



Legislative Document 1391: Cannabis Industry Price Fixing Is Not Conducive to an Orderly Market

Prepared for: Chairman Craig Hickman, Maine Committee on Veterans and Legal Affairs

Prepared by: Geoffrey Lawrence, Director of Drug Policy, Reason Foundation

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Legislative Document 1391 Would Restrict Supply in Attempt to Fix Prices

Dear Chairman Hickman and members of the committee:

On behalf of Reason Foundation, thank you for accepting these comments and making them part of the public record. Reason Foundation is committed to ensuring that state-regulated marijuana markets are competitive, offer widespread opportunities for entrepreneurship, and can successfully transition commerce away from dangerous illicit markets and into the legal market.

Legislative Document 1391 authorizes regulators to impose a moratorium on the issuance of new cultivation licenses and even renewals of existing licenses if the wholesale price of cannabis declines by more than 20% in any two consecutive fiscal quarters or if the aggregate statewide quantity of cultivated cannabis is three times greater than aggregate retail sales over any 90-day period. While sponsors are motivated by a desire to protect existing licensees from financial struggles due to falling prices, we believe market forces are most appropriate for regulating supply and demand.

Maine does not attempt to restrict the supply of turnips or radishes in order to ensure price stability. Instead, the owners and managers of agricultural enterprises assume financial risk by operating within those markets and must plan their purchase or production decisions to align with forecasts of consumer demand. Cannabis markets are not fundamentally different from markets for turnips, radishes or other commodities in this respect. Risk of loss is a fundamental component of a market economy. The use of production quotas to manage prices could prevent new and innovative companies from emerging. These new companies could produce goods consumers value more highly than what the market currently offers. Consumer welfare also benefits from increased competition and falling prices, even if incumbent firms dislike falling profit margins.

Moreover, supply limitations that focus only on the aggregate incorrectly assume that all marijuana products are equal in quality. This is manifestly untrue, and a number of publications within the industry, such as *High Times* or *Dope Magazine*, devote regular space to review and praise cannabis products and brands that differentiate or offer greater value than their competitors. Even if some brands cannot sell any products during a period of depressed aggregate demand, their competitors may still face demand that exceeds their supply capacity.

We urge the committee to reject proposals to command and control the cannabis industry to achieve any

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form of price fixing. Members should instead encourage free and open competition to improve consumer welfare and overall market development.

Thank you,

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