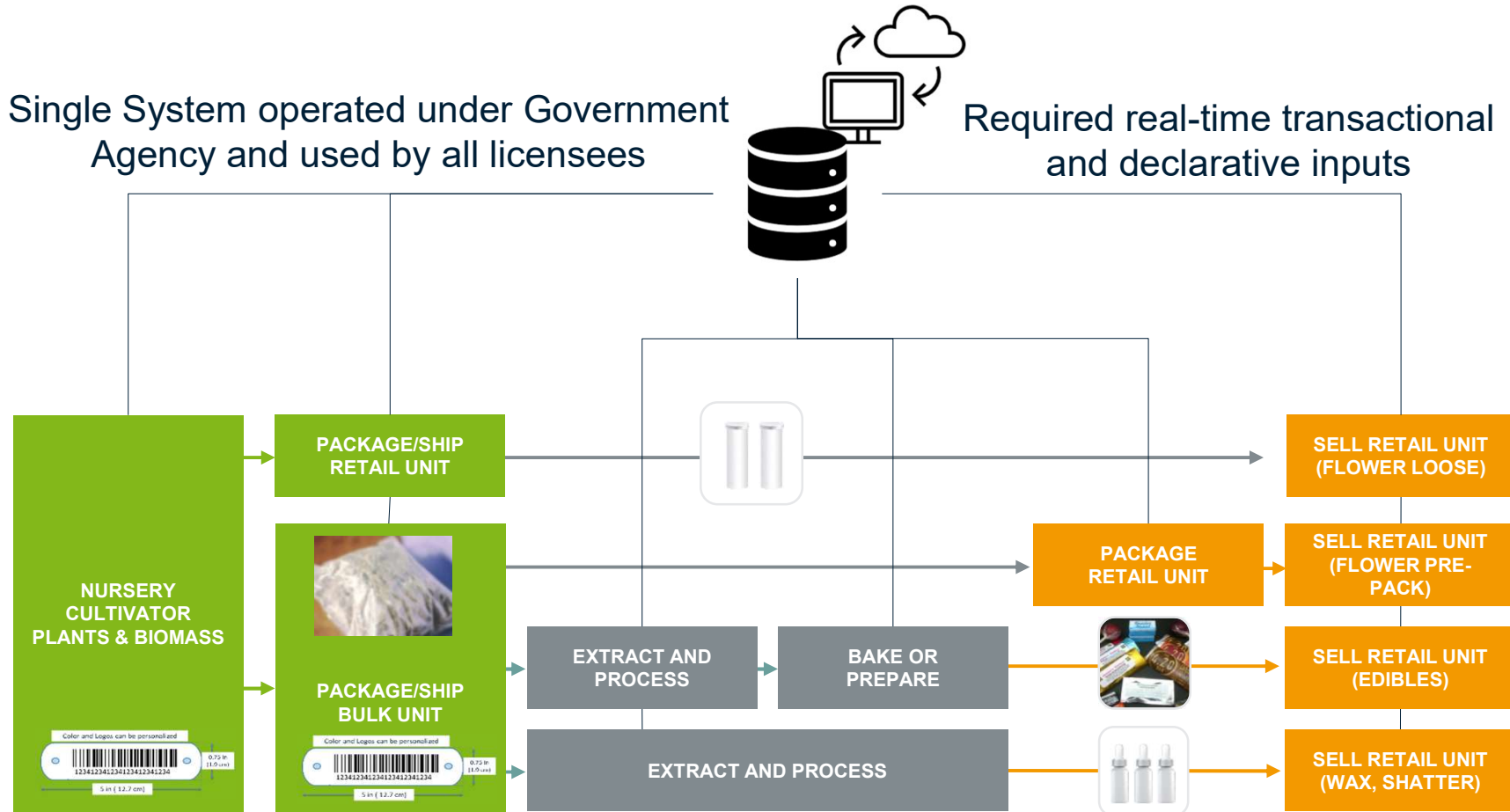


IV. WHAT TYPES OF SOLUTIONS MAY BE NEEDED?

RECALL SUPPLY CHAIN STRUCTURE



CENTRALIZED SEED TO SALE



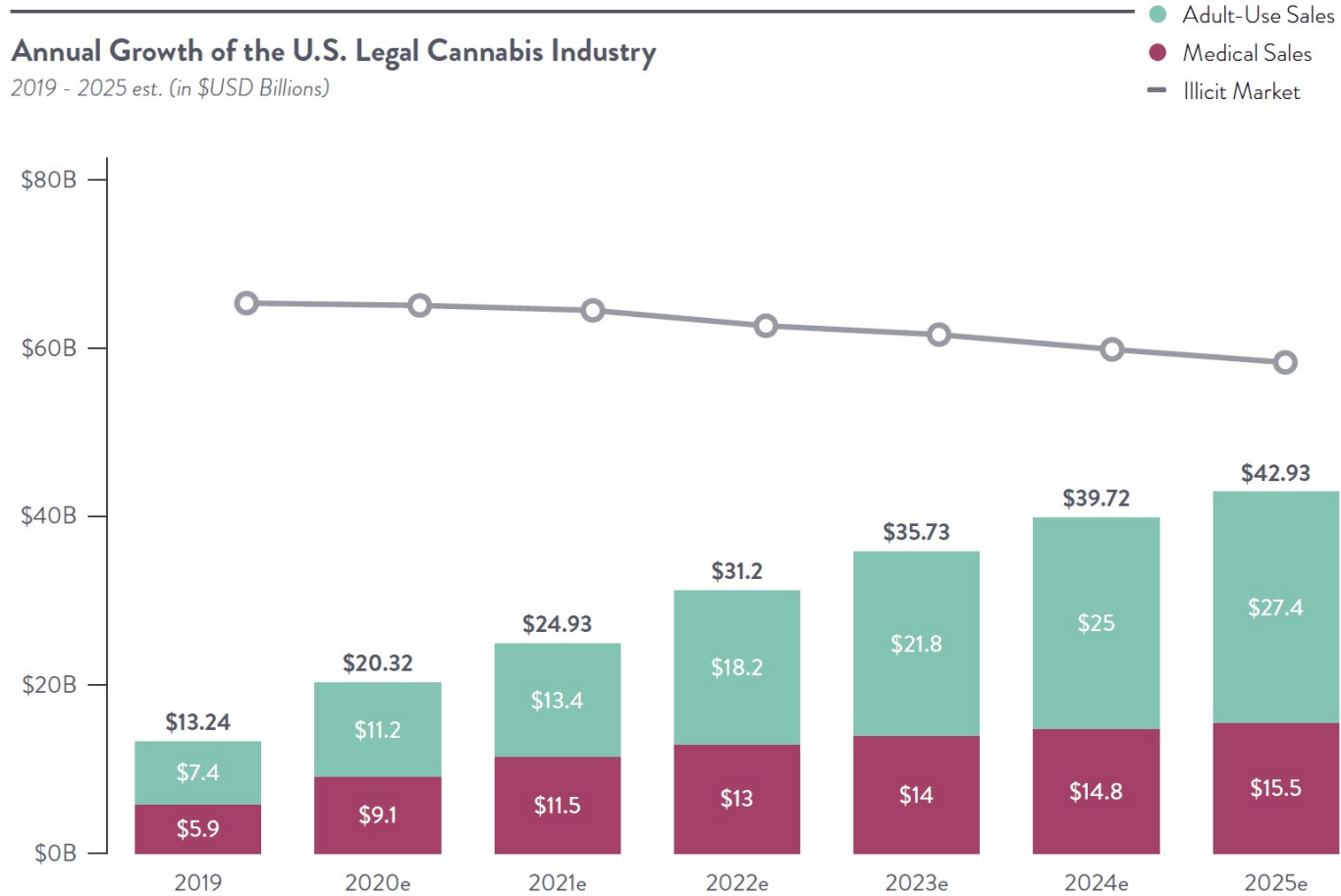
RFID Plant tags issued under Agency contract

DOES IT WORK?



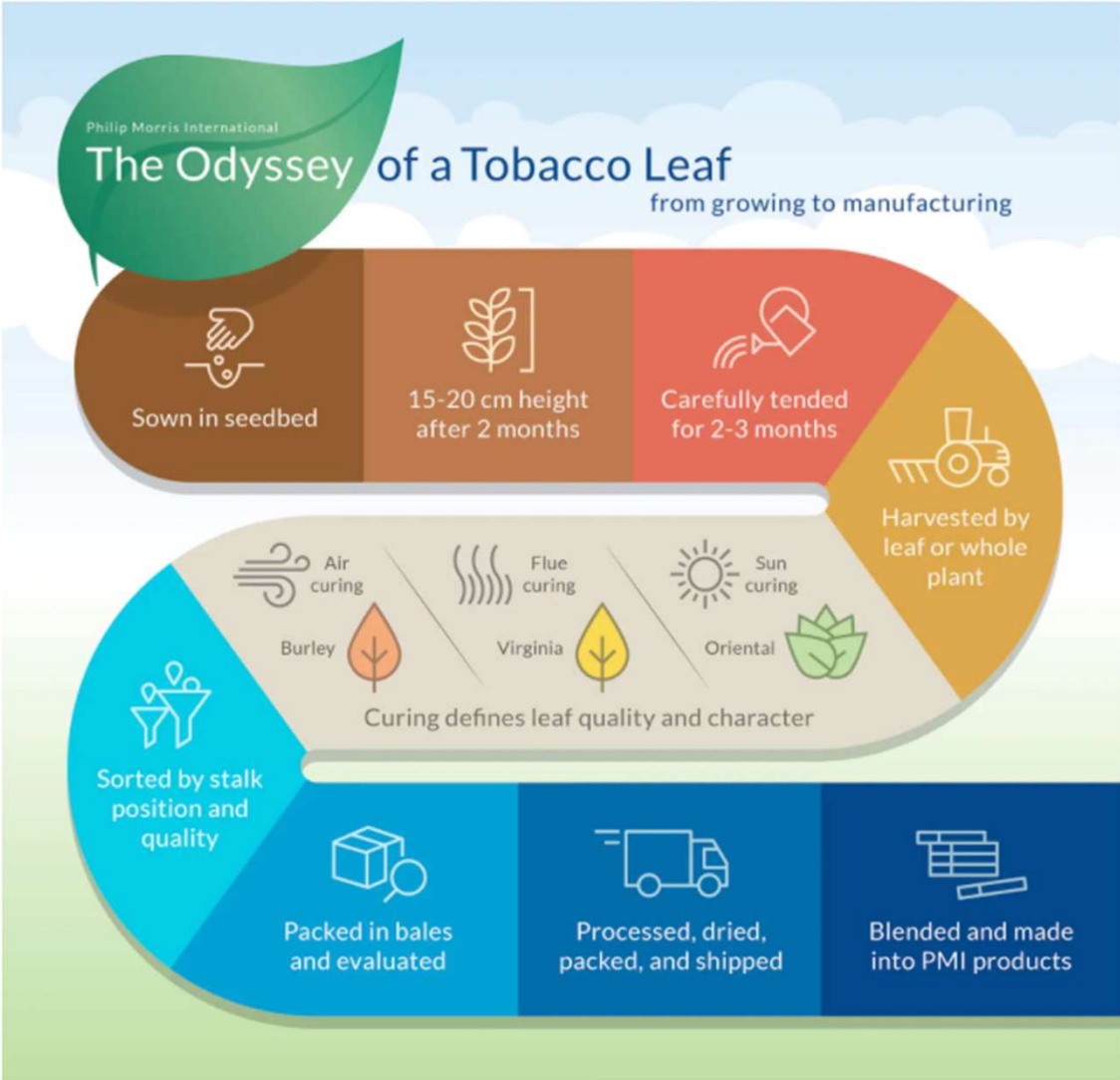
Capability	Centralized
Capture of Product Creation, Movement, Inventory and Sales	✓
Prevent Transactions from Occurring	Immediate
Production Reconciliation	✓
Remediation and Analytics	✓
Enforcement and Audit of Activity	✓
Impact of System Failure	Disrupts Licensee Activity

ILLICIT MARKET IS STILL PREVELANT



Source: New Frontier Data

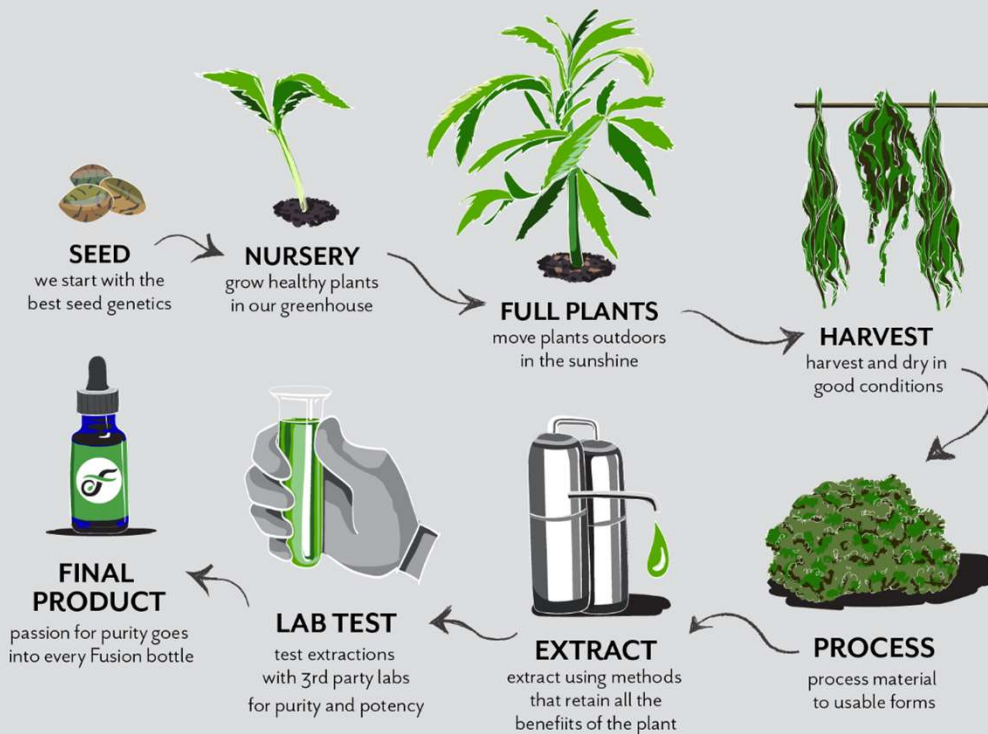
WE DON'T DO THIS FOR TOBACCO....



- [TTB F 5200.29](#) Tobacco Bond Form [TTB Now Accepts this Form Through Permits Online](#)
- [TTB F 5210.5](#) Report - Manufacturer of Tobacco Products or Cigarette Papers and Tubes
- [TTB F 5210.9](#) Inventory - Manufacturer of Tobacco Products or Processed Tobacco
- [TTB F 5220.3](#) Inventory - Export Warehouse Proprietor
- [TTB F 5220.4](#) Report - Proprietor of Export Warehouse
- [TTB F 5220.6](#) Monthly Report - Tobacco Products or Processed Tobacco
- [TTB F 5230.4](#) Importer Application for Permit to Import Tobacco Products or Processed Tobacco
- [TTB F 5230.5](#) Application for Amended Permit to Import Tobacco Products or Processed Tobacco
- [TTB F 5250.1](#) Report - Manufacturer of Processed Tobacco
- [TTB F 5250.2](#) Report of Removal, Transfer, or Sale of Processed Tobacco

The Lifecycle of Full Spectrum CBD

FROM SEED TO SALE



Growing for a Healthier Tomorrow

fusioncbd.com

LICENSE HOLDERS - FORMS AND DEADLINES

The KDA Hemp Licensing Program issues Hemp Grower Licenses and Hemp Processor/Handler Licenses. This program webpage is designed to provide license holders with specific details and deadlines for the program. All online applicants will submit their reports and requests through the [application portal](#). Those who completed a paper application can use the forms mailed to you with your license.

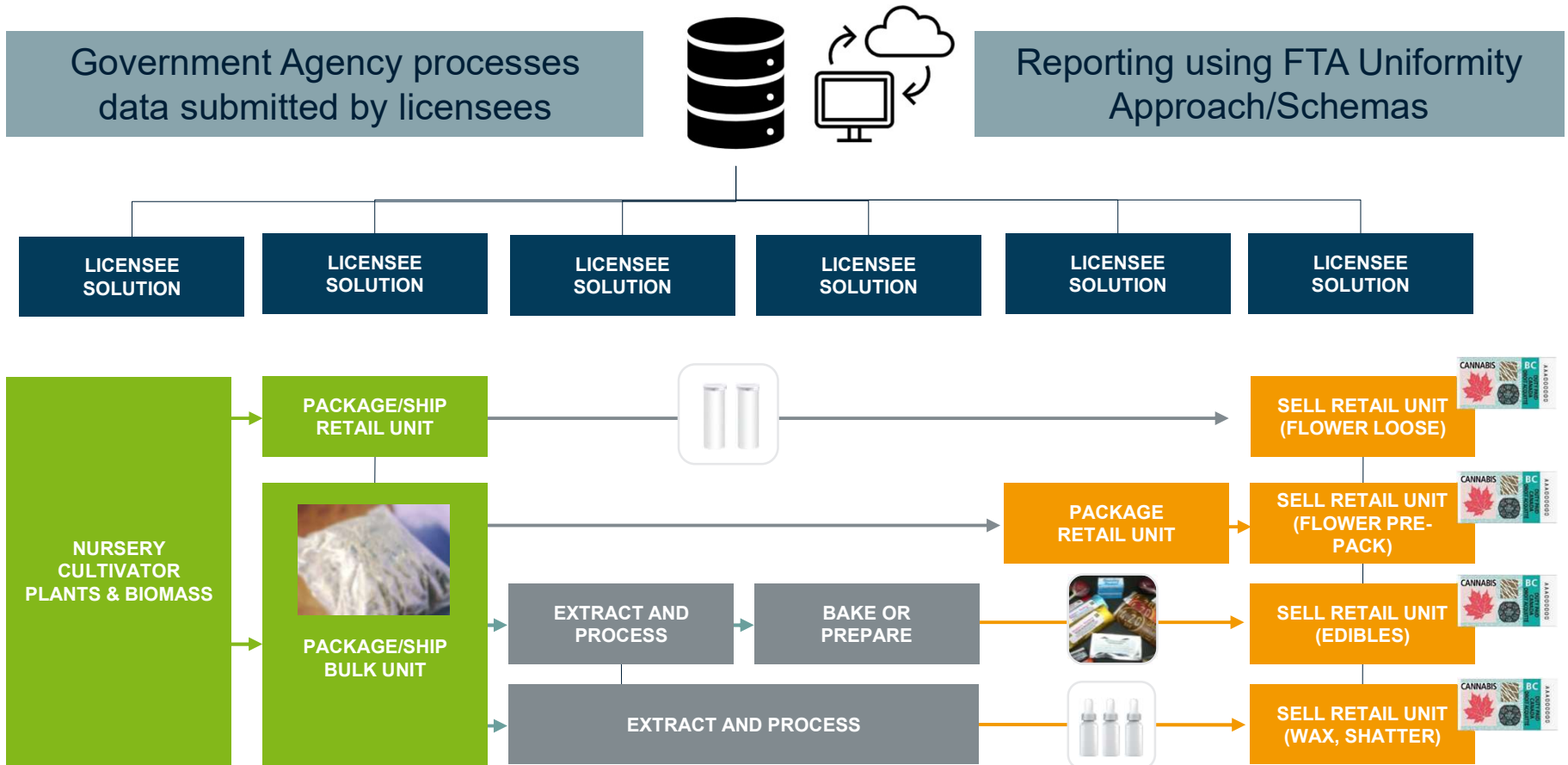
•**Greenhouse/Indoor Planting Reports** are due within 15 days of the first planting AND quarterly:

March 31, June 30, Sept. 30, and Dec. 31.

•**Field Planting Reports** must be submitted for each licensed field and are due within 15 days following planting.

•**Harvest Reports** must be submitted at least 15 days PRIOR to the expected harvest date. Contact the hemp program team at hemp@ky.gov if you have questions.

SO WHAT MIGHT BE THE FUTURE?



Excise Tax Stamp to demonstrate compliance

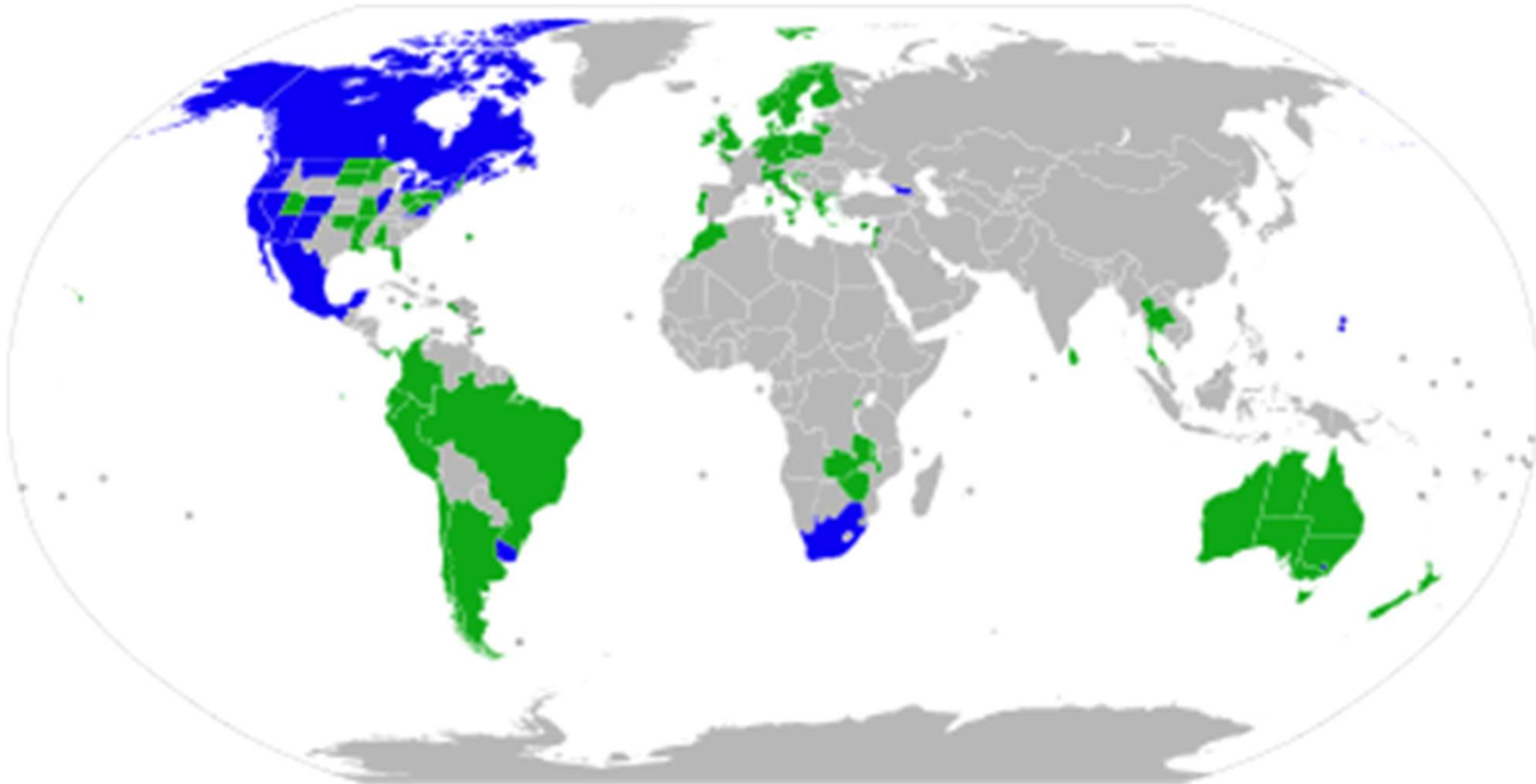
HOW DOES THAT COMPARE?




Capability	Centralized	Decentralized
Capture of Product Creation, Movement, Inventory and Sales	✓	✓
Prevent Transactions from Occurring	Immediate	Reconciliation
Production and Tax Reconciliation	✓	✓
Remediation and Analytics	✓	✓
Enforcement and Audit of Activity	✓	✓
Impact of System Failure	No Licensee Activity	Licensee Operational Continuity
Ability to visually authenticate retail unit tax compliance and sourcing	No	✓
Ability to interoperate with standard schemas	TBD	✓
Support for cross-border import/export reconciliation	TBD	✓



V. WHATS GOING ON WITH THE REST OF THE WORLD?

STATE OF THE GLOBE



-  Legal for Recreational Use
-  Legal for Medical Use
-  Illegal

INTERNATIONAL DRUG TREATIES

- **1961 Single Convention on Narcotic Drugs**
 - Cannabis Listed on Schedule I & IV
 - Considered to have no therapeutic use
 - Similar classification to Heroin and Fentanyl
- **1971 Convention on Psychotropic Substances**
 - Cannabis Listed on Schedule I
- **1972 Amended Protocol on Narcotic Drugs**
- The United Nations Maintains an Office on Drugs and Crime (UNODC)
- The Commission on Narcotic Drugs (CND) provides policy guidance to the UNOCD
 - 53 Member Countries Represented
 - Dec 2020 - CND recommended to delete cannabis and cannabis resin from Schedule IV of the 1961 Convention

COUNTRIES ARE MOVING FORWARD



**Costa Rica congress approves
legalization of marijuana for
medicinal use**

**Italy will be first to light up
Europe's weed biz**

**With export restrictions eased, Colombia's medical cannabis
business is poised for liftoff**

**Luxembourg first in Europe to legalise
growing and using cannabis**

**The new German government plans
to legalize cannabis.**

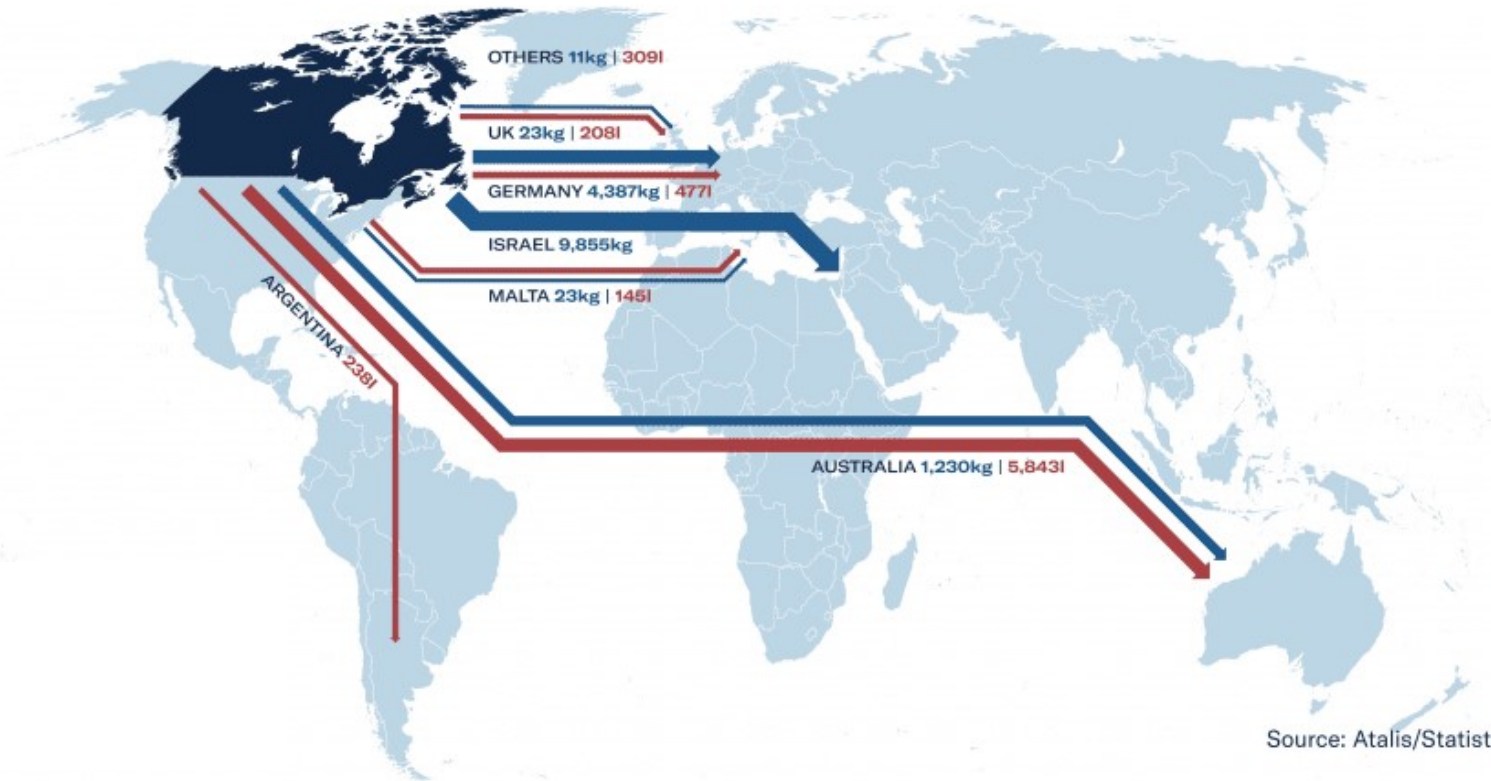
**Mexico to Vote on
Legalization**

TRADE IS ALREADY OCCURING



Exports of medical cannabis from Canada 2020

— CANNABIS FLOWERS (KG)
— CANNABIS EXTRACTS (LITRES)



Source: Atalis/Statistics Canada

DOMESTIC AND GLOBAL IS THE FUTURE



- **Inter-State Trade**
 - Feds likely to take role in oversight and taxation
 - States will be challenged by supply chain disruptions
 - Introduction of large, global operators (tobacco and alcohol)
- **International Trade**
 - Cannabis will eventually move across all borders
 - Migration to low-cost, high yields production zones
 - Importation impacts on US industry and Regulators
- **Solutions Will Need to Adjust**
 - Siloed capabilities migrate to open, interoperable modalities
 - Increased need to verify regulatory and tax adherence down to retail units
 - Products will have to be standardized and defined (UPCs, TPDs)

THANK YOU FOR YOUR ATTENTION

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