Observations About Market Trends in High-Potency Cannabis Products and (the Limitations of) Policy

Jon Caulkins
Carnegie Mellon University Heinz College
What is the Policy Choice We Seek to Inform?

• (False) Choice: Consumers take low- or high-potency cannabis
  – That is not something PH or politicians get to decide

• Choice #1: Legalize (commercial) supply

• (Dull) Choice #2: Given legal supply, do things you’d want to do even if high-potency cannabis was not a problem
  – Require labeling, education, data collection & monitoring, etc.

• (Hard) Choice #3: Try to seriously limit the legal market
  – Ban some product classes (wax/dabs, vapes/vaping oils, edibles)
  – Potency caps (e.g., limit flower potency to 15%)
  – Higher taxes per unit THC on high-THC products
Preliminary Observation: #1

• Legalization of commercial supply gives major impetus for expansion in high potency product options
  – Leads to “professionalization” of cultivation
    • 1,000,000+ square foot growing facilities vs. 99 plants in a storage unit
  – Makes it safe to own and operate extraction machines
    • Not all of the recoverable THC in the plant is in the buds
    • Cheapest way to produce THC is via outdoor “industrial” agriculture
  – Legalization facilitates proliferation of product forms
    • Stores can carry more products than can a street dealer
  – Product differentiation is natural strategic response to commoditization and Bertrand price competition
Legalization Expands Product Variety, CO Data

Market share is shifting, as seen in Colorado over the past 4+ years

* BDS Analytics GreenEdge POS Retail Data
Legalization Expands Product Variety, Canadian Data

Share of units sold in Canada, per Health Canada data site.

- Year-Month Dried Cannabis
- Year-Month Edibles
- Year-Month Extracts

92% in October 2019
59% two years later
But Note: Potency Rises Even Without Legalization (French Data)

Fig. 9. Average THC concentration of samples by year, from 1995 to mid-2016. Overall mean = 7.8%.
And Flower Potency Rose in the U.S. Throughout the 1996-2012 “Pre/Quasi-Legalization” Era

Most of the early increase in average potency came from changing market shares of sinsemilla vs. commercial grade
1. Decline in price per unit of THC
2. (Eventual) Marketing power of industry
   – Will only really see that after national legalization
3. (Related) Repositioning of product in social functions/roles
   – E.g., expansion in daily use for wellness vs. weekend use for fun
   – C.f., marketing cigarettes to women, wine & friendship, canned spirits at games
4. Synergies with other product forms
   – Bundling as loss-leader for convenience stores or with on-site amenities
   – Products combining it with tobacco (or nicotine)
5. Normalization of use
6. Regulatory capture by industry

Observation (Guess) #2: High Potency Is on the Top 10 but not the Top 5 List of Legalization’s Dangers
Prices Have Already Fallen ~80%
(All price inflation adjusted to 2022 USD but not adjusted for potency)

• CA/National Wholesale prices down 82%
  – 2010 wholesale price of sinsemilla in CA was $5,500 per pound
  – Spot index wholesale price in Sept ‘22 was $1,000 per pound

• WA Wholesale prices down about 77%
  – 2006 wholesale price of US/BC was $4,085 per pound
  – Spot index wholesale price in March ‘22 was ~$950 per pound

• WA Retail prices down about 75%
  – 2006 average for bud was $40 per gram
  – Today about $10 per gram (depends how one counts taxes)
Simple Math of Legal Production Costs

• Historical retail cannabis price was ~$10+ per gram

• Could production cost fall to ~$10 per pound?
  – Cannabis yields ~1,000+ pounds per acre
  – Production cost for tomatoes is $10,000 per acre
  – That’d be ~$0.02 per gm, or ~$0.01 - $0.02 per joint

Long-run profitability requires getting consumers to pay much more than it costs to produce the product. Parallels with Starbucks & bottled water.
Observation (Guess) #2: High Potency Is At Lower End of Top 10 List of Legalization’s Dangers

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Public Health Message RE Policy Choice #1 & Potency

• “Among the 137.2* complicated factors the political process is considering when deciding (in a smoke-filled back room) whether to legalize cannabis supply, please try to remember that one of the myriad consequences will be greater availability and use of higher-potency forms of cannabis.”

*Yes, I know that 83.74% of all statistics are made up.

But you should know that even if we say “pretty please with sugar on top”, the risk of high-potency products will be far down the priority list in legalization debates, well below tax revenue, job creation, social equity, etc.
Observation #3: There Are (Understandable) Limitations of the Literature

• Correlation does not establish causality
  – That those who consume high-potency products suffer worse outcomes says little (nothing?) about dangers of those products

• Hard to disentangle effects of high potency from effects of ...
  – (Massive) decline in the cost per milligram of THC
  – Mode of administration
  – Total dose of THC reaching bloodstream

• Titration research focuses on use-session, not career of use

• Policy recommendations rarely consider the dynamic/strategic response of industry
Imagine two hypothetical markets. Which is worse?

– $20 per gram for 20% THC flower (10 cents / milligram of THC)
– $4.50 per gram for 15% THC (3 cents / milligram )

Not just THC?

– Carcinogens, tars, etc.
– THC/CBD ratios
– “Entourage effects”
– Terpenes?
Observation #4: Frequency and Intensity (Dose) May Matter As Much As Potency?

• Daily use has become dominant
  – Roughly 80% of consumption is by daily or near-daily users

• Most cannabis is now consumed by people consuming far more THC per day than the typical user did in the 20th century
  – Note intentional double contrast
    • Now vs. then
    • Typical gram of cannabis vs. typical user
Since 1992 The Number Reporting Marijuana Use in the Past-Year to NSDUH Has Nearly **Tripled**
The Number of “Current” (Past-Month) Users Has Quadrupled
Days of Use Reported Has Increased Sevenfold (to 6 Billion per Year)

Growth in Marijuana Use Reported in U.S. Household Survey
(Indexed so Level = 100 in 1992)
The Number Using Daily or Near-Daily Has Grown Fourteenfold from 0.9 to 12.4 Million
DND Cannabis Use is Relatively New

Proportion of Past-Month Users Who Consume Daily or Near Daily Marijuana and Alcohol
High-Frequency Use Approaching that of Alcohol

In 1992, 10X as many people used alcohol DND as used MJ DND.

Between 1992 and 2020 the # of DND MJ users grew thirteenfold from 0.9 million to 12.4 million.

By 2020 that ratio had fallen to 1.2 to 1.
Heavy Users Dominate Consumption

In 2016, adults with no substance abuse or dependence (ABOD) issues and using fewer than 10X in past month (PM) accounted for only 2.4% of consumption.
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Contrast THC Consumption of Two Types of Users

• 1 joint each weekend night, pre-2000
  – Assuming 0.4 gms/joint, 4% THC
  – \[(2/7) \times 0.4 \times 4\% = 4.6\text{ milligrams/day}\]

• Average daily user in today
  – Assuming 1.6 gms/day, 20% THC
  – \[1.6 \times 20\% = 320\text{ milligrams/day}\]

• That’s \(~70\) times as much THC
Contrast Cocaine Consumption of Two Types of Users

• 1 cup of coca tea per day
  – 1 cup of tea contains 5 milligrams, most of it gets into water. 4.2 milligrams/day

• Chronic cocaine user in 2005
  – Dividing 327 (pure) MT market total by 3.1 M chronic users implies less than 290 milligrams/day (light users used some)

• That’s ~70 times as much cocaine
Contrast **Caffeine** Consumption of Two Types of Users

- One 20-ounce bottle of Diet Coke
  - 76 milligrams
- To get ~70 times as much caffeine need to ...
- Drink **35** grande Starbucks cappuccinos
  - Containing **5,320 milligrams**
  - Some guess lethal dose is 5-10,000 mgs
Contrast **Blueberry** Consumption of Two Types of Users

• One-sixth of a pint of blueberries
  – **Result:** Happiness

• 10 pints of blueberries
  – **Result:** Stomachache
Observation #5: Focus on Potency Feels “Convenient”

• Few people are willing to say “daily cannabis use is not healthy”

• Politically palatable “compromise” #1: worry about youth
  – E.g., “Among the critics' concerns is the worry that, despite age limits, legalization might make marijuana more accessible to young people. And adolescents' developing brains may be particularly vulnerable to lasting damage from the drug.”

• Politically palatable compromise #2?
  – Demonize high-potency products, but not frequent/heavy use
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Will Banning (or Taxing Very Heavily) A Subset of Cannabis Products Create a Black Market?

• A black market will exist if …
  – Illegal suppliers can make money selling their products at a price that consumers prefer relative to the legal price for legal alternatives.

• That depends on …
  – Size of “enforcement tax” government imposes on illegal suppliers
  – Whether illegal suppliers can achieve economies of scale
  – Whether illegal supply is produced or merely diverted
  – Whether legal alternatives are close substitutes
Consider Three Scenarios

• U.S. bans all vaping products nationwide
  – Reasonable risk that illegal market would supply those products and, if it did, that would involve “real” drug trafficking from abroad.

• WA bans vaping product, but OR sells openly
  – Would probably see purchases across state lines, but mostly informal, not organized crime
  – Akin to (informal) smuggling of fireworks

• WA bans flower with > 25% potency
  – Most might view 20% potent flower as good enough; no illegal market
## Key Tradeoff When Contemplating Product Bans

<table>
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<th>Public Health Benefit</th>
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Are there options in the upper right?
Examples of Consumer Product Bans

• **Lawn mowers without a “dead man’s switch”**
  – In 1982, CFR Title 16, Part 1205 required walk-behind rotary mowers to have blade control systems. Incremental cost of ~$35 per mower did not create an illegal market

• **Ferrero’s Kinder Surprise candy**
  – FDA bans candy that contains a “non-nutritive object”

• **Regulations on Class 1.4G (“safe and sane”) fireworks**
  – U.S. 1966 Child Protection Act & subsequent regs limited Class 1.4G explosives to 50 milligrams of powder (vs. up to 3,000 mgs before), mandated fuse times of between 3 and 9 seconds, and banned some items (cherry bombs, M-80s, etc.)
Drug & Alcohol Examples

• Absinthe (various countries; U.S. from 1912-2007)
  – Might have been useless, but the ban “worked”

• Cuban cigars
  – Banned in 1962 by JFK. Lifted by President Obama. Reimposed.

• 2010 ban on caffeinated alcohol drinks
  – Worked, but various DIY workarounds (“rum and coke”)

• FSPTCA led to FDA’s 2009 ban on flavored cigarettes
  – Evidence of reduced use found by Courtemanche et al. (2014) with National Youth Tobacco Use data & Rossheim et al. (2020) with NSDUH data

• Extension of that ban to menthol cigarettes? Nicotine cigarettes?
More Examples

• Lawn darts were banned by CPSC in 1988
  – YouTube has videos on DIY manufacture

• 1987 Montreal Protocol banning chlorofluorocarbons
  – Generally deemed a success despite the resulting black market

• Other
  – Weapons: Switchblades, bump stocks, brass knuckles, butterfly knives
  – Endangered species: Shark fin soup, Beluga caviar, foie gras in CA, ivory
  – Food: Haggis, ackee fruit, raw milk, horse meat
  – Gambling
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**Risk of Illegal Markets**

IMHO Should experiment with low-risk, low-reward bans. Lots of product bans have been wins despite risk of evasion. But OR limits what WA can do.