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Cooperative Solutions for Small Legacy Cannabis Growers in Humboldt, California

A POLICY REPORT
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Emma Karnes
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ACRONYMS

CASP: Center for the Study of Cannabis and Social Policy

CCA: Cooperative Cannabis Association

CCEG: Cooperative Cannabis Economy Group

DCC: Department of Cannabis Control

FLC: Farm Labor Contractor

GI: Geographical Indication

HCGA: Humboldt County Growers Alliance

ICA: International Cooperative Alliance

IOF: Investor Owned Firm

QAQC: Quality Assurance and Quality Control

RBV: Resource-Based View

SLCG: Small Legacy Cannabis Grower



EXECUTIVE SUMMARY

This report is prepared for the Cooperative Cannabis Economy Group (CCEG), a joint project of Cooperation Humboldt and the Center for the Study of Cannabis and Social Policy (CASP). It addresses the problem that small, legacy cannabis growers in Humboldt California—growers who were cultivating cannabis in the region prior to the legalization of recreational marijuana in 2016 and who generally cultivate 10,000 square feet or less of land—are systematically disincentivized and disempowered from successfully entering and thriving in the developing legal market.

After further articulating this problem, I will provide background information pertaining to the design of the supply chain for cannabis in California, the present landscape of regulation and taxation, and the specific economic and social effects of this problem on the Humboldt community. Given the CCEG’s focus on cooperative solutions, I then provide a review of the literature as it pertains to agricultural cooperatives’ effectiveness at bolstering the viability and vitality of small farms in other industries and regions, the understood mechanisms by which agricultural cooperatives have these effects, and how we might apply these lessons to the context of cannabis in Humboldt.

Following this, I will define three potential strategies that the CCEG may adopt: to invest in the incubation of labor cooperatives, to invest in the incubation of distribution cooperatives, and to partner with the Humboldt County Growers Alliance (HCGA) to advocate for regulatory and tax reform for Cooperative Cannabis Associations (CCAs). These alternatives are evaluated on: effectiveness, feasibility, community engagement, and timeliness. Importantly, the criterion of community engagement—as well as the premise of this report as a whole—relies on a set of semi-structured, qualitative interviews undertaken in partnership with CASP in the Fall of 2021. These interviews engaged 28 small, legacy cannabis growers hailing from Humboldt and surrounding counties to discuss their motivations for, imaginings of, and concerns about forming co-ops. For more information about this research’s methodology, limitations, and findings, see Appendix D.

Ultimately, I recommend that CCEG invest its resources in incubating distribution co-ops, and partner with HCGA to make recommendations for CCA reform in the state legislature and with the Department of Cannabis Control (DCC). In order to successfully implement these recommendations, this report concludes with an overview of best practices for designing sustainable democratic governance infrastructure in agricultural cooperatives.



PROBLEM STATEMENT

Small, legacy cannabis growers (SLCGs) in Humboldt County are not incentivized nor empowered to participate in the legal cannabis market in California. High taxes, complicated compliance requirements, and premature competition with large farms compound to prevent this population's successful entry and viability in the nascent legal market (Holbrook, 2017).

Humboldt County is located in the Emerald Triangle in California, known internationally as the “mecca” of cannabis production and responsible for 60% of the nation’s cannabis production. Experts believe there are between 10,000 and 15,000 cannabis farms in Humboldt County; as of July 2021, only about 15% of these farms actively hold or are in the process of acquiring a legal cultivation license (Reilly et al. 2021). By 2020, the County had issued three times as many abatement warnings and notices to illicit growers than they had permits, and only 86 farms below 5,000 square feet had obtained permits, compared to over 250 farms cultivating more than 10,000 square feet (Norris, 2020).

Proposition 64, which legalized recreational cannabis in California by referendum, passed in 2016; it took effect in 2018. In 2017, at the dawn of the transition to legalization, cannabis provided about one-third of private-industry revenue in Humboldt (Holbrook, 2017). With a rich cultural history and economic stake in the cannabis industry, the Humboldt community—including its farmers, non-cannabis businesses, and local government—is particularly vulnerable to shifts in the cannabis market. As SLCGs largely continue to operate on the illicit market or exit the industry altogether, Humboldt County forfeits tax revenue and risks economic deterioration. The community is also rapidly incurring significant social and cultural losses as farmers exit a traditional agricultural livelihood which is deeply embedded in the place and its people (Bodwitch et al., 2019).

Figure 1: Humboldt County



[Map of Humboldt County]. From Tribal Access to Justice Innovation

Presently, the window of opportunity to establish substantive sustainability for producer communities and ecosystems is dwindling with the rapid industrialization and corporatization of the cannabis market (Dillis et al., 2021).



CLIENT ORIENTATION

This report is prepared for the Cooperative Cannabis Economy Group (CCEG), a collaborative working group hosted by Cooperation Humboldt and the Center for the Study Cannabis and Social Policy.

Cooperation Humboldt is a nonprofit based in Humboldt County whose mission is to “build a solidarity economy on California’s Northern Coast”. Their programs range from leading study groups on post-capitalism economics, incubating worker cooperatives, facilitating community gardens and mutual aid networks, and advocating for public banks and participatory budgeting (“Overview”, 2021).

As a leading model for community-driven solidarity economy organizing in the U.S., Cooperation Humboldt subscribes to the following five principles of the solidarity economy:

1. Pluralism: *Many paths to the same goal*
2. Solidarity: *Social interactions grounded in caring*
3. Equity: *Opposition to all forms of oppression*
4. Sustainability: *Harmonious and regenerative relationships to nature and one another*
5. Participatory Democracy: *Local and direct community decision-making*

The Center for Cannabis and Social Policy (CASP) is a research institution that produces and disseminates information for an equitable Drug-War-Free world. CASP recognizes that cannabis legalization frameworks have evolved simultaneous to and within a policy landscape of prohibition. They work to identify how post-prohibition marijuana markets inequitably affect different populations, especially in the context of the criminal justice system and the legal marketplace (“Policy Work”, n.d.).

The CCEG specifically seeks to implement cooperative solutions to the community crisis caused by legalization policies. Specifically, it sees cooperatives in the cannabis supply chain as a solution that could economically empower small growers in a hostile marketplace using the values of cooperation, democratic governance, and community-centered provisioning. It is leading a human-centered design research project to a) explore the ideal cooperative structures in which SLCGs would like to organize, and what motivations are driving towards these imaginings, and b) test the hypothesis that human-centered design is an effective strategy to address cooperative program development (“Interview Thematic Analysis Guide”, 2022). This policy report will draw significantly on the findings from the first round of surveys and the second round of semi-structured interviews, conducted by this report’s authors and two co-researchers, with SLCGs in Humboldt and the surrounding areas.



CURRENT PROGRAMMING OF THE CCEG

Presently, the CCEG is initiating its first pilot co-op development program to train about ten farmers who have expressed interest in forming a producer co-op. This “academy” offers meeting facilitation, educational training on facilitation, and other forms of technical support for business development. In addition to cooperative incubation, the CCEG hosts education events and community conversations and engages in research.

The burden on CCEG to fund this programming is mitigated by Humboldt County’s Project Trellis Equity Grants. Cannabis growers who qualify as “equity applicants” with Project Trellis, including women, people of color, and any individual impacted by the War on Drugs, in addition to other identity groups, are automatically awarded \$10,000 for co-op development activities when they indicate that they are interested in forming or joining a cooperative. Grantees are required to spend the money and submit a receipt to the County within one year of the award (C. Cordoni, personal communication, January 25 2022). Grantees are specifically permitted and encouraged to use their funding towards participating in CCEG co-op development programming (P. Murphy, personal communication, February 10 2022).

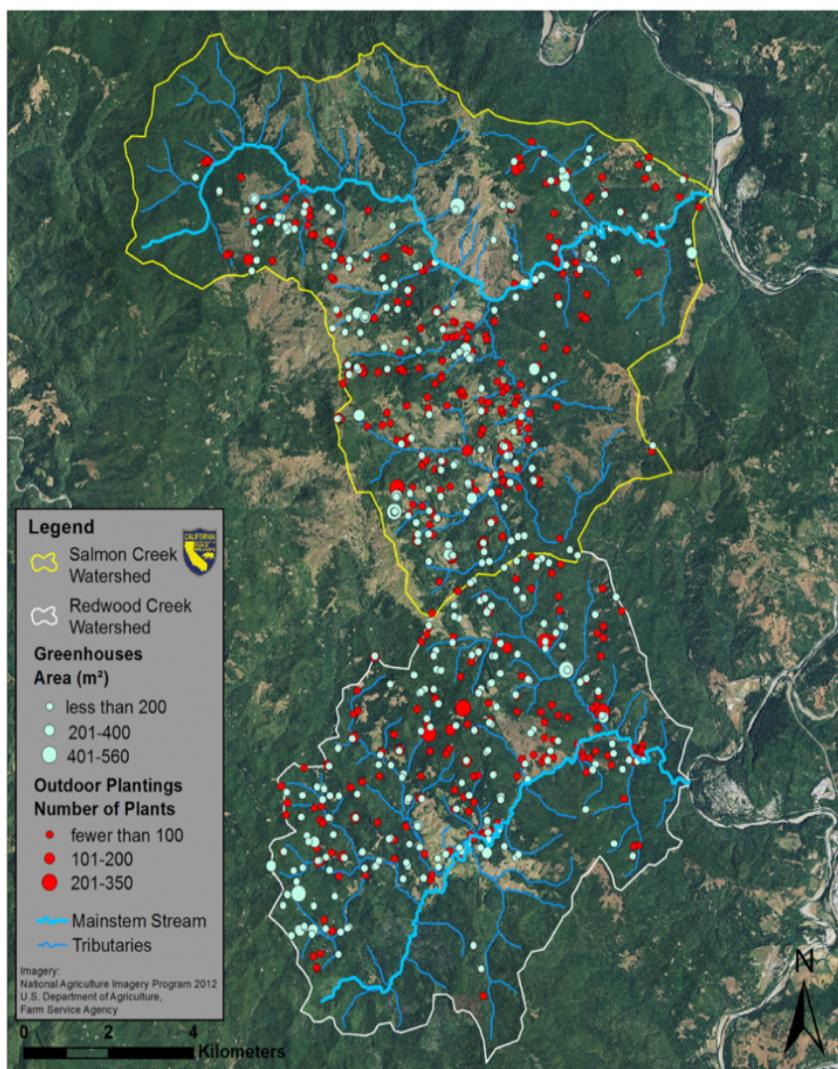


BACKGROUND

HUMBOLDT COUNTY

Humboldt County is located in Northwestern California. It has a population just under 136,000 and is home to eight federally-recognized tribes. Twenty-one percent of the County population lives below the poverty line (“Humboldt County Cannabis Equity Assessment”, n.d.). As of January 2022, Humboldt County hosts the largest number of cannabis growers on file with the Department of Cannabis Control (DCC) in the state of California (Music, 2022). As of 2019, the single largest license category for Humboldt growers was Small-Mixed Light Tier 1 (License A-Type 2B), which applies to cultivation that uses a combination of natural and artificial lighting over a total canopy area of 5,001-10,000 square feet (Weaver, 2020).

Figure 2: Unconfirmed grows in Southern Humboldt County, 2015



Norris, 2020. Map created by the Department of Fish and Wildlife, 2015.



Together with the neighboring counties of Trinity and Mendocino, Humboldt is part of the cannabis-rich region known as the “Emerald Triangle”.¹ Throughout the War on Drugs, Humboldt County remained a top ten target of annual eradication efforts by federal authorities. Despite regular and violent encounters with drug enforcement authorities, Humboldt County continued to attract individuals drawn to cannabis production for political, financial, spiritual, and social motivations. Over time, the Humboldt community economy has become deeply intertwined and dependent on the cannabis industry (“Humboldt County Cannabis Equity Assessment”, n.d.).

HISTORY OF CANNABIS CULTIVATION IN HUMBOLDT, CA

Humboldt County has long been a hub of cannabis cultivation. Attracted by the beauty and privacy afforded by Northern California’s rural and forested landscape, hippies and Vietnam veterans settled in the area in the 1960s and began cultivating *sinsemilla* cannabis. As cultivators of cannabis through the second half of the nineteenth century, SLCGs in Humboldt faced violent enforcement of Drug War policies, and responded with widespread, community-driven resistance (Humboldt County Cannabis Equity Assessment, 2019).

As a “drug war zone”, Humboldt farmers endured assaults on their operations in many forms. One illustrative example is the Campaign Against Marijuana Planting (CAMP), an annual, eight-week paramilitary campaign funded jointly by the federal Drug Enforcement Agency and California’s Bureau of Narcotics Enforcement. (Humboldt County Cannabis Equity Assessment, 2019). Growers who experienced CAMP raids in the 1980s describe sudden descents of military helicopters, the ransacking of homes and cultivation land, and violent arrests of growers in front of their children (Witt, 2019).

The following testimony was collected during an interview with an SLCG in Humboldt. It is included to illustrate the lived experience of a grower in her own words:

“I was 13 and I was down at school and all these cars, police cars, 13 police cars, parked in front of the school, and I’m standing there. And they all pile into two vans and start heading up our road. I get on the payphone and call my mom and go, Oh, my God, mom. And so she calls the community. And before the police are all the way up the road, everybody’s aware of what’s going on. As we know whose house they’re going, to the moms come together, get the kids, and are ready there to support the women if someone’s going to jail. It wasn’t just about protecting yourself from the police, it was about protecting the families from the trauma that we knew was going to occur.”

Humboldt County community members actively resisted CAMP and other paramilitary presences. Growers formed the Citizen’s Observation Group, which trailed CAMP officers and documented their actions to inform suits brought against the government by the Civil Liberties Monitoring

¹ The name “Emerald Triangle” was most likely manufactured by drug authorities to be reminiscent of Southeast Asia’s opium-producing “Golden Triangle” (“Humboldt County Cannabis Equity Assessment”, n.d.).



Project. Additionally, growers set up community alert systems to facilitate widespread warnings like the testimony above describes. These alert systems first operated with walkie-talkies, but evolved into regular programming on the community radio station. In 1985, several of CAMP's activities were deemed unconstitutional, including its warrantless search and seizures, property destruction, and sustained low-altitude helicopter surveillance (Humboldt County Cannabis Equity Assessment, 2019).

These government enforcement activities were designed not only to eradicate illegal crops, but also to infiltrate and weaken ties of community solidarity. In an interview published in 1985, then-CAMP commander Bill Ruzzamenti reported publicly: "We're going after the community support system that makes it appear as a viable and legitimate enterprise, since everyone around you is doing it." With "Operation Green Sweep" in 1990, Humboldt became the site of the first deployment of active-duty military units to police drug crimes in the U.S. (Humboldt County Cannabis Equity Assessment, 2019).

In 1996, medicinal marijuana became legal in California. This partial transition to legalization brought many changes to the dynamics of growing cannabis: namely, growing became less risky. As the stigma of cannabis slowly but surely diminished in the public consciousness, production began to expand. Between 2012 and 2016, directly prior to the passage of Proposition 64, the market price of cannabis began to fluctuate intensely, in large part due to expanded production. During this time period, the number of cannabis farms in California increased by 56%, the number of plants increased by 183%, and the total area of cultivation almost doubled (Dillis et al., 2021).

The history of Humboldt's resilience, resistance, and self-reliance is central to understanding the current challenges faced by SLCGs transitioning to legal cultivation, as well as the cultural and socio-political courses of action that are feasible for this community to collectively undergo. What actions are community members willing and able to take? Generations of violent encounters with law enforcement—federal, state, and local—have bred mistrust between legacy farmers and government officials. It has also constructed community norms, values, and mechanisms that uniquely equip this population of farmers to operationalize solidarity against a new challenge to their traditional livelihood: the corporatizing legal marketplace.

LEGALIZATION AND EMANCIPATION

In their 2021 paper "Prohibited commoning", Michael Polson and Hekia Bodwitch define emancipatory legalization as a legalization framework which both retroactively redresses harms caused by the War on Drugs, and intentionally creates markets that reproduce justice in a stable and consistent manner. Emancipation, they argue, should be a third pillar of California's legalization logic, equal to market creation—and its associated generation of jobs and tax revenue—and the protection of the public good through regulation of a consciousness-altering substance.

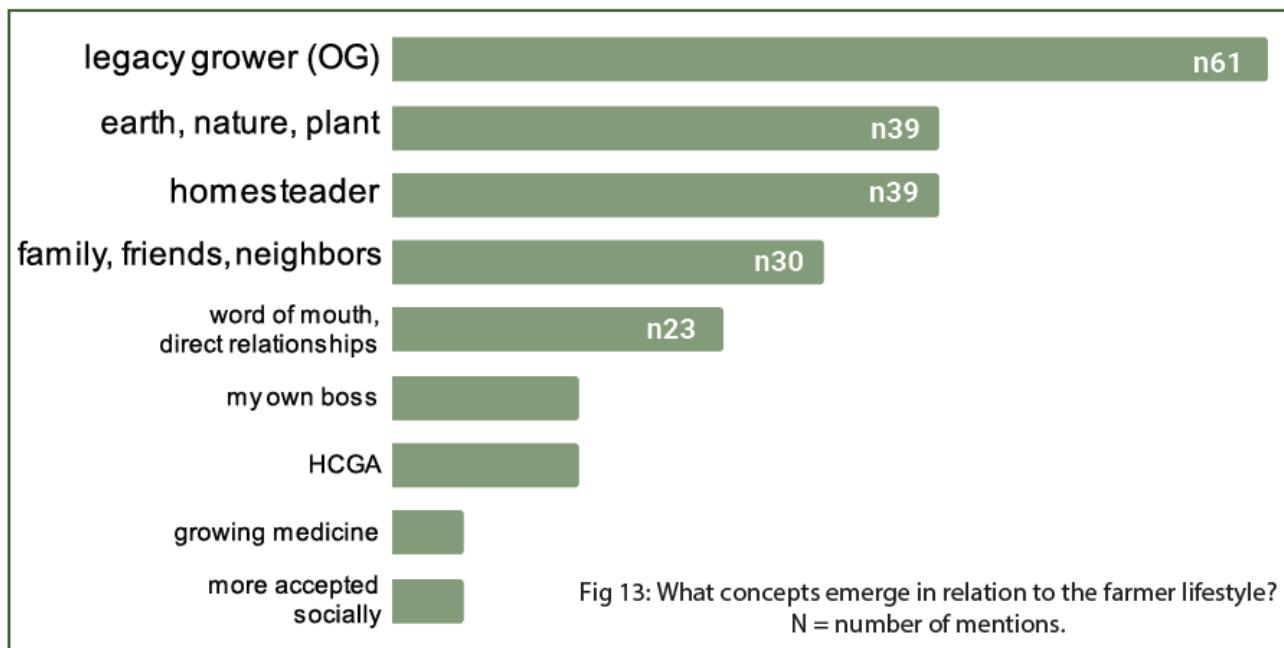
Emancipatory concerns are generally included in cannabis policy with the language of "equity," which the authors criticize as "often rendered as a marginal adjustment rather than a fundamental



reworking of markets and policies.” In addition to establishing market-tangential programs that inject capital or capacity into historically marginalized communities, truly emancipatory legalization enables previously illicit growers to successfully participate in the legal market without sacrificing the positive values which have long governed their livelihoods. In contrast, Polson and Bodwitch write that “the [state’s] terms of compliance were aligned with generalized, abstracted ideas of “public good” (e.g. consumer, environmental, public safety), which supplanted the particular ethical values that had guided cultivation and benefit derivation previously.” In the shared view of the authors and interviewed SLCGs, these “particular ethical values” have to do with cooperation and mutuality with friends and neighbors, environmental sustainability, and a reliance on commons that enables a “homesteader” lifestyle (examples of those commons being: codes of secrecy, maintenance of roads and waterways, security warning systems, informal conflict management protocols) which necessarily developed in prohibition’s regulatory vacuum (see Figure 3).

Legalization has forced licensed legacy growers to rapidly de-embed from well-established, unregulated and commons-oriented illicit networks of market relations, and re-embed in new, formalized networks of market relations. The primary interest of this report is to define and evaluate policies that will reconstitute these new market relations in the logic of emancipation. The policy alternatives considered were selected, defined, and evaluated with a particular emphasis on the primacy of SLCGs’ traditional values and the ongoing responsiveness of constructed markets to these values.

Figure 3: What concepts emerge in relation to the farmer lifestyle?



CURRENT LANDSCAPE OF LEGALIZATION

The four macrostrategies of marijuana policy in California are to 1) promote public health and safety, 2) reduce the size of the illicit market, 3) offer legal protection to responsible actors, and 4) capture and invest tax revenue² (Pathways Report, 2015). Policies that exclude SLCGs undermine two objectives by encouraging the proliferation of the black market, and endangering responsible family farms that are by and large environmentally responsible.

Proposition 64's intention to support small- and medium-sized legacy cannabis growers in their transition to the legal market has been articulated by multiple lawmakers (Polson & Bodwitch, 2021). In 2015, Governor Gavin Newsom declared that California must “ensure that small and mid-size entities, especially responsible actors in the current market, have access to the new licensed market, and that the industry and regulatory system are not dominated by large corporate interests” (Pathways Report, 2015). Senator Mike McGuire and Assemblymember Jim Wood, both state representatives from the Emerald Triangle, also decried the surprise 2017 regulatory ruling that opened a loophole for the premature licensing of megafarms: “We support the protection of small family cannabis farmers—the backbone of California’s Cannabis industry—and are deeply concerned that a lack of a cap on small cannabis cultivation permits is undermining the desires of California voters expressed through Proposition 64. Small family farmers... should be given a fair chance to succeed in a regulated market” (Roberts, 2017).

In Humboldt County, 10% of growers had shut down their operations as of 2019, a number which was expected to rise fivefold by the year’s end (Fertig, 2019). According to a September 2021 survey conducted by the Humboldt County Growers’ Association (HCGA), 61% of respondents said that their cannabis business will be “very unstable” if current market conditions and policies do not change (Humboldt County Growers Association, 2021). In February 2022, the Humboldt County Board of Supervisors responded by to these concerns by slashing the County’s cultivation taxes, also known as Measure S, by 85% (Vanderhein, 2022a).

The 2015 State Pathways Report acknowledges that marijuana legalization requires “sustained attention to implementation.” Initial policy decisions have laid a foundation that benefits big cannabis actors and harms SLCGs. However, only three years into legalization, there is time to reconsider objectives and realign strategy.

Goal #9 of Legalization and Regulation:

“Ensure that small and mid-size entities, especially responsible actors in the current market, have access to the new licensed market, and that the industry and regulatory system **are not dominated by large, corporate interests.**” (Pathways Report, 2015)

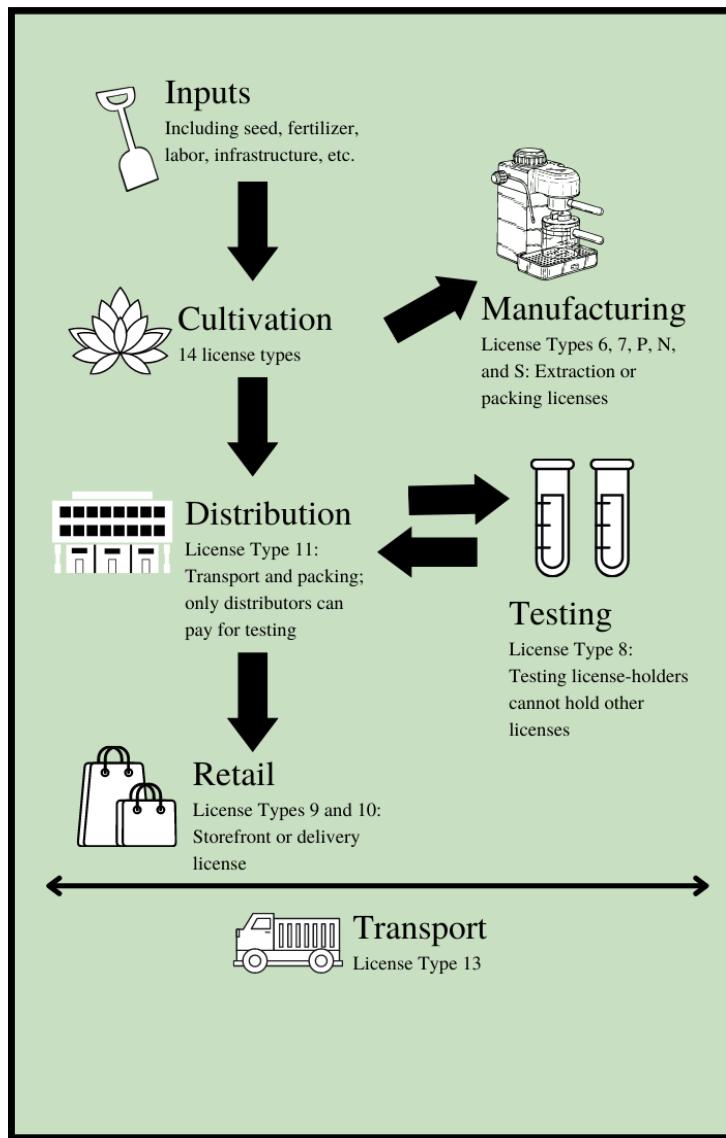
² Throughout the state, the legal market is still one-quarter the size of the illicit market. As a result, state-wide cannabis tax revenue has significantly underperformed expectations. In 2018, California earned \$345 million in cannabis tax revenue, compared to projections for \$1 billion (Fertig, 2019).



Supply Chain

Currently, there are several elements of the legal market landscape that systematically prevent and disincentivize SLCGs from successfully entering and participating in the legal market. Some are the inevitable result of the transition from illicit to regulated market relations, but others have been generated by deliberate policy choices at the state and local level. See Figure 4 for a diagram of how cannabis moves through the supply chain.

Figure 4: California cannabis supply chain



There are currently 26 types of cannabis licenses in California, falling into the following categories: cultivation, manufacturing, testing, distribution, transport, retail, microbusiness, and event organizing. There are 14 types of cultivation licenses, delineated by scale and type (i.e. indoor, outdoor, or mixed-light) of cultivation. Cultivation licenses are the only license type that restrict the scale of activities (Feldman, 2021).

Cultivators are prohibited from dealing directly with retailers, but must instead contract with distributors. Distributors are required to pay for the laboratory testing of cannabis (which must be undergone before cannabis can reach the consumer); they are responsible for remitting the cultivation tax to the state on behalf of the farmer; they conduct quality assurance and quality control (QAQC); and they handle the packaging and sales of both branded and bulk product (Nagal, 2021).

Interviews revealed frustration around licensed growers' inability to engage in these activities on their own behalf, as well as their inability to transport cannabis without contracting with external actors and undergoing onerous bureaucracy. Lack of transparency throughout the supply chain results in losses in quality control when growers don't get to actually hand off their product. Additionally, growers fear exploitation from distributors and processors further down the supply chain, and suffer from their inability to develop relationships with end-consumers.



Prior to legalization in Humboldt County, exchanges of labor between neighbors and friends often substituted for wage labor; when it came to paid labor, local residents and migrant workers together composed the paid labor supply. The bulk of labor hours in the process of cannabis cultivation takes place during trimming, wherein plants are stripped of their leaves and stems to leave the valuable flower, or bud, remaining (Krissman, 2016).

High Taxes

Since Proposition 64 took effect in 2018, SLCGs have been crippled by tax burden (Norris, 2020). Taxes on growers are imposed before, during, and after growing, generating thousands in additional upfront costs that must be paid months before a farmer actually sees revenue from their crop (Music, 2022). Additionally, fixed tax rates like the County and State cultivation tax systematically overburden small farms, which carry higher input costs than larger competitors who benefit from economies of scale.

In Humboldt, cannabis growers previously paid a \$1 “Measure S” tax on each square foot where they intend to cultivate cannabis, regardless of whether that parcel of land yielded healthy and commercializable plants. In a September 2021 survey administered by the Humboldt County Growers Association, 42% of respondents reported that they were “very unlikely” to make their October 2021 canopy tax payments (Humboldt County Growers Association, 2021). To prevent widespread defaults, the County first deferred October Measure S payments to May 2022, and then reduced 2022 Measure S taxes by 85% and pledged to propose a new tax structure for Measure S after 2022 (Music, 2022; Vanderhein, 2022a). The nature of the County-level cultivation tax remains undetermined in the long-term.

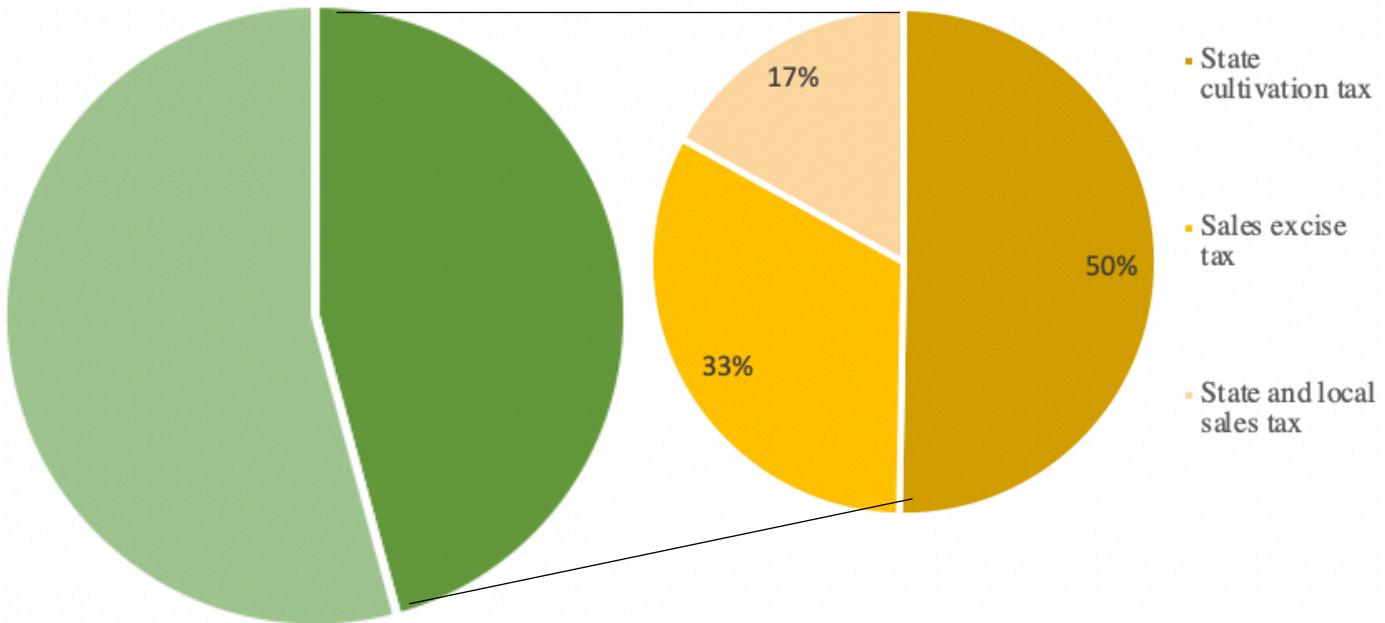
Growers also pay \$161 per pound to the state government in cultivation tax, regardless of the pound’s farmgate price (Wood, 2021). Cultivation taxes systematically burden small farms, which pay the same sum as more efficient megafarms, and must come up with the money before reaping the season’s revenue (Wood, 2021). For one Humboldt grower featured in a piece in *Politico Magazine*, the state cultivation tax alone turned a \$15,000 profit into an \$80,000 loss in 2018 (Fertig, 2019). See Figure 5 for the tax breakdown of a pound of cannabis at market price.

At the state level, there have been some legislative attempts to ease the tax burden on SLCGs. The Temporary Cannabis Reduction Bill, proposed in the California legislature, would have suspended some taxes for 3 years to help SLCGs survive, but did not pass committee (Fertig, 2019). In late 2021, a coalition of 30 leaders in the industry appealed to the state legislature to remove the state cultivation tax in advance of the passage of the state budget, which stood at a \$31 billion surplus (Wood, 2021).³

³ A major political opponent to cannabis tax reform at the state level are advocates for underserved youth, who worry that decreases in cultivation tax revenue will harm programs that support at-risk youths and communities affected by the War on Drugs (Wood, 2021).



*Figure 5: Percent of cannabis revenue taxed (*At \$161 state cultivation tax and \$700 market price)*



Complicated Compliance Requirements

Cannabis is the country's most regulated crop. Growers are bound by strict and specific regulations dictating everything from bookkeeping, to cultivation practices, to property infrastructure. Most problematically, California's cannabis regulatory infrastructure was built with little information about cultivation practices, the role of the cannabis market in local economics, or input from grower communities, due in part to the inability of researchers studying cannabis (a Schedule I drug at the federal level) to gain access to federal funding through their academic institutions. These compliance requirements are often unsustainable in both economic and environmental terms, contrary to best cultivation practice, and even obfuscated from growers (Bodwitch et al., 2021). For example, every plant must be labeled and monitored with a plastic tag in the "track and trace" system, creating unnecessary waste and significant labor burden.

Growers are responsible for making structural changes to their properties to be compliant with regulations, such as restoring inherited manmade features like culverts, or paving mountain roads which were specifically designed to make travel to and detection of previously illegal farms difficult. These capital-intensive requirements inherently impose a disproportionate burden on small growers (Norris, 2020).

According to a study on why cannabis farmers do or do not comply with regulations, Bodwitch et al. (2021) conclude that SLCCGs in California are not motivated by social or normative motivations, but rather make careful calculations regarding compliance. The high financial burden of meeting



requirements, and the learning costs associated with understanding these new and complex systems—which are constantly evolving—converge to seriously discourage compliance: the vast majority of survey respondents reported “costs” as a major deterrent to compliance (86% of nonapplicant farmers and 84% of applicants). Finally, about two-thirds of respondents said they lacked clear and accurate information about regulations, and that this hindered their ability to comply.

In Humboldt, many SLCGs do not understand the regulations they are required to meet, nor do they have the financial capability to actually meet them. Analysis from interviews reveals that SLCGs are overwhelmingly frustrated with regulations which “not only do not support, but actively hinder their craft.” In interviews, 41% of comments addressing regulations included an expression that current regulations do not support farmers’ craft; 13% expressed a perceived disconnect between regulations and climate priorities. These regulations are not only failing to generate their intended environmental and social outcomes, but also contribute to the proliferation of the black market and cannabis industry exit in communities like Humboldt.

WHY NOT COMPLY?

Bodwitch et al. (2021) collected 362 online surveys from SLCGs throughout the state of California summer 2019, the vast majority of whom heralded from the Emerald Triangle. These surveys asked farmers to reflect on the personal motivations that compelled them to seek cultivation licenses (or not), and actively comply with cultivation regulations (or not).

The literature accounts for three major categories of person motivations; calculated (or instrumental), social, and normative.

Calculated	Social	Normative
Does the cost of non-compliance override the costs of compliance?	What will others think of my behavior? Will I face stigma or positive reinforcement?	Does my personal ethics, politics, or intellect compel me to comply/not comply?

Calculated motivators dominated farmers’ compliance decisions. Farmers are motivated *not to comply* because the costs of compliance are high, the worst outcome—a function of the perceived severity of the sanction and probability of detection—is bearable, and the unregulated market is believed to offer greater economic advantage. Farmers are motivated *to comply* because they are afraid of being arrested and believe that their cultivation license will appreciate in value. Policy instruments that aim to increase regulatory compliance among SLCGs must consider how to tweak the elements of cost and risk in farmers’ deliberative calculations, including upfront costs, severity of sanctions, and risk of detection. The costs of compliance should ultimately be lesser than those of noncompliance.



Premature Competition with Megafarms

The legislative language of Proposition 64 prevents the distribution of Type 5 licenses until 2023, which do not have an acreage cap and therefore permit “megafarms”. This provision was included to win the support of existing grower communities, who voted down a previous state-wide marijuana legalization proposition in 2010 with no such provision (Roberts, 2017).

However, the Department of Cannabis Control (DCC) announced in a last-minute regulatory ruling in 2017 that growers would be allowed to “stack” small cultivation licenses to bypass the 1-acre cap per licensee (Polson, 2020). This ruling came after a lengthy lobbying campaign on behalf of large-scale marijuana cultivators, enabling the permitting of megafarms 5 years in advance of the promised date (Roberts, 2017). ⁴ According to one SLCG discussing this regulatory ruling in an interview, “It definitely was this money grab by the state, which put legacy farmers out of business...”

Small growers sued the state over this loophole, arguing that it contradicted Proposition 64’s intention to pace the corporatization of the industry. The lawsuit was dropped at request of the plaintiff, the California Growers Association, at a moment coinciding with a change in their executive leadership (Rodd, 2019). The California Growers Association did not provide an explanation for their request, and the regulation currently stands (Roberts, 2017).

WHAT IS LOST?

Economic Losses

Economic hardship for Humboldt’s cannabis growers translates into a loss of tax revenue for the Humboldt County government and a slowing of the community’s economy as a whole. Cannabis is a historically cash-based business, meaning that most income from cultivation has likely been spent in local economies.⁵ As one grower from Mendocino County (another Emerald Triangle county neighboring Humboldt) put it: “All cannabis farmers aren’t rich outlaws. We are these communities” (Bodwitch et al., 2019). Scholars of social network theory recognize that economic struggles are always embedded in social contexts; in the Emerald Triangle, every one dollar spent in the cannabis industry leads to two dollars spent in other sectors (Figueiredo & Franco, 2018; Holbrook, 2017). In the words of Eureka Mayor Susan Seaman: “For us, it was such an important part of our economy that [legalization] really has been an upheaval to the way we’ve been doing business for decades.” Seaman has publicly expressed worry that the closure of small farms will translate into job loss in other sectors in the city (Fertig, 2019; Norris, 2020).

The cannabis crisis is reducing the county’s sales tax revenue, as struggling SLCGs spend their money on fees and regulations—many at the level of the state government— rather than shopping at local businesses. Humboldt County was the only county in California whose sales tax revenue dropped between 2017 and 2018 (the year legalization came into effect): the county saw a 2%

⁴ One large cannabis firm, FLRish, outspent both Airbnb and Facebook in lobbying expenditures between 2015 and 2017 (Roberts, 2017).

⁵ Cannabis in the Emerald Triangle is sometimes referred to as “the elephant in the economy” (Krissman, 2016).



decrease. Over the same period, local sales tax revenue in California increased 4% on average (Fertig, 2019).

The County was 20% short of the sales tax revenue forecasted in its 2019 budget. Additionally, according to the Humboldt-County 7-Year Financial Forecast, the year that legalization took effect (2018) saw sales from the Business and Industry Group fall 43% (“Humboldt County Cannabis Equity Assessment”, 2019).⁶ In a 2018 survey, more Humboldt business owners selected “changes in the cannabis industry” as the primary reason for economic decline than any other factor (Fertig, 2019). SLCGs’ diminishing ability to survive as cannabis cultivators endangers their entire community.

As long-term farmers, many see no viable career alternatives and are therefore particularly vulnerable economic producers. It’s also important to note that some SLCGs point to remnants of “dangerous criminal elements” embedded in informal networks and industry norms as additional risk-factors limiting their flexibility in rapidly-changing market conditions (“Humboldt County Cannabis Equity Assessment”, 2019).

Social and Cultural Losses

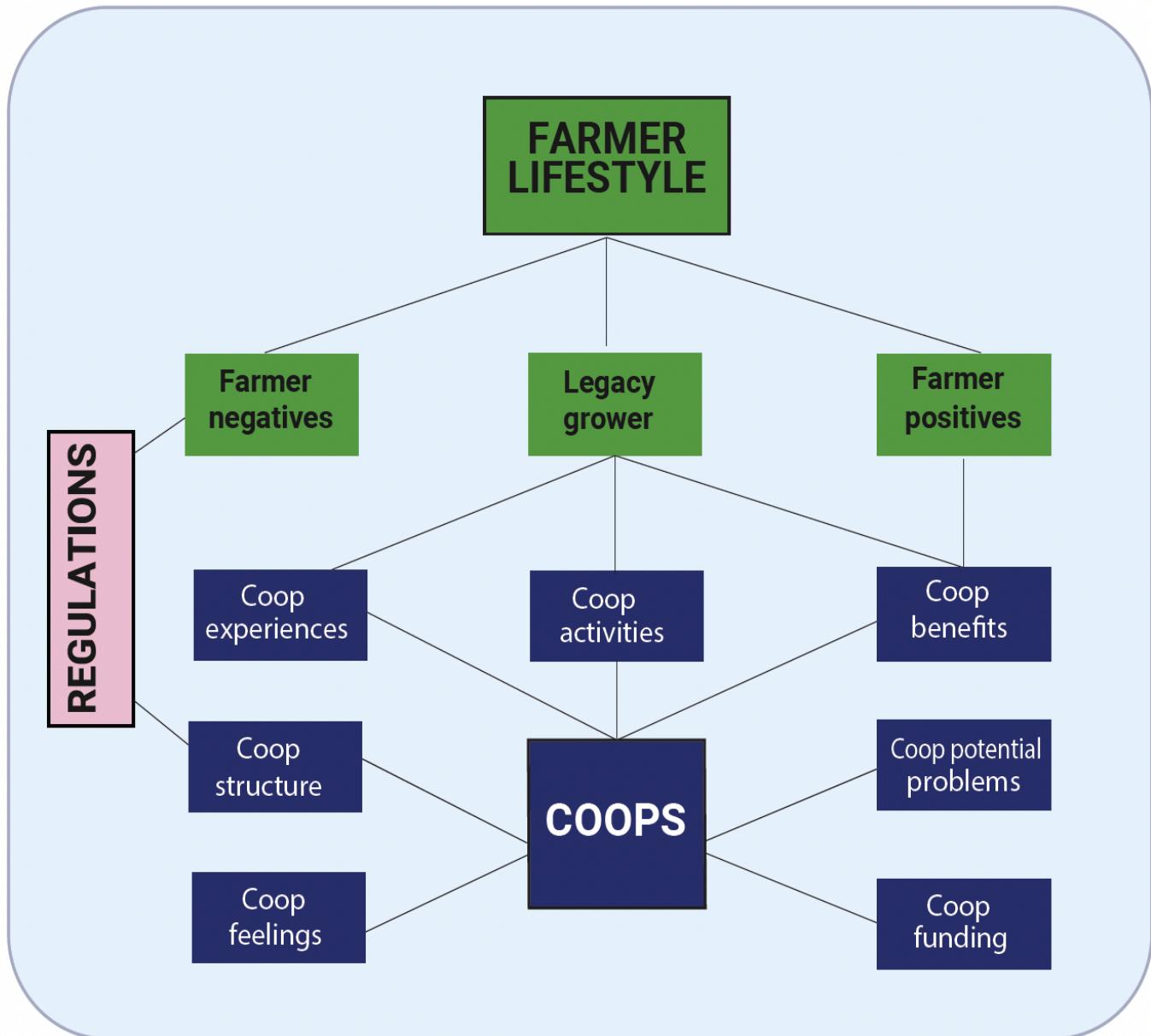
In the words of one SLCG: “Money shows data easily, economics gives you data to work with, which is what we used to get [legalization] through. But now we need that human data because what [legalization is] doing in this community is devastating.”

One major finding from these interviews was the recognition that farming cannabis is not just a business activity for this population, but a cherished way of life. Recurrent themes in the characterization of this lifestyle were love for the plant and nature (38 mentions), the homesteader lifestyle (38 mentions), and community and neighbor relationships (53 mentions). See Figures 3 for an overview of themes that emerged in connection to “farmer lifestyle”, and see Figure 6 for a concept map of all interview themes in connection to “farmer lifestyle”.

⁶ Tellingly, the Garden/Agricultural Supply Store category saw the largest individual decline.



Figure 6: Concept map of interview themes



Forty-seven quotes from SLCGs implied or stated that the rapid disappearance of this way of life is a source of despair. As one interviewee put it: “What we all started doing it for is lost in what it has become.” Twenty-one quotes lamented the commodification of a plant that is “so mysterious, and has such an incredibly long history of involvement with humans, that when you touch it, you touch a chain of custody that goes back 15,000 years.” Others pointed to increasing rates of suicide in Humboldt County. According to one interviewee, “In 2015, we had something like 86 suicides a year; in 2016, we had over 287 suicides a year. That needs to be looked at... it is an extinction event that we need to start looking at. Why are people killing themselves in this community like crazy?.... Because they’ve had everything ripped out from under them by their government who they’re supposed to trust....”

This research corroborates reporting from local news sources which highlight SLCGs’ concerns that “over-regulation, over-taxation, and over-production will force many legal legacy farmers back onto the traditional market” (Music, 2022). Similar sentiments emerge from Polson and Bodwitch’s (2021) fieldwork. One interviewee in their study saw “stringent, expensive regulations as furthering small farmer exclusion and uprooting historically accumulated knowledge and relationships between cannabis farmers and the land they tend. ‘It’s destroying people’s way of life and it doesn’t have to be this way....’”

“It's not just a commodity, it's not, you know, big fields with tractors that's super impersonal about the idea that it is cultivated by people who have a more intimate experience with the finished product.”

“What I don't like about it is where it's gone corporate. We all knew that this was going to happen.”

“The cannabis industry is not a commodity. It's been around for decades and it's not a commodity industry like any other agricultural industry. It's very quickly turning into one. But there's a whole counterculture behind people that were growing and using cannabis.”

“Cannabis is used as a sacred plant for millennia, and to now think that it's going to be mass commodified...”

“So when harvest season would come, it wasn't like, let's come and make a bunch of money. It's everyone showed up at your house to help you.”



EVIDENCE: AGRICULTURAL COOPERATIVES

In order for small, legacy cannabis growers (SCLGs) to be more viable in the legal marketplace, they must increase revenue generation, limit direct competition with megafarms, and/or reduce input costs, while still adhering to state and local regulations. Given the recent history of pro-corporate cannabis legislation in the state of California, an effective survival strategy would challenge the consolidation of market power in the hands of megafarms and other large cultivators. The ultimate goal is for SLCGs to fetch a fair market price for their product without going bankrupt in the process of navigating the multi-actor supply chain.

Taken in conjunction with the hyperlocal scope of this report and the particular values-based interests (i.e. equity, cooperation, and democracy) of the Cooperative Cannabis Economy Group, which exclusively seeks “cooperative solutions” to the crisis facing SLCGs, this report will detail the literature pertaining to the effectiveness and mechanisms of agricultural cooperatives. For a parallel literature review on geographical indications, a tool which allows farmers to brand their products with legally-protected indicators that the product comes from a uniquely regional production tradition, see Appendix A.

Evaluations of these strategies utilize varying success metrics, including, but not limited to: farmer income, farm viability, farm socioeconomic sustainability, product price, rural out-migration, farmer technical capacity, and farmer perception of empowerment. Taken together, these metrics reveal the extent to which small and under-resourced farmers who face economic, legal, and social barriers to legal market participation are incentivized and empowered to enter and succeed in legal markets.

According to the International Cooperative Alliance (ICA), a cooperative is an “autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” Cooperatives are widely recognized as an effective mechanism for small farmers to obtain competitive advantages in agricultural supply chains (Figueiredo & Franco, 2018). The ICA lists seven fundamental principles of cooperatives: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education training, cooperation among cooperatives, and concern for host community. These principles distinguish cooperatives from other economic groups that utilize cooperation or collusion, such as associations and cartels, respectively (Majee & Hoyt, 2011). Specifically, nonprofit agricultural cooperatives are co-owned and co-governed by their farmer-members. According to the National Cooperative Business Association, producer cooperatives are usually formed to allow producers to market their products better, and/or streamline the production process (“What is a Co-Op?”, n.d.).

EFFECTS ON SMALL FARMS’ SURVIVAL AND SUCCESS

Several authors have studied the comparative performance of small farmers who belong to a cooperative compared to those who deal solely with investor-owned firms (IOFs). However, the majority of this literature draws on data from the developing world. As a whole, the literature lacks



attempts to link empirical data on cooperative's economic impact to theoretical considerations about cooperative design and behavioral mechanisms (Candemir et al., 2021).

Scholars generally agree that membership in an agricultural cooperative causally augments farm and household income. Verhofstadt and Maertens (2014) studied the effects of participation in horticulture, coffee, and maize cooperatives on small farmers in Rwanda. Their most conservative results suggest that cooperative participation increases farm income per worker by 27%, net farm income by 25%, and gross farm income by 37%; these effects were significant. Mojo et al. (2017) used a propensity score matching and endogenous switching regression to demonstrate that Ethiopian coffee cooperative members performed significantly better than they would have if they were not members. In China, rice farmers who belong to cooperatives earn a 12.3% higher net income than nonmembers. The difference was much less pronounced for large farmers, suggesting that participation in agricultural cooperatives are more beneficial to small farmers who face higher transaction costs (Hoken & Su, 2018). Liu et al. (2019) also studied the effects of marketing cooperatives in Sichuan, China, finding that cooperative members had significantly higher farm incomes, household incomes, knowledge levels, and sales ability than non-cooperative farmers.

Ofori et al. (2019) didn't find evidence that membership in vegetable cooperatives significantly augmented income for smallholder farmers in Cambodia. However, their results did indicate that cooperative members had greater access to technology, suggesting that the advantages of cooperative membership in this context are derived from the provision of services and may not be directly represented in farmers' incomes.

A smaller and more outdated body of literature studies agricultural cooperatives in the U.S. A 2004 survey of 2,886 small farms⁷ across the dairy, fruit, veggie, and beef industries in the U.S. found that participation in marketing cooperatives increased farms' net income per dollar of assets (MNFIDOA) by 0.1%, while participation in a supply cooperative, in which farmers purchase input materials from a cooperative rather than selling their product to the co-op, increased MNFIDOA by 2.⁸ For the average farmer, this benefit translated into an additional \$5,378.33 in annual income (Mishra, 2004).

Parliament et al. (1990) surveyed the financial health of regional dairy cooperatives compared to similarly-sized dairy investor-owned firms (IOFs) between 1976 and 1987. The authors used a Wilcoxon rank sum test to detect differences in the two classes of firms' profitability, leverage, solvency, liquidity, and efficiency. Despite the hypothesis that IOFs would outperform cooperatives in every category, cooperatives significantly outperformed IOFs in leverage, liquidity, solvency, and efficiency. Cooperatives were also more profitable on average than IOFs, but the difference was not statistically significant. In a sister study using a larger dataset that included fruit and vegetable cooperative, Lerman and Parliament (1990) again found that dairy cooperatives outperformed similar IOFs in terms of liquidity, efficiency, and leverage. The authors

⁷ The authors define "small farms" as those making less than \$250,000 in annual sales.

⁸ The effects of market co-op participation were marginally significant at the 10% level; the effects of supply co-op participation were highly significant at the 1% level (Mishra, 2004).



hypothesize that cooperatives tend to more effectively minimize risk in their maintenance of long-term growth.

The survival and success of the cooperative is a reasonable proxy for the survival and success of its farmer-members, because a cooperative's surplus is converted to patronage paid to farmer-members, just as IOFs pay dividends to shareholders. Given the well-established noneconomic benefits that farmer-members gain from cooperative membership, the authors conclude that "the overall benefits received by members from their cooperative may exceed the benefits received by shareholders from IOFs in the form of return on equity" (Lerman & Parliament, 1990).

To conclude, a diverse set of case studies from the developing world converge to suggest that membership in an agricultural cooperative financially benefits small farmers. In the United States, cooperatives have been shown to outperform IOFs in the agricultural industry and provide additional income to farmers. Overall, more recent evidence from the U.S. is needed to demonstrate that cooperative membership still causally strengthens small farmers' financial standing, given the continued evolution and consolidation of the agricultural sector.

MECHANISMS

Much of the literature exploring the impact of agricultural cooperative membership on small farm success centers around the mechanisms by which cooperatives provide benefit. Because many of these benefits are either noneconomic or indirectly economic, these mechanisms and their effects are often described qualitatively.

Four primary mechanisms emerged from a review of this literature: increased bargaining power, minimized risk, enhanced knowledge and capacity, and invigorated rural economies. See Figure 7 for an overview of these mechanisms.

1. Asset Control and Bargaining Power

The Asset Fixity Principle states that autonomous market contracting becomes a less efficient means of allocating assets as assets become more specific. An asset is more specific when the cost of transferring it to an alternative use is high (Williamson, 1981). Williamson subscribes to Baumol et al.'s (1982) understanding that market power is more directly derived from the immobility of assets than from industry concentration. Given this understanding of market power, Williamson sees cooperatives as a naturally pro-competitive strategy for small farmers who tend to brush up against highly specialized assets at both ends of the supply chains. (For example, dairy farmers must contract directly with milking parlor producers and processing plants—both of which utilize expensive and highly specific technology.) Observational data shows that cooperatives are most often founded by small farmers when both upstream and downstream supply chain actors dominate (Figueiredo & Franco, 2018). Cooperatives provide "countervailing power" for small farmers who encounter supply chain partners with market power, thereby converting monopsonies to bilateral monopolies (Staatz, 1987).



In the cannabis industry, distributors, with whom SLCGs must directly contract, enjoy both physical asset specificity, as well as the state-protected right to perform highly specific and necessary functions in the supply chain (e.g. pay for laboratory testing).

The more contemporary resource-based view theory (RBV) says that a firm's competitiveness is attributable to its control over specific assets and resources. In addition to improving the bargaining power of small farmers in their contracting with specialized supply chain actors, cooperatives allow farmers to combine their resources in unique and value-producing configurations, thereby increasing market power (Gall & Schroder, 2006; Mazzarol et al., 2013). In the case of cannabis, RBV might assign value to a cooperative's collective set of genetic strains, relationships with co-dependent supply chain actors like laborers and transport license-holders, geographic sites in closer proximity to distribution centers, and/or individual skillsets pertaining to branding, compliance navigation, leadership, etc. In short, farmers gain in competitiveness when combining and sharing in the total diversity of their tangible and intangible assets.

2. Risk Mitigation

Organizationally, cooperatives tend to bear liquidity shortages better than IOFs during times of crisis, maintaining long-term growth more efficiently and historically outperforming IOFs during recession eras (Figuerido & Franco, 2018; Lerman & Parliament, 1990; Staatz, 1987). Drawing on case studies of Australian and French cooperatives, Mazzarol et al. (2013) conclude that cooperatives shield small farmers from uncertainty. Cooperatives absorb and distribute losses across the community of members, allowing individual farmers to forego the risk-reduction and income stabilization benefits of farm diversification in order to achieve greater economies of scale (Staatz, 1987).

In alignment with ICA's principle of cooperation among cooperatives, cooperatives also tend to deliberately insure one another against bankruptcy. Between 1979 and 1984, 70% of cooperative mergers in the American Midwest involved one party that was in a net loss position, compared to 6% of IOF mergers (Parliament et al., 1990).

For individual Humboldt SLCGs, one of the greatest sources of risk arises from the need to pay processors and distributors months in advance of reaping revenue from consumer sales. SLCGs are required to pay a full slate of taxes and fees to other supply chain actors, in addition to their own cost of production, before they see income from the season. A co-op could shield individual farmers from financial risk by purchasing SLCGs' cannabis at the farmgate, thereby reimbursing farmers for their costs much earlier and bearing the financial risk of the pre-sales deficit.

3. Knowledge Sharing and Capacity Building

Cooperatives offer services, promote innovations, and facilitate knowledge-sharing among their members (Figuerido & Franco, 2018; Lerman & Parliament, 1990; Staatz, 1987; Mazzarol et al., 2013). Majee and Hoyt (2011) define social capital as "networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit". They distinguish bonding, in which social capital is generated via horizontal ties between homogenous economic actors, from bridging, in which social capital created by bonding is applied to external relationship to allow



those actors to “get ahead” rather than simply “get by”. Cooperatives are typically formed through processes of bonding, but once they are able to proactively inject financial capital and technical assistance into their community of members, cooperatives allow members to convert bonding social capital into bridging social capital (Woolcock & Narayan, 2000; Majee & Hoyt, 2011).

Disaggregated data from a 1986 study reveals that members of two cooperatives possessed significantly higher technical efficiency than a control group, while members of 6 other cooperatives had lower efficiency. This suggests that it’s not necessarily the economic structure of cooperatives that foment farm capacity, but that cooperatives may ultimately have this impact on their members depending on the cooperative’s behavior and priorities (Lee et al., 1986). To build compliance and profitmaking capacity among their members, a cannabis producers’ cooperative would have to intentionally prioritize related trainings and programming.

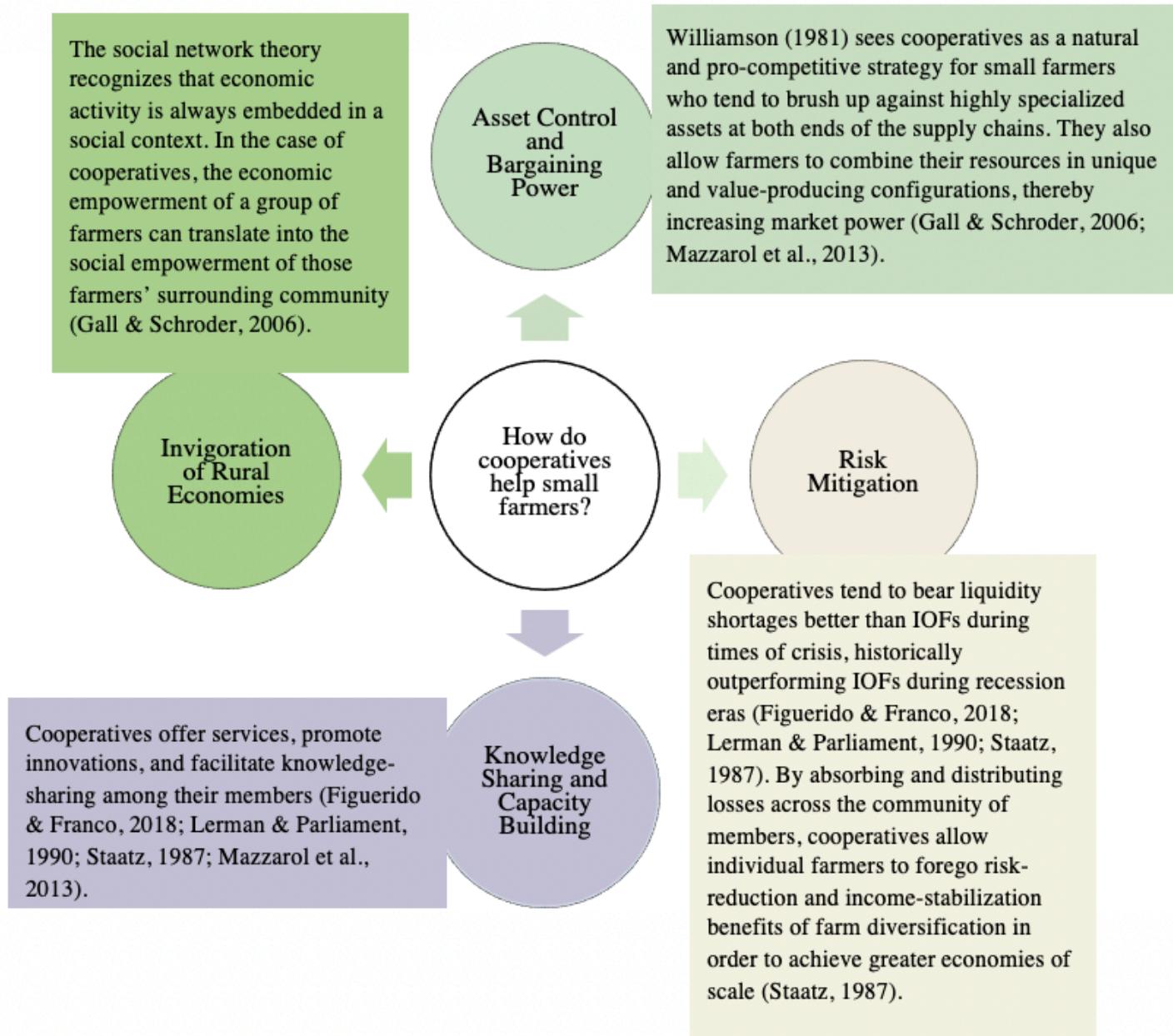
4. Invigoration of Rural Economies

The social network theory recognizes that economic activity is always embedded in a social context, and that social and economic dimensions of business are likely to be confounded. Given that rural development can be measured by, or is at least inextricable from, farmers’ living standards, cooperatives benefit small farmers by simultaneously increasing their income and invigorating their economies holistically (Figueiredo & Franco, 2018). In the case of cooperatives, the economic empowerment of a group of farmers can translate into the social empowerment of those farmers’ surrounding community (Gall & Schroder, 2006).

The idea that cooperatives invigorate rural economies is also, importantly, present in farmers’ perceptions of cooperatives. Farmer-members of cooperatives tend to see their participation in a cooperative as contributing to the social and economic wellbeing of their wider community (Briscoe et al., 2006; Mazzarol, 2013). In a study of wine producers in rural Portugal, farmer-members overwhelmingly saw cooperatives as “an organizational method” to respond to problems in their communities. On average, farmers believed that cooperatives “included disadvantaged publics”, understood to mean small farmers with few resources. The statement that cooperatives are “a solution for local development” received a 4.39 out of 5 in respondents’ opinions (Figueiredo & Franco, 2018).



Figure 7: Cooperative mechanisms



CONTEXTUAL APPLICATION

Unfortunately, little of the empirical evidence quantifying the effects of cooperative membership on small farmers' survival and success originates from contexts that closely resemble cannabis farmers in Humboldt County. Findings from the United States center overwhelmingly around the dairy industry.⁹ However, cannabis farmers stand to gain just as much from risk mitigation, capacity-building, and the invigoration of rural economies as do dairy farmers. Because legal cannabis is such a new product, the public consciousness remains impressionable in terms of product differentiation, meaning that SLCGs don't necessarily reap the financial benefits of producing higher quality cannabis. Additionally, rigid regulations governing cannabis supply chain relations produce similar effects as specific technology does in the dairy supply chain: dairy farmers lack market power with processors because they don't have access to their technology, while cannabis farmers lack market power with distributors because their licenses prohibit them from transporting or processing their own product. To the extent that cooperative mechanisms account for income augmentation and farm capacity among members of dairy cooperatives, it is appropriate to cautiously extrapolate the effect of cooperatives in other small communities of struggling farmers, to SLCGs in Humboldt.

Finally, the vast body of work demonstrating the economic benefits of agricultural cooperative participation in the developing world should be cautiously overlaid to Humboldt's cannabis industry. Many characteristics of farm communities and industries in developing nations may limit the exogeneity of these studies, including national agricultural policy, cultural attitudes towards cooperation and competition, and global supply chains for particular commodities. Still, it's notable that nearly every study investigating the effects of cooperative membership on small farm income encounter a positive relationship across these diverse contexts. In general, this literature also demonstrates that cooperatives are most likely to originate and proliferate in communities of rural, likeminded agricultural communities that are invested in protecting the viability of their traditional livelihood (Gall & Schroder, 2006). Cannabis farmers in northern California meet this description as authentically as coffee farmers in Ethiopia or rice farmers in China.

⁹ There are several important differences between cannabis and cow's milk as commodities. First, cannabis is less substitutable than cow's milk, which can be replaced with almond, soy, or oat milk. Additionally, there may be more opportunity for product differentiation in the cannabis industry than the dairy industry due to cannabis's varied manifestations in strains, THC levels, etc. Finally, although both commodities require specialized processing following the growing stage, the inputs to cannabis cultivation are far more inexpensive, accessible, and flexible than dairy inputs (for example, genetic strains are replaced more often than cows). Cannabis is notoriously easy to cultivate; dairy farmers require costly and specialized milking parlors to farm their milk (Gettman & Kennedy, 2014). These differences imply that the economic structure of the dairy industry may more intensely marginalize small farmers, producing a more urgent need for cooperatives to improve dairy farmers' bargaining power.



ALTERNATIVES

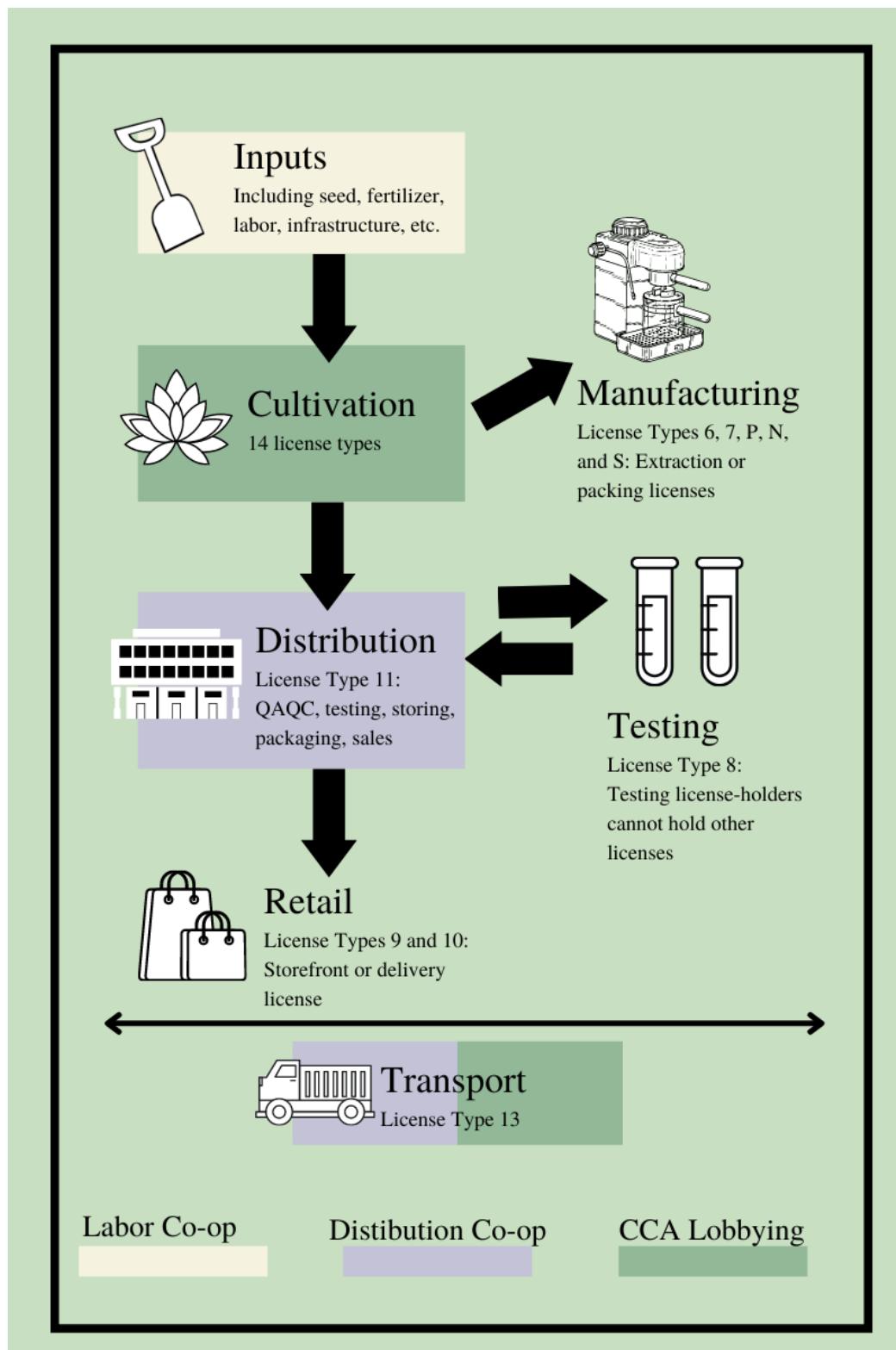
This report will summarize three alternative strategies that the Cooperative Cannabis Economy Group (CCEG) may adopt to meet its goal of strengthening the viability and vitality of Humboldt County's small, legacy cannabis growers (SLCGs), while remaining in alignment with its organizational values.

To reiterate, CCEG is a joint project of Cooperation Humboldt and the Center for the Study of Cannabis and Social Policy (CASP). The CCEG aims to "catalyze, educate, and facilitate cooperation and cooperative research and decision-making among farmers and operators". Given the working group's mandate towards cooperation as a strategy, value, and desired outcome, all alternatives are focused on the realm of cooperative business development. While the alternatives differ in the mechanisms and forms that such cooperation takes, the assumption underlying each is that the CCEG's efforts should integrate the value of cooperation and the cooperative business model into all aspects of Humboldt's cannabis supply chain and industry as a whole.

The following alternatives are defined and developed: invest in incubating labor cooperatives, invest in incubating distribution cooperatives, and advocate for cooperative cannabis association (CCA) regulatory and tax reform.



Figure 8: Alternatives in the supply chain



ALTERNATIVE #1: INCUBATE LABOR COOPERATIVES

Expand co-op development programming to focus on cooperative labor organizations

Under this alternative, CCEG applies its cooperative incubation programming to focus on developing cooperative solutions to labor. The labor market for cannabis farm labor is relatively decentralized in Humboldt; most SLCGs rely on informal contracts with seasonal workers, many of whom are personal friends or relatives of their grower-employers. Under legalization, compliance with labor standards is a significant financial and resource burden. Additionally, most SLCGs require only irregular and temporary part-time support on their farms. Several interviewees expressed the need for farms to share a workforce that “can bounce from farm to farm” as needed.

The alternative to in-house hiring is to work with a Farm Labor Contractor (FLC), a third-party staffing agency that sub-contracts laborers to farmers and is responsible for paying laborers’ wages, covering employer-paid taxes, and meeting labor compliance standards (Wartzman, 2017). FLCs are a common model in the agricultural labor market in other California industries. However, FLCs take about \$7 of the \$22 that farmers pay in wages per hour, so both growers and laborers lose money by working with FLC middlemen.

In order to address labor challenges, CCEG may support the incubation of a cooperative FLC owned by either growers, workers, or both. This strategy would require the recruitment of interested growers and laborers, substantial training on the regulations governing the FLC model, and critically, support in obtaining the FLC license from the state. One possible model to emulate is California Harvesters, a labor trust that takes the role of an FLC on grape farms. California Harvesters sub-contracts laborers for the same upfront cost as a traditional FLC, but returns the sum that would be pocketed by an FLC to the laborers in the form of higher wages or more generous benefits. When laborers work a certain number of hours, they become official members of the trust and are eligible to be elected as one of five worker representatives to the company’s nine-person board. California Harvesters’ value proposition to farmers is access to a reliable pool of committed and well-trained laborers amidst labor shortages in the grape industry (Wartzman, 2017). A similar model for cannabis might provide a financial discount to grower-employers.

Alternative 1 requires not only that CCEG offers the relevant outreach, communication, training, facilitation, and legal support necessary to create a cooperative labor organization, but also that CASP conduct research to understand which model would best meet the needs of SLCGs and achieve the solidarity economy mission of Cooperation Humboldt.¹⁰ For the purposes of this report, upcoming analysis will focus on worker-owned cooperatives specifically.

¹⁰ In California, multi-stakeholder cooperatives—which are owned and governed by more than one class of members—qualify for tax-exempt nonprofit status as long as workers make up less than 50% of the board and forego profit-sharing (although, as board members, they would have direct say in decisions like wage and benefit levels). A multi-stakeholder model, while more complex to initiate and govern, would create tax benefits and allow workers and growers to collaborate on new ideas and share financial risk (Abell et al., 2021). Conversely, a solely worker-owned cooperative would be more simple to register and finance. In 2016, the California Worker Cooperative Act created a legal framework for worker co-ops to incorporate and a process by which worker co-ops can fundraise among nonmembers, such community investors (*Capital-Raising*, n.d.).



ALTERNATIVE #2: INCUBATE DISTRIBUTION COOPERATIVES

Expand co-op development programming to focus on developing distribution co-ops

Under Alternative 2, CCEG applies its cooperative incubation programming to focus on developing distribution cooperatives. In California, growers who only hold cultivation licenses are not permitted to transport, process, or distribute their product along the supply chain; this means that SLCGs are required to contract with transporters and distributors who profit from their transactions. In California, distributors (who hold Type 11 licenses) perform many functions, including: conducting quality assurance and quality control (QAQC), remitting farmers' cultivation taxes to the government, packaging product, and facilitating branded and bulk sales to retailers (D. Barber, personal communication, March 24 2022).

In interviews with SLCGs, 18 out of 28 interviewees mentioned distribution as a challenge. It's common for distributors to delay payments to farmers; additionally, the distribution process lacks transparency: farmers aren't always confident that distributors are properly conducting, reporting, and invoicing QAQC. One SLCG identified distribution as "the biggest problem right now." A distribution enterprise either partly or entirely owned and governed by farmers would provide the advantages of transparency, security of timely payments, and gradual cost savings.

There are several possible pathways to establish a distribution cooperative, but the most feasible is for SLCGs to negotiate equity and governance power with an existing distribution company. Running a profitable and sustainable distribution enterprise is complex; SLCGs don't necessarily have the skills to conduct the day-to-day operations of distribution, especially while continuing to cultivate. Negotiating equity and governance rights with a pre-existing distributor would allow SLCGs to retain access to that company's team of experienced professionals (D. Barber, personal communication, March 24 2022).

The first step to forming a distribution cooperative may be to obtain a Type 13 (transport-only distributor) license. This license type allows its holders to transport cannabis between cultivation, manufacturing, and distribution sites ("License Types", 2022). For Humboldt SLCGs, many of whom are not licensed to transport their own cannabis, affordable transport would allow them to trim their product at a centralized processing facility, rather than doing so on their own premises, which is more expensive and technically noncompliant with the County.¹¹ Obtaining a Type 13 license is a reasonable step along the way to ultimately founding a full-fledged distribution co-op.

In order to pursue any of these strategies, SLCGs need substantial financial, legal, and business development support. In addition to facilitation training, CCEG may assist in the creation of a distribution cooperative by identifying existing distribution companies and representing SLCGs in equity negotiations, aiding SLCGs in obtaining funding, and facilitating the ongoing articulation of cooperative strategies, values, and objectives.

¹¹ Farmers who trim product on their own farms without a "commercial facility" are out of compliance, although Humboldt County has not enforced this regulation for farms under 10,000 square feet (D. Barber, personal communication, March 24 2022).



ALTERNATIVE #3: CCA REGULATIONS ADVOCACY

Make recommendations to the Department of Cannabis Control to amend the regulations governing CCAs. Support Humboldt County Growers Alliance in efforts to advocate for tax breaks for CCAs

At this time, the Department of Cannabis Control (DCC) has requested recommendations from the Center for the Study of Cannabis and Social Policy (CASP) to improve regulations governing Cooperative Cannabis Associations (CCAs). The CCA entity type was created soon after Proposition 64 as a tool for small farmers to generate collective market power and thrive in the legal market. According to California Business and Professions Code Section 26223(a), three or more persons engaged in cannabis cultivation may form a CCA for the purpose of: 1) cultivation, marketing, or selling; 2) harvesting, drying, trimming, packing, storing, or handling; 3) manufacturing, selling, or supplying; and 4) financing (Zoot, n.d.)

Unfortunately, the existence of the CCA entity has failed to deliver benefits to SLCGs. CCAs are limited to 4 acres in total cultivation land— this cap made sense when Proposition 64 capped all individual cannabis cultivators at 1 acre of cultivation. However, since a regulatory ruling allowed individual cultivators to “stack” licenses, effectively surpassing 1 acre without constraint, CCAs are now uniquely burdened by their acreage cap (“Brothers (and Sisters) in Farms”, 2019). At present, it’s more beneficial for cannabis co-ops to register as nonprofit agricultural producer cooperatives, which indeed the mature cannabis cooperatives in California have, because membership in this entity carries fewer constraints (D. Barber, personal communication, February 1 2022). There is opportunity for the DCC to amend regulations such that CCA members are not only not disadvantaged by CCA restrictions, but actually derive additional market power from their CCA membership. For example, it would be financially useful to permit CCA members to transport cannabis between the farms of co-op members without each holding transport licenses.¹²

Additionally, there has yet to be a significant lobbying effort to secure tax advantages for CCAs at the state level (N. Riggs, personal communication, February 15 2022). At the state level, 30 leaders from the cannabis community petitioned the state government just before Christmas 2021 to remove the state cultivation tax, which generated \$42.4 million in revenue and was recently raised 5% to a flat rate of \$161 per pound. CASP might share information and research with the Humboldt County Growers Alliance (HCGA) to inform a campaign that lobbies for state cultivation tax breaks for CCA members.

Under Alternative 3, CASP recommends to the DCC that it 1) remove the 4-acre cap limiting CCAs’ total size, 2) remove the 1-acre cap for individual farm size, and 3) allow cooperative members to transport cannabis between farms without holding additional licenses. Additionally, CASP shares research with HCGA to inform and spur an organized lobbying effort to secure tax breaks for CCAs. These amendments would significantly empower CCAs to better fulfill their intended purpose of helping small farmers generate collective market power and thrive in the legal market.

¹² Such permission might be considered an intra-cooperative Type 13, or transport-only distributor, license.



CRITERIA

This report will comparatively evaluate its three alternatives based the following criteria, defined below: effectiveness, feasibility, community engagement, and timeliness. See Table 1 for detailed definitions of ranking by criteria; see Table 2 for the set of research questions that informed each ranking by criteria.

As a leading model for community-driven solidarity economy organizing in the U.S., Cooperation Humboldt subscribes to the following five principles of the solidarity economy:

1. Pluralism: *Many paths to the same goal*
2. Solidarity: *Social interactions grounded in caring*
3. Equity: *Opposition to all forms of oppression*
4. Sustainability: *Harmonious and regenerative relationships to nature and one another*
5. Participatory Democracy: *Local and direct community decision-making*

In this context, the values of pluralism and equity are inherently incorporated in the purpose of this report, insofar as it acknowledges multiple paths towards change to support a small population facing historical and current oppression from cannabis prohibition-era policies. Solidarity and Participatory Democracy are embedded in the criterion of “Community Engagement”, which measures the opportunity for democratic and solidarity-based participation by SLCGs. Sustainability is not inherently embedded in any criteria.

EFFECTIVENESS

To what extent will this alternative reduce financial and/or compliance barriers to SLCGs’ entry and viability in the legal market?

Effectiveness expresses an alternative’s direct impact on counteracting the core policy problem. To understand the extent to which an alternative empowers and incentivizes SLCGs to participate in the legal market, this criterion will evaluate how much a given alternative reduces a) financial barriers and b) compliance barriers to entry and viability in the legal market. The mitigation of financial barriers may take the form of decreased input costs, increased farmgate price, reduced annual tax burden, etc. and will simply report the total estimated annual savings per average SLCG farm. The mitigation of compliance burden may take the form of either removing or simplifying the compliance requirements for which SLCGs are liable, and/or facilitating better access to the resources SLCGs need to be in compliance. Compliance barrier mitigation will reflect the level of compliance support that an alternative offers to farmers, and how widely those services will be made available. These two categories will be collapsed into a single Good/Moderate/Poor indicator for effectiveness, weighted equally.

FEASIBILITY

To what extent is it realistic for CCEG to pursue and implement this alternative given current capacity, and how likely is to attract the necessary external support?



Even if an alternative is expected to be highly effective, it's a poor strategy to pursue unless it is politically and practically feasible. This criterion will analyze the extent to which CCEG already possesses the knowledge, personnel, and funding to implement an alternative. Secondly, if the alternative requires the support of external actor(s), it will assess the likelihood that those actors will be supportive. The analysis will consider the public statements of government officials regarding priorities in cannabis policy, as well as CCEG's (as well as Cooperation Humboldt and CASP's) organizational knowledge, staff, and funding capacities. These two categories will be collapsed into a single Good/Moderate/Poor indicator for feasibility.

COMMUNITY ENGAGEMENT

To what extent does this alternative reflect the expressed desires of SLCGs, and empower them to continuously engage in democratic decision-making to co-generate pathways forward?

Given that CCEG is a community-driven working group, and a sub-entity of Cooperation Humboldt, a national leader in the movement for solidarity economies, it is imperative that any adopted alternative reflect the grassroots desires of SLCGs and intentionally enables their ongoing participation and self-governance. This criterion will assess community interest in a given alternative using interview data collected from SLCGs in Fall 2021, assigning “good” for alternatives that were mentioned by at least half of interviewees, “moderate” for alternatives that were mentioned by at least 15% of interviewees, and “poor” for alternatives that were not explicitly mentioned in interviews. It will also evaluate how conducive each alternative is to creating and enforcing democratic decision-making among SLCGs, and whether the processes and/or institutions created by the alternative will enable or discourage the involvement of SLCGs in future problem-solving, policy generation, and industry leadership. These questions will be collapsed into a single Good/Moderate/Poor for community engagement, weighted equally.

TIMELINESS

How long will it take to implement this alternative, how long will it take benefits to accrue to SLCGs, and is it likely that this strategy can endure in the long-term?

Finally, the mitigation of this problem is urgent: every season sees the closure of more SLCG farms. This criterion will quantify the estimated time that it will take to implement the alternative, as well as the time that it will take for the policy's benefits to be tangibly realized by SLCGs. These estimates will reflect the opinions of CCEG staff, SLCG interviewees, and evidence from other contexts. An alternative is “good” if the objective and benefits of the alternative can be realized immediately; “moderate” if the objectives and benefits can be realized within one and two years respectively; and “poor” if the alternative and its benefits will take longer than that to come to fruition.



Table 1: Evaluation definitions

	Good	Moderate	Poor
Effectiveness	This alternative achieves the most financial support. It inherently provides useful compliance support.	This alternative achieves the second most financial support. It has the potential to provide useful compliance support.	This alternative achieves the least financial support. It would probably not provide useful compliance support.
Feasibility	CCEG already has all of the personnel, funding, and knowledge to implement this alternative. There is good reason to believe that the necessary external actors will be cooperative.	CCEG already has some of the personnel, funding, and knowledge to implement this alternative. There is some reason to believe that necessary external actors will be cooperative.	CCEG has very little or none of the personnel, funding, and knowledge needed to implement this alternative. There is no reason to believe that necessary external actors will be supportive.
Community Engagement	In interviews, at least half of SLCGs explicitly expressed interest. If implemented, this alternative inherently ensures that SLCGs would democratically engage moving forward.	In interviews, at least 15% of SLCGs explicitly expressed interest. If implemented, this alternative likely allows for SLCGs to be democratically engaged moving forward.	In interviews, no SLCGs explicitly expressed interest. If implemented, this alternative allows for SLCGS to be democratically engaged moving forward.
Timeliness	The objective of this alternative can be realized immediately . Once implemented, the benefits of this alternative accrue to SLCGs immediately .	The objective of this alternative can be realized within one year . Once implemented, the benefits of this alternative accrue to SLCGs within two years .	The objective of this alternative can be realized in over a year . Once implemented, the benefits of this alternative accrue to SLCGs after two years .



Table 2: Evaluative questions by criteria and alternatives

	1: Labor Co-op Incubation	2: Distribution Co-op Incubation	3: CCA Entity Advocacy
Effectiveness			
a. <i>Financial support</i>	Annual savings per farm	Annual savings per farm	Annual savings per farm
b. <i>Compliance support</i>	Degree of direct compliance support	Degree of direct compliance support	Degree of direct compliance support
Feasibility			
a. <i>CCEG capacity</i>	Does CCEG have the capacity and knowledge to incubate a labor cooperative?	Does CCEG have the capacity and knowledge to incubate a distribution cooperative?	What is CCEG's capacity to advise the DCC and partner with HCGA with accurate information?
b. <i>External actor support</i>	Do farm laborers have the time, incentives, and enthusiasm to partake in co-op training?	Do distribution companies have the time, incentives, and enthusiasm to partake in co-op training?	Is the DCC likely to reform CCA entity type regulations? Is HCGA equipped and incentivized to lobby for CCA tax breaks?
Community Engagement			
a. <i>Community interest</i>	Are SLCGs interested in working with worker co-ops?	Are SLCGs interested in work with distribution co-ops?	Are SLCGs interested in forming CCAs?
b. <i>Opportunity for democratic involvement</i>	How would partnering with worker co-ops enable democratic engagement of farmers?	How would working with distribution co-ops enable democratic engagement of farmers?	How do CCAs specifically enable democratic engagement of farmers?
Timeliness			
a. <i>Implementation</i>	How soon could a labor cooperative be formed?	How soon could a distribution co-op be formed?	How soon could the DCC implement changes to CCA regulations? How soon could HCGA launch lobbying?
b. <i>Benefits</i>	How long does it take a worker co-op to provide financial/compliance benefit to farmers?	How long does it take a distribution co-op to provide financial/compliance benefit to farmers?	How long does it take for CCAs to start, and provide benefits to their members?



ANALYSIS

EFFECTIVENESS

Alternative 1: Labor Cooperative Incubation

Moderate Effectiveness

A typical 10,000 square foot, mixed-light grow in Humboldt County spends \$50,000 on labor costs annually. Labor is the single highest category of cost for SLCGs (Caulkins, 2010; D. Barber, personal communication, February 21 2022). If growers were to contract with a workers' cooperative, they would no longer be required to purchase workers compensation plans. Currently, workers compensation costs growers about 20% of workers' wage per hour, meaning that \$10,000 of labor costs could be saved by collaborating with a workers' cooperative (D. Barber, personal communication, February 21 2022). It's also possible, but not certain, that a workers' cooperative would charge a lower premium above hourly wage than FLCs (See Appendix C).

Additionally, collaboration with a workers' cooperative would significantly reduce costs of and barriers to compliance. Agricultural employers must meet significant standards for labor compliance, including but not limited to: providing hand-washing facilities, providing single-use drinking cups, offering training for pesticide handling, meeting air quality requirements, and keeping detailed records (MacEwan et al., 2017). A regulatory impact assessment undergone by ERA Economics found that the average cost of labor compliance for mixed-light operations was about \$3.39 per pound of cannabis. Assuming 600 pounds of annual yield (Appendix C), transferring the burden of compliance to a workers' cooperative would create about \$2,034 in additional annual savings for the typical SLCG (Caulkins, 2010; MacEwan et al., 2017). See Table 7 in Appendix B for a summary of the financial effectiveness calculations for all three alternatives; see Table 8 in Appendix B for a model spreadsheet of an example farmworker cooperative's revenue and expenses.

Given the estimated savings in labor costs, both in terms of wages and compliance, of \$12,034 annually (which is the least annual savings of any alternative) and the transfer of labor compliance liability from farmers to workers, Alternative 1 scores Moderate in Effectiveness.

Alternative 2: Distribution Cooperative Incubation

Moderate Effectiveness

According to interviews with SLCGs conducted throughout Fall 2021, the typical independent distribution company takes at least \$50 from farmer per pound of cannabis that they process and distribute. While this figure is anecdotal and not corroborated by all farmers, there is general consensus that a cooperatively-owned distribution would financially advantage farmers by enabling more timely service and payment, giving farmers more control over their branding and marketing, ensuring a secure buyer in the market, building equity, and shaving mark-up costs. The precise sum of annual cost savings depends on several factors, including the expertise of operating



personnel (there is little margin for error in coordinating processing, testing, and sales), and how wide of a profit margin the cooperative chose to collect to fund patronage payments to farmer members. However, tentatively considering the \$50/pound figure, it's likely that Alternative 2 would more financial benefit than Alternative 1 and less than Alternative 3. Of course, start-up costs are significant, but would be recuperated in time in per pound savings and the increasing value of farmers' equity.

The creation of a distribution cooperative would enable, but not necessarily ensure, expanded compliance support for farmers. One member of a cannabis cooperative discussed his co-op's "culture of knowledge" wherein farmers share compliance advice on weekly calls. His cooperative also pays for compliance consultations for its members and loans them the funds to cover required testing and acquisition of the state-required Certificate of Analysis (D. Barber personal communication, February 1 2022). Despite these opportunities for expanded compliance support and the high likelihood that they are seized, there is no inherent reason that co-owning distribution infrastructure should ensure that farmers gain better access to compliance support if the co-op doesn't intentionally foster frequent conversation, a culture of generosity, and/or prioritize compliance support in its allocation of surplus funds.

Given the difficult-to-estimate savings in terms of distribution costs, and expanded opportunities for (without assurance of) improved compliance support, Alternative 2 scores Moderate on Effectiveness.

Alternative 3: CCA Entity Advocacy Good Effectiveness

As of January 1, 2022, the state cultivation tax per pound of cannabis is \$161 (Devitt & Araby, 2021). If CASP and HCGA successfully lobbied to eliminate the state cultivation tax for CCA members, a typical SLCG in Humboldt County who belonged to a CCA would save about \$96,600 annually (See Appendix B and C for assumptions and calculations).

The registration of more CCAs in California would enable the expansion of compliance support for SLCGs, without ensuring as much. Literature about the benefits of agricultural cooperatives and conversations with members of cannabis cooperatives in California reveal that cooperatives may formally provide trainings that help farmers achieve compliance, and informally foster norms of sharing advise and resources for compliance (Figueroido & Franco, 2018; Mazzarol et al., 2013; Staatz, 1987). However, like Alternative 2, Alternative 3 does not necessarily ensure that these opportunities to expand compliance support are seized. Additionally, revising CCA entity regulations and advocating for CCA tax breaks is only an indirect way to enable more widespread compliance support, as the substantial savings from the removal of the state cultivation tax could be redirected to cover compliance expenses.

Given the potentially high financial savings associated with CCA reform and the potential for expanded compliance support for participating farms, Alternative 3 scores Good on Effectiveness.



FEASIBILITY

Alternative 1: Labor Cooperative Incubation

Moderate Feasibility

Currently, CCEG offers meeting facilitation, training, and other farmer-oriented cooperative education to SLCGs. These trainings could be converted to better suit the particular needs of farmworkers as opposed to farmers without significant difficulty. Cooperation Humboldt hosts another program called Worker Owned Humboldt in the programmatic area of Economic Democracy. Worker Owned Humboldt offers a six-day “Worker Owned Academy” training for groups of workers who wish to start a worker cooperative, free cooperative business advising through the North Coast Small Business Development Center, and a cooperative exchange forum that helps interested individuals connect with others teams or businesses looking to create a co-op or attract new members (“Worker Owned Humboldt, n.d.) Organizationally, CCEG has the available infrastructure to incubate a cannabis workers’ cooperative; these resources simply have not been organized and marketed under the jurisdiction of CCEG.

A worker cooperative is only feasible if farmworkers are actually able, willing, and enthusiastic to partake in the creation and ongoing maintenance of a co-op. To my best knowledge, no research has been conducted to understand farm workers’ level of ability and enthusiasm to partake in cooperative development. Many laborers are seasonable, temporary, and/or part-time employees of their farms. This gives reason to suggest that they may not wish to invest substantially in reconstituting the terms of this employment. However, according to a study of over 300 California-based gig workers (individuals who earn income in temporary, contract-based employment), 56% had a positive first impression of co-owning a labor contracting entity. Although these results are not necessarily reflective of the particular feelings of cannabis farm laborers in Humboldt County, they do suggest an underlying openness among contracted laborers in California to cooperative ownership of contracting entities with fellow workers (Herrera et al., 2020).

Given CCEG’s access to Worker Owned Humboldt’s expertise in worker ownership development and conversion, and the uncertainty surrounding Humboldt cannabis laborers’ interest in forming a cooperative, Alternative 1 scores Moderate on Feasibility.

Alternative 2: Distribution Cooperative Incubation

Good Feasibility

Much of CCEG’s current programming is relevant to the challenges that would confront farmers in the creation, governance, and maintenance of a distribution cooperative. The programming might be adjusted more narrowly to focus on how farmers would practically cooperate on distribution—including the shared activities of staffing processing facilities, establishing quality control standards, and negotiating with retailers— rather than coordinating in other realms like labor, financing, or genetics. Additionally, CCEG is well-positioned to direct farmers to the most feasible pathway for distribution cooperative development; it might recommend the acquisition of



a Type 13 license prior to a Type 11 license, for example. These potential adjustments to trainings and strategy would not require additional staffing, resources, or knowledge.

Moreover, CCEG staff are currently engaged in conversations with a local distribution company that is potentially interested in converting its business model to cooperative ownership with local farmers. CCEG is fostering relationships with potential partners for cooperative conversion, meaning that it has already begun to establish the connections and trust that will serve as the necessary foundation for any future negotiations, potentially conducted by CCEG, between a distribution license-holder and farmers who wish to purchase equity. These conversations also reveal that there is at least one external actor who is interested in enabling the creation and success of a farmer-owned distribution company. Given the high cost and long timeline of farmers building their own distribution facilities and registering for a new distribution license, the willingness of a pre-existing distribution company to partner with farmers and negotiate cooperative ownership is necessary for the feasibility of Alternative 2.

Given CCEG's pre-existent capacity to incubate a distribution cooperative and connections with local distribution companies that are potentially interested in converting into cooperative ownership, Alternative 2 scores Good on Feasibility.

Alternative 3: CCA Entity Advocacy Good Feasibility

At present, the Department of Cannabis Control (DCC) is awaiting recommendations from CASP, a partner of CCEG, for revising the entity regulations governing Cooperative Cannabis Associations (CCAs). CASP is well-positioned to make effective recommendations given its robust research findings, which synthesize policy recommendations generated with SLCGs in Humboldt and surrounding areas. Alternative 3 also suggests that CASP work with the Humboldt Country Growers Alliance (HCGA) to lobby for cultivation tax breaks for CCAs at the state level. CASP and HCGA have a strong working relationship which makes their effective collaboration highly feasible.

It's relevant that the DCC sought recommendations from CASP, rather than CASP approaching the DCC. In fact, Nicole Elliott, Director of the DCC, stated publicly that her agency is committed to helping small cannabis businesses specifically (Swindell, 2021). This suggests that the DCC is aware of the shortcomings of the CCA entity, and willing and eager to invest in its improvement. Additionally, efforts at the state legislative level to reform cannabis tax policy have been recently activated. In January 2022, Governor Newsom said that he would work with the state legislature to implement such reform. A month later, on February 15, 2022, state Senator Mike McGuire introduced SB-1074, which would eliminate the state cultivation tax by July 1, 2022 and compensate for 50% of the lost revenue with increases to the state excise tax on cannabis. A tax reform bill that targets CCAs may be even more politically feasible than SB-1074, because it targets the small growers that the legislature and Governor hope to aid, but doesn't result in the magnitude of tax revenue loss which other advocates fear (Lozano, 2022).



Given recent introductions of cannabis tax reform bills at the state level, CASP's expertise in cannabis cooperative policy, and CCEG's professional relationship with HCGA as a powerful lobbyist, Alternative 3 scores Good on Feasibility.

COMMUNITY ENGAGEMENT

Alternative 1: Labor Cooperative Incubation

Poor Community Engagement

Six out of 28 SLCG interviewees, or about 21%, mentioned labor sharing as a potential activity of an ideal cooperative. More commonly mentioned cooperative functions were branding and marketing, strain selection, quality control, and other distribution activities. The SLCGs who discussed labor believed that a common workforce would give workers more steady hours on the job, and growers access to a reliable pool of workers available on short and irregular notice.

“If you want very good workers that have your back, they need to be well-paid.”

Only one interviewee spoke at length about the potential benefits of a worker-owned cooperative. He thought that a worker co-op could “really inspire folks, first of all, by getting workers to feel satisfied in this industry, which is very difficult.” A concern for the satisfaction of workers was echoed by another interviewee, who felt that “If you want very good workers that have your back, they need to be well-paid.” The

idea of sharing the stakes of the business with laborers was also present in interviews. Some pointed to the highly personal nature of pre-legalization employer-employee relationships, characterized by the shared burden of risk-taking, lack of contractual safeguards, and utilization of personal networks and reputations for recruitment. Interviewees did not explicitly mention the financial benefits to farmers of engaging with worker cooperatives.

The creation of a worker-owned cooperative does not ensure the ongoing democratic involvement of SLCGs. In the model case of California Growers, workers are included in organizational decision-making, but the farmers themselves are not (Wartzman, 2017). If CCEG incubated a worker-owned cooperative, it could potentially solicit and/or include the opinions of SLCGs, but the cooperative itself would only be beholden to workers’ democratic governance.

Given the moderate attention paid to labor in interviews and the unlikely possibility of sustained democratic involvement of SLCGs in Alternative 1, it scores Poor on Community Engagement.

Alternative 2: Distribution Cooperative Incubation

Good Community Engagement

Sixteen out of 28 SLGC interviewees, or about 57%, mentioned distribution as a potential activity of an ideal cooperative. These SLCGs expressed frustration that distributors significantly mark up their product, fail to return payments in a timely manner, and sometimes cheat small growers by misrepresenting the amount or quality of cannabis they process. “The distribution model is the



biggest problem right now”, one SLCG said. “They tell you you’re gonna get paid in X amount of time, they don’t pay you in that time.” While some interviewees were adamant that distribution companies intentionally screw over small growers who for them are an “afterthought”, others felt that anger towards distribution companies is “misplaced”. Despite these differences, nearly all of these commenters felt that a farmer-owned distribution enterprise was an ideal solution.

“They tell you you’re gonna get paid in X amount of time, they don’t pay you in that time.”

“So reimagining the distribution model so that the farmers have interest and there is no other third party that now gets an interest in our work. Having farmer-run and -organized distribution mandatorily, having a farm operation having interest in that, I think would be substantial.”

A producer cooperative that engages in distribution activities would likely involve the democratic involvement of member SLCGs, especially around the allocation of profit surpluses. Legally incorporated cooperatives can sometimes evolve to be governed like hierarchical and monopolistic corporations if democratic governance structures are not intentionally built and preserved, such that the organization becomes a cooperative in name only (“Redeeming the Democratic Promise”, 2020). However, given CCEG’s expertise in democracy and facilitation, the trainings and support provided during incubation would likely set a distribution co-op up for successful and surviving democratic involvement.

Given interviewees’ dominant interest in forming a distribution co-op, and the high likelihood that a distribution co-op incubated by CCEG would incorporate the sustained democratic involvement of member SLCGs, Alternative 2 scores Good on Community Engagement.

Alternative 3: CCA Entity Advocacy Poor Community Engagement

Only three out of 28 SLGC interviewees mentioned the Cooperative Cannabis Association (CCA) entity type in any context. All of these individuals had experience navigating the legal regulations governing CCAs. They reported that CCA acreage cap limitations severely constrained the utility of the model: “I’d rather be part of the group that’s one of the biggest players in the industry, as opposed to just another large entity of 4-acre canopy. It doesn’t seem like it’s enough.” Another interviewee told me that the CCA entity regulations were built on “very flimsy knowledge” of how co-ops actually function.

Not only were these grievances with the current CCA framework limited to those few SLCGs who had firsthand experience navigating CCA regulations, but even these individuals didn’t express interest in investing resources to improve the regulations. All of the farmers who discussed this topic described strategies to sidestep the CCA limitations by registering as another type of entity



and “staying away” from the word “co-op” while still structuring themselves as one. None mentioned the potential a campaign that linked tax reform to the CCA entity.

If Alternative 3’s successful implementation encouraged more farmers to register CCAs and consequently achieve financial benefit, the overall impact on democratic involvement would be uncertain and indirect. As previously mentioned, the details of cooperatives’ governance are neglected by cooperative entity law: it’s possible to be governed as a co-op without being registered as one, and it’s possible to be registered as a cooperative without transparently and equitably soliciting the democratic involvement of all members in decision-making. As such, promoting and enabling CCAs does not necessarily or directly promote democracy.

Given the low prevalence of awareness and concern surrounding CCA regulations among SLCG interviewees, and the merely indirect effect that the revision of CCA regulations would have on the democratic involvement of SLCGs, Alternative 3 scores Poor on Community Engagement.

TIMELINESS

Alternative 1: Labor Cooperative Incubation **Poor Timeliness**

Forming a cooperative is a lengthy process that requires organizing and educating a group of people, conducting an economic feasibility study, creating a business plan, drafting legal documents and applying for legal incorporation, convening a Board of Directors, and actually beginning to implement co-op activities (Zimbelman et al., 1996). In the case of labor cooperative incubation in Humboldt, none of these steps have yet been initiated. For the case of a pilot cooperative farm workforce program in Colorado, program managers budgeted 14 months for the transition alone from the pilot season the implementation of a more stable, formal cooperative (“Mobile Farm Workforce Pilot”, 2018).

Additionally, California law designates “any person/legal entity who, for a fee, employs people to perform work connected to the production of farm products to, for, or under the direction of a third person” as a farm labor contractor (FLC) who is required to hold a FLC license. A worker cooperative, as the technical employer of workers whom it contracts to third-party farmers, would most likely need to acquire this license to operate (see Appendix C). The process for obtaining a FLC is long, complicated, and difficult: applicants are required to register with the federal Department of Labor, pass a farm labor contractor exam, obtain an FLC bond of \$25,000, participate in nine hours of education classes, and provide a list of resources used when providing sexual harassment prevention training, among other actions. Before being able to embark on this

“We spent an inordinate amount of time dealing with bylaws, for example, because we started off as a Cannabis Cooperative Association. And then we realized that was just a dead end kind of entity. And so we switched.”



process, organized workers would already need to be operating under the umbrella of a registered LLC or corporation (“How to Become”, n.d.).

Once a worker cooperative is operative and SLCGs contract with it, the financial and compliance benefits accrue to farmers immediately; SLCGs would be able to cease labor compliance activities and suspend payments for workers compensation insurance.

Given the laborious process of organizing a worker cooperative and obtaining the necessary FLC license, and therefore despite the immediate accrual of benefits to SLCGs, Alternative 1 scores Poor on Timeliness.

Alternative 2: Distribution Cooperative Incubation Poor Timeliness

As previously elaborated, cooperatives take significant time to create. In the case of a distribution cooperative in Humboldt, some steps to cooperative incubation have already been initiated, including the facilitation of preliminary meetings and education, access to the in-use business plans of other cannabis cooperatives, and negotiations with potential community partners. However, significant implementation activities remain, including license acquisition. It is reasonable to project that the implementation of a distribution cooperative would take more than two years’ time from the present date.

Additionally, the formation of a distribution cooperative does not generate financial gain, but rather imposes financial costs, in the short-term. Once a distribution co-op has been formed, it will take time for the cooperative to provide a net financial benefit to farmers. Months and maybe years of distribution savings will eventually cover the upfront costs of purchasing equity, staffing/operating the distribution activities, and implementing the necessary changes to business practices.

Given the months-long timeline of implementing a distribution cooperative and the years-long timeline of seeing net financial gain, Alternative 2 scores Poor on Timeliness.

Alternative 3: CCA Entity Advocacy Moderate Timeliness

Given the DCC’s direct communication with CASP, it’s clear that there is currently urgency to the DCC’s willingness to amend CCA regulations. These is no reason that these revisions could not be implemented immediately upon being drafted and agreed to. Additionally, there is currently movement in the state legislature to address cannabis tax policy, as evidenced by the introduction of SB-1074 in February 2022, which would eliminate the state cannabis cultivation tax (Lozano, 2022). Assuming that SB-1074 is not passed, it will realistically take at least several months for CASP to equip and convince HCGA to lobby for a different bill that eliminates the cultivation tax for CCA members.



It takes time for CCAs to form, register, and begin to reap the benefits of consolidated market power, cost savings, risk mitigation, etc. For this reason, the benefits of CCA regulatory reform would not be felt for SLCGs immediately, but after at least a year or two of planning and investment as they create functioning CCAs. Additionally, SB-1074's elimination of the cultivation tax would not take effect until July 1, 2022 (Lozano, 2022). If the cultivation tax is eliminated for CCAs in a different bill subsequent to SB-1074, we would expect the tax cuts to take effect about six months after the introduction of the bill.

Given that it will take at least several months to successfully lobby the DCC and the state legislature to implement CCA reform, and that such benefits would not be realistically realized for at least six months after policy adoption, Alternative 3 scores Moderate on Timeliness.



OUTCOMES MATRICES

Table 4 includes evaluations by alternative and sub-criteria. In cases where two sub-criteria beneath the same criterion do not correspond in their evaluative ranking, I weighed the importance of each sub-criteria. For example, in case of Timeliness for Alternative 1, although the immediacy of benefits that would accrue to SLCGs upon contracting with a worker cooperative, the long timeline of labor cooperative incubation still skews the timeliness of Alternative 1 to Poor.

Table 3: Breakdown by sub-criteria

		Worker Cooperative Incubation	Distribution Cooperative Incubation	CCA Entity Advocacy
Effectiveness	Financial	Poor	Moderate	Good
	Compliance	Good	Moderate	Moderate
Effectiveness		Moderate	Moderate	Good
Feasibility	CCWEG Capacity	Moderate	Good	Good
	External Support	Moderate	Good	Moderate
Feasibility		Moderate	Good	Good
Community Engagement	Community Interest	Moderate	Good	Poor
	Democratic Involvement	Poor	Moderate	Poor
Community Engagement		Poor	Good	Poor
Timeliness	Implementation	Poor	Poor	Moderate
	Benefits	Good	Poor	Moderate
Timeliness		Poor	Poor	Moderate



Table 4: Summary of analysis

	Worker Cooperative Incubation	Distribution Cooperative Incubation	CCA Advocacy
Effectiveness	Moderate	Moderate	Good
Feasibility	Moderate	Good	Good
Community Engagement	Poor	Good	Poor
Timeliness	Poor	Poor	Moderate



RECOMMENDATION

Given the above analysis, ***I recommend that CCEG pursue both Alternative 2 (invest in distribution cooperative incubation) and Alternative 3 (pursue CCA advocacy).***

To proceed with Alternative 3, CCEG need only take advantage of pre-existing relationships with the powerful actors of the DCC and HCGA. Already having collected robust data that informs policy recommendations for the DCC and lobbying materials for HCGA, CCEG is well-positioned to advocate for these specific amendments to CCA regulations and tax structure without expending significant additional resources.

Simultaneously, CCEG should direct the bulk of its cooperative incubation resources towards the incubation of distribution cooperatives. CCEG already provides facilitation and training to farmers interested in forming cooperatives. It is equipped and prepared to narrow the aim of its cooperative incubation programming to the incremental establishment of a farmer-owned distribution enterprise. A successfully incubated distribution cooperative would provide an auspicious structure for the ongoing democratic involvement of SLCGs. With the successful pursuit of Alternative 2, SLCGs would gain sustainable influence over the process of co-generating, implementing, and managing solutions to their disadvantages in the legal market.



IMPLEMENTATION

To conclude, this report addresses the prevailing problem that small, legacy cannabis growers (SLCGs) in Humboldt County are not incentivized nor empowered to participate in the legal cannabis market in California. I recommend that the Cooperative Cannabis Economy Group (CCEG) advocate for reform of the Cooperative Cannabis Association (CCA) entity regulations with the Department of Cannabis Control (DCC), and share materials with the Humboldt County Growers' Alliance (HCGA) to enable lobbying for cooperative tax cuts. Additionally, the CCEG should direct the bulk of its cooperative incubation resources towards the incubation of farmer-owned distribution cooperatives.

The final section of this report will communicate best practices for the democratic governance of agricultural producer cooperatives, and resistance to anti-democratic and anti-community trends common to such organizations. It's important to CCEG to resist Robert Michels' "Iron Law of Oligarchy", which states that all organizations, no matter how democratic at their founding, will always develop into oligarchies (Moskovich, 2021). It will address the following two questions, posed by CCEG staff:

1. How should decision-making happen in a farmer-owned distribution cooperative?
2. How can CCEG build governance infrastructure that sustains farmers as decision-makers?

HOW SHOULD DECISION-MAKING HAPPEN?

First, it's important to clarify what is meant by the term "democracy" in this context. According to William Thompson, a 19th century political economist, democracy is not only a form of governance, but also a "principle of social interaction" in which participating individuals recognize one another as equals rather than instruments or competitors (Kaswan, 2014). If the principle of democracy is equality, the specific imperative is member control over *strategically important* decisions of the organization (Ragazou et al., 2021).

Given this conception of democracy, there are some key elements that CCEG should consider in their design of a cannabis co-op's governance structure, including information sharing mechanisms, organizational structure and decision-making processes, and pricing and membership structures. See Table 5 for a summary of the necessary choices and recommendations associated with each of these elements.



Table 5: Decisions and recommendations of co-op governance design

	<i>Information Sharing Mechanisms</i>	<i>Organizational Structure/ Decision-Making</i>	<i>Pricing and Membership</i>
<i>Decisions</i>	<p>With what detail are meeting notes shared?</p> <p>How often does co-op leadership/management formally address the general membership?</p> <p>What is the tone of reports?</p>	<p>Flat versus hierarchical</p> <p>Participatory versus representative democracy'</p> <p>One-member one-vote vs. proportional voting rights</p>	<p>Open versus closed membership</p> <p>Contingent and/or target pricing</p> <p>How to generate outside investments?</p>
<i>Best Practices</i>	<p>Deliver frequent reports to membership that don't sugarcoat bad news</p> <p>Implement a process to communicate the information and decisions made in formal and informal meetings to the membership-at-large</p> <p>Communicate how short-term operating activities and long-term strategic planning are aligned; appoint a Chief Mission Officer</p>	<p>Sociocratic organization centering the Board of Directors</p> <p>Two stages of decision-making: 1. participatory policy design; 2. representative proposal selection</p> <p>One-farm one-vote</p>	<p>Open membership</p> <p>Utilize contingent pricing for quality; cautiously expand into target pricing alongside craft cannabis market growth</p> <p>Sell preferred stock options in community</p>



→ Element #1: Information Sharing Mechanisms

Scholars agree that transparency of information is a crucial characteristic of well-functioning cooperatives (Staatz, 1987; Moskovich, 2021; “Redeeming the Democratic Promise”, 2020). Transparency creates greater accountability of non-member management and co-op leaders; it also encourages a more open culture in which members feel free to share their opinions and ask questions before confusion escalates into frustration. According to a case study of a kibbutz (a traditional communal living and working enterprise) in Israel, the gradual erosion of the kibbutz’s culture of transparency resulted in less effective teamwork in groups of workers. One member complained that what was now considered “transparency” was an annual session in which “the CEO publishes his achievements” (Moskovich, 2021).

Importantly, members should not feel that they’re being presented with disingenuously optimistic information. They must receive frequent updates with both good and bad news, such that more formal, co-op-wide reports can adopt an inspiring tone without feeling duplicitous. Practically, there should be regular and detailed reporting of all meeting minutes from formal—and when possible, informal—meetings in which information is shared and decisions are made. Low-capacity co-ops can assign a note-taker to keep minutes and simply email them to all members after the meeting; this position could rotate to ensure a fair burden of labor.

Finally, co-op leaders should continuously articulate the logical cohesion of the cooperative’s day-to-day decisions, long-term strategic planning, and founding mission and values (Staatz, 1987). These connections should be drawn upon to justify decisions both large and small. As the cooperative grows in size, and tensions between these elements exacerbate, the co-op might consider appointing a Chief Mission Officer who ensures that all decisions can be (and are publicly) justified in alignment with the mission.

→ Element #2: Organizational Structure and Decision-Making Process

New cooperatives must decide the type of organizational structure they wish to adopt: a horizontal one that relies on the logic and practices of sociocracy, or a more hierarchical structure that mirrors the management systems of traditional capitalist firms.¹³

Connected to organizational structure, co-ops must also strike a balance between participatory democracy, in which the details of co-op decisions are hashed out by general members in brainstorming sessions and articulated via consensus processes, and representative democracy, in which members simply vote for representatives to digest information, formulate policy, and make decisions (Kaswan, 2014). The benefits of dynamic participatory policy generation may be preserved alongside the efficiency of representative democracy with a “proposal model”: circles or teams of members have the opportunity to participate in participatory and pluralist

¹³ Sociocracy is a consensus-based governance design wherein an organization is composed of “circles” of members. Circles might be organized by region, theme, etc.; they operate internally on consensus processes, and send delegates to represent their consensus in the higher circles (perhaps the Board of Directors) (Lozanova, 2014).



brainstorming of co-op policies and articulate them in two or more proposals, which then go before the Board to be voted on in an efficient manner.

Finally, the cooperative must decide whether to implement a one-farm one-vote policy, or to distribute voting power proportionally along some metric of farm size (e.g. quantity of cannabis sold to the cooperative, total revenue contributed to the cooperative, number of members per farm, etc.). This decision may be somewhat dependent on the open/closed membership structure discussed below. Most scholars concerned with the creation of resilient and values-based cooperatives emphasize that one-farm one-vote structures are more aligned with cooperative values than other proportional systems (Mooney, 2004). However, one-farm one-vote systems pose their own challenges, especially in cooperatives with relatively big size differentials between member farms, wherein larger co-op patrons might feel underrepresented compared to smaller members (“Redeeming the Democratic Promise”, 2020).

→ Element #3: Membership and Pricing Structure

There are varying formats that cooperatives can take to create and allocate equity within the membership. Equity is an important financial factor for a cooperative: it's the basis of a cooperative's borrowing capacity. Historically, agricultural co-ops have financed about half of their assets with equity (Kenkel, 2020).

In general, there are two equity models: open membership and closed membership. In open membership co-ops, new members can join anytime by purchasing a share of membership stock. Equity for members is created out of the profit stream, so the financial benefit of membership is tied to co-op usage and there is therefore no direct financial benefit of owning equity. In open membership models, farmer-members are not typically under contractual obligation to patronize the co-op. Alternatively, closed membership cooperatives allocate equity by initial and direct investment in the co-op. The only way for a new member to join the co-op is to purchase pre-existing equity from a founding member; profit is still tied to usage, but members can only receive usage-based profits to the extent that they hold equity. The model that a cooperative adopts should be codified in its bylaws (Kenkel & Fitzwater, 2019). For Humboldt SLCGs, mandating that members only sell their product to the co-op may not be feasible in its earliest days. A distribution co-op incubated by CCEG should adopt an open membership model to ensure sufficient start-up capital and cash flow in the early days.

Finally, some agricultural cooperatives use target pricing: rather than covering overhead and operational costs first, and then only later divvying up remaining profits among members in a combination of pay price and patronage, these co-ops pay farmers their target pay price upfront and cover everything else later (including patronage). Target-pricing cooperatives are “pacemakers” and, when large enough, can largely influence the market price of their commodity (Mazzarol et al., 2013). Cooperatives may also consider adopting contingent pricing, either instead of or in tandem with target pricing. Contingent pricing occurs when the co-op pays bonuses to farmers based on changing factors like fluctuations in the market price of cannabis or the superb quality of a certain batch. Contingent pricing gives co-ops flexibility in pricing, and can function as an incentive for quality standards or other production practices (Staatz, 1987; Green, 1992).



HOW CAN CCEG BUILD GOVERNANCE INFRASTRUCTURE THAT SUSTAINS FARMERS AS DECISION-MAKERS?

Scholars and farmers alike understand that members of agricultural cooperatives are vulnerable to perverse patterns of development in their cooperative organizations. As farmer co-ops grow in size and revenue, their behavior often tends towards resembling that of the exploitative monopolistic companies that co-ops, by legal definition, intend to subvert: they may dominate regional markets, squeeze farmer checks, or obscure important market information (“Redeeming the Democratic Promise”, 2020). Mooney (2004) identifies the inherent tension in the cooperative business model between aiming to succeed in the external context of free market economics, and subscribing internally to an “ethos of collective action.”

According to the literature, major threats to the sustainability of democratic governance in farmer cooperatives include the free-rider problem, growing orientation to customers, and democratic and agency costs. See Table 6 (and Appendix E) for a summary of the definitions and strategies associated with each challenge of governance design.

→ Challenge #1: Free-Rider Problem

As co-ops grow larger, the risk of the free-rider problem becomes more severe (Cechin et al., 2013). While most literature focuses on non-members’ free-riding on cooperative services, for young cooperatives, there is also the risk of some members free-riding on other’s start-up costs and labors.

According to a study centering dairy farmers in the South, co-ops most effectively subvert the free-rider problem by targeting communications to membership strategically. This may mean advertising certain services to subsects of the membership that are most likely to take up that service; itemizing costs and services on farmer checks and offering supplemental payments (i.e. contingent pricing) to incentivize behavior that benefits the co-op as a whole; and making specific requests from members that are deliberately aligned with their individual skills and capacities (Green, 1992).

It’s also critical to build a sense of social community—and highlight that narrative of community—for members and their families. Members that feel a sense of community within their organization are more likely to sacrifice personally in the short-term in pursuit of better outcomes for the co-op in the longer term (Cechin et al., 2013). Particular attention should be paid to the process for recruiting and approving new members; in fact, developing co-ops might consider defining this process in their bylaws or founding operational documents. Influxes of members that aren’t fully committed to the co-op’s mission can erode community and equal dedication across the membership.



Table 6: Summary of strategies for pitfall mitigation

	<i>Challenge #1: Free Rider Problem</i>	<i>Challenge #2: Customer Orientation</i>	<i>Challenge #3: Democratic/ Agency Costs</i>
<i>Definition</i>	Members pay in and benefit from the co-op unequally.	The cooperative fails to reach a stable balance in orienting towards the potentially conflicting interests of customers and farmers.	Direct costs of facilitating democracy; opportunity; opportunity costs of compromise between heterogenous interests of members
<i>Strategies</i>	<p>Build and highlight community</p> <p>Allow farmers to devise their own rules</p> <p>Impose, monitor, and enforce agreements</p> <p>Strategically target communications with farmers</p> <p>Itemize costs and benefits on checks</p> <p>Codify processes for recruiting and integrating new members</p>	<p>Explicitly define the balance between customer and community orientations</p> <p>Continuously prioritize community-building</p> <p>Utilize monitoring and enforcement to build support for customer orientation</p> <p>Utilize market incentives to build support for customer orientation</p> <p>Consider consumer education in marketing</p>	<p>Direct costs of overseeing agents (managers); opportunity costs of managers pursuing own interests over members</p> <p>Join democratic networks or cooperative federations</p> <p>Limit farm size differentials</p> <p>Institute one-member one-vote policy</p> <p>Require minimum threshold of member turnout for board elections</p> <p>Target and educate future co-op leaders</p>



→ Challenge #2: Customer Orientation

As described, cooperatives face unique tensions as economic organizations: they are interested in (and in fact, dependent on,) economic profit, but also adhere to social nonprofit values. This tension poses challenges as in balancing branding and sales strategy with a profit-driven orientation to the consumer on the one hand, and a democratic orientation to the farmer community on the other (Cechin et al., 2013). As decision-making plays out on the day-to-day and in the long-term, this tension can lead to the “dilution and degeneration of values” (Moskovich, 2021).

In their study of 148 cooperative farmers in Brazil, Cechin et al. (2013) found that members who experienced greater senses of community and democracy were more likely to be committed to collective action, but not to customer-orientation. Alternatively, members who experienced greater hierarchical control and market incentives were more committed *both* collective action and customer orientation. This research suggests that, if a co-op decides to prioritize customer orientation, it's important to continuing incentivizing farmers with both carrots and sticks.

In the case of cannabis, farmers also may have a central role to play in the education of consumers. Because cannabis legalization is so recent, many consumers don't yet understand what a high-quality, values-based cannabis product looks like on the shelf. With so much room left for cannabis actors to define niches in the craft and ethical markets, the collective action and customer orientations could synergistically inform one another in this industry. Cannabis farmers who have bonded together with solidarity and a commitment to rural communities and environments, could gain enough market influence to communicate those same ideals to their consumers.

→ Challenge #3: Democratic and Agency Costs

Co-ops face both democratic and agency costs. Democratic costs are the direct and opportunity costs of facilitating democratic governance among many individuals with conflicting interests. Agency costs arise due to Principal-Agent problem faced by members who delegate control to non-member managers, who may have conflicting interests with members (Mooney, 2004). There will always be a trade-off between these two types of costs: the less democratic involvement there is from the membership, the higher the necessity of direct oversight costs and opportunity cost risks associated with handing off decision-making power to nonmembers (Pozzobon et al., 2012).

Democratic and agency costs become more prevalent as a co-op grows in size and diversity. One solution is for the co-op to align itself with networks or federations of cooperatives to expand its sphere of social impact.¹⁴ In doing so, the co-op maintains its small structure that allows for maximum member participation, avoids conflicts of interests between farmers of different regions, and maintains place-based integrity to the community of origin (Kaswan, 2014). Additionally, co-ops can address size biases by limiting size differentials of individual member farms through maximum acreage caps on new members, adopting one-farm on-vote governance structures

¹⁴ Networks are loose associations of co-ops that facilitate high levels of interaction between nodes (cooperative members), allowing for collaboration on policy advocacy, sharing of best practices, etc. (Kaswan, 2014; “Redeeming the Democratic Promise”, 2020).



despite volume or farm size differentials, requiring a minimum threshold of voter turnout for board elections, and adopting yearly reviews of scale biases (“Redeeming the Democratic Promise”, 2020).

A final element of the challenge of democratic/agency costs is the commonly-low willingness of co-op members to take on leadership roles within the organization. According to a case study of agricultural cooperative members in Greece, about 80% said that they agreed fully with the principles of their organization and would defend it whenever given the chance, but 60% reported that they would never want to take on a role of responsibility. The authors of the study posit that low confidence in management abilities is a large factor in members’ reluctance to step up (Ragazou et al., 2021). It’s crucial for young cooperatives to intentionally target and educate the co-op’s future leaders; training should include not only management skills, but also social and pedagogical skills (Österberg & Nilsson, 2009). In addition to the targeting of these “true believers”, co-op leaders should use different strategic messaging with the “supporters club”, or the members who will actively vote and participate in events but will never run for a leadership position, and all others who align with the co-op’s mission but will only participate occasionally (Pozzobon, 2011).

For SLCGs in Humboldt County looking to mitigate the high democratic and agency costs involved in distribution co-op creation, it would be most useful to target partnerships with pre-existing distribution enterprises that have highly professional, motivated, and competent workforces. SLCGs will likely have to rely on the expertise of these agents in performing the cooperative’s operations, so it’s crucial to only partnering with distribution staff they can already trust (D. Barber, personal communication, March 24 2022).



CONCLUSION

To conclude, small, legacy cannabis growers in Humboldt, California are not incentivized nor empowered to enter and thrive in the legal market. In evaluating potential strategies that the Cooperative Cannabis Economy Group (CCEG) may utilize to reverse this problem, it's clear that the incubation of a distribution cooperative alongside lobbying for CCA tax reform at the state level will produce the most effective and sustainable change.

There are several major takeaways that CCEG should consider when incubating a cannabis distribution cooperative with a sustainable and well-functioning democratic governance infrastructure. First, it's imperative to build and continuously foster a sense of community in the membership. Since a Humboldt distribution cooperative, at least at its start, will be local, this could be as simple as hosting in-person meetings, potlucks, or other events. A sense of community is associated with higher trust in co-op leadership and more willingness among members to sacrifice and invest for the co-op. According to one study, members' perception of their level of participation in the co-op outweighed all other studied factors in terms of explaining both their involvement in co-op governance, their trust in the board, and their perception of their own farm's profitability (Österberg & Nilsson, 2009).

Additionally, cooperative leadership should know their membership well; not only the individual personalities, but the factions that exist. Requests for contributions—whether capital, labor, or ideas—should target members' specific skills, strengths, and capacities to the extent that they are known. It's especially critical for co-op leaders to target and invest in co-op leadership development to counter the prevalent problem of farmer-members' reluctance to take on management responsibilities in their cooperative organizations (Ragazou et al., 2021).

Finally, cooperative leaders must constantly articulate the connections among decisions regarding day-to-day operations, long-term strategic planning, and the original values and mission of the cooperative. Given the inherent tension between profitmaking strategies in the free market, adherence to social and political commitments to egalitarianism and democracy, and cultural aspects of the community of origin, it's almost impossible that trade-offs between these outlooks will not exist. Co-op leaders should be in the habit of identifying and communicating these trade-offs to maintain integrity and prevent frustration or resentment from the membership.



APPENDIX

A: ADDITIONAL EVIDENCE: GEOGRAPHICAL INDICATIONS

Geographical indications (GIs) (also known as appellations), refer to the labelling of agricultural products whose fundamental value is connected to a particular region of origin and traditional production practices. These products are also known as “origin products” (Belletti et al., 2017). GIs aim to monetize the French idea of *terroir*, or “the special quality of an agricultural product [which] is determined by the character of the place from which it comes” (Bowen, 2010). To do so, GIs highlight to consumers the specificity of the product’s place and process of origin, valorizing small farmers as “guardians of tradition”. When formalized, GIs indicate intellectual property rights which are legally protected by multiple international, multilateral, and national trade laws. In general, GIs are understood to enhance welfare by attenuating asymmetry of information for consumers and increasing willingness to pay for products that are superior in quality and integrity (Vandecandelaere et al., 2020). Examples of household GI names are Champagne, Darjeeling tea, and Manchego cheese.

The first GI, the *Appellation d’Origine Contrôlée* (AOC), was introduced in France in 1935 to distinguish regional wines. Since then, Europe has developed the most robust GI infrastructure of any global region. Today, the French wine industry alone is populated with 1,239 wine appellations (Alston & Gaeta, 2021). In Europe, improving the incomes of farmers is one of the explicit objectives of the GI system (Réquillart, 2007).

EFFECTS ON SMALL FARMERS’ SURVIVAL AND SUCCESS

GIs are understood to generate positive economic effects for value chains holistically by reducing of consumer misinformation, promoting of product quality and differentiation, and standardizing best production practices (Vandecandelaere et al., 2020). However, the effects of GI usage on small farmer income and small farm maintenance is inconclusive.

It is unambiguous that GIs increase total value in a supply chain. The average price of AOC wine in France is 45% higher than non-AOC wine. Distributing this premium across the third of French vineyards that are AOC-eligible implies a gross welfare gain of 14% of the total value of production (Alston & Gaeta, 2021). In their review of nine GI case studies from around the world, Vandecandelaere et al., 2020 quantified the price differentials for GI products: premiums ranged from 4% (Darjeeling tea; India), to over 50% (Kona coffee; Hawaii).

Török et al. (2020) conducted a systematic literature review of over 80 bodies of work focused on the economic impacts of GIs. They report that, while GIs certainly produce price premiums paid by consumers, there is significant heterogeneity in the site of value capture along the supply chain for GIs across region and industry. There’s no guarantee that farmers, rather than other supply chain actors, achieve greater prosperity from the premium. In fact, both consumers and retailers are more likely to obtain economic benefit from the presence of GIs in a supply chain than the primary producer (Török et al, 2020; Cei et al, 2018). For example, Colombian farmers producing GI café de Colombia receive disproportionately less economic benefit when the international price



for their product rises, than they do incur losses when the international price falls (Vandecandelaere et al., 2020).

In other cases, even if the value-added from the premium does trickle down to the farmer, enhanced production practices and quality standards necessitated by the GI generate increased costs that can cancel out the benefit from the premium. The shelf price of Comté (a GI-certified milk produced in France) is 15-20% higher than the price of standard milk in France; however, the farmers' income in this region is actually 8% lower than the national average because their input costs are higher and annual yield lower (Réquillart, 2007). In the case of Manchego cheese, a 45% consumer-paid premium translated into a 5.5% premium for farmers. However, in some case studies, farmers did directly capture price premiums. Kona coffee farmers in Hawaii earned between 50-70% for GI coffee depending on their point of sale (i.e. wholesaler or processor). For Vale de Vinhedos winemakers in Brazil, GI certification increased the large producers' net income by 56% and small producers' net income by 186% (Vandecandelaere et al., 2020).

In addition to probing the effect of GIs on farmer income, authors have also investigated GIs' direct ability to maintain small farms, prevent rural out-migration, and preserve local resources. In Japan, authors used a difference-in-difference approach to measure the impact of the Uonuma label on small farm maintenance when a municipal merger inducted an area of rice producers into the Uonuma region, suddenly giving them access to the label. (The Uonuma label is not an official GI, but is guarded by a producers' organization and signals widely-recognized quality.) They found that the use of the Uonuma label had a positive effect on the number of farm households and the total area of operated farmland. But while it led older farmers to prolong their farming career, the authors found that young farmers were not any more compelled to continue farming (Takayama, 2021). In Comté, where farmers can access the highly-regarded Comté milk GI, farm turnover and rural out-migration are lower than in all other parts of France (Bowen, 2010).

Of 18 Koerintji cinnamon farmers in Indonesia, all 18 agreed that the GI empowers the “social and human development” of the farmer. However, the respondents were split over whether GIs boost rural development or protect local resources (Menggala et al., 2021).

To conclude, existing evidence on the effect of GIs on farmer's economic performance is ambiguous at best. While GIs certainly inject value into the supply chain, it's common for value-capture to occur upstream from farmers. Some case studies indicate that GIs may be an effective tool for maintaining farms and reducing industry out-migration, but a wider range of contexts need to be studied before this claim can be made conclusively.

MECHANISMS

Throughout the literature, four primary mechanisms emerged to explain how GIs inject value into agricultural supply chains. Some of these mechanisms channel extra value to small primary producers more effectively than others.

These mechanisms are: branding and marketing, trust and cooperation, legal protection, and product quality.



1. Branding and Marketing

GIs are signaling devices which allow producers to differentiate their products to consumers (Réquillart, 2007; A.M. et al., 2018; Menggala et al., 2021). In most cases, GIs are collectively-owned brands that function like club goods. The reputation of the product's quality and integrity is a valuable asset whose exclusivity produces barriers to entry and prevents free-riding. Historically, the European Union, which manages the most extensive GI network in the world, used GIs primarily as a supply management tool. More recently, GI policy and strategy has focused on demand enhancement by investing in the branding power of GIs (Alston & Gaeta, 2021).

In Humboldt County, many SLCGs recognize the need to distinguish the cultural and craft uniqueness of Humboldt cannabis is recognized. The Uonuma case study suggests that even an informal GI, which is essentially a collectively-owned and -governed brand, could positively impact on the viability of growing cannabis on a small farm.

2. Trust and Cooperation

As a collectively-utilized asset, the existence of a GI necessitates some sort of collective governing body to preserve its integrity and enforce its protection (Belletti et al., 2017). Vandecandelaere et al. (2020) write that the governance of GIs strengthens professional coordination within the supply chain, allowing for strategic supply management, pricing policy, and sometimes, a more transparent and fair distribution of added value. This coordination prevents oversupply and facilitates inter-farm economies of scale.

In Comté, the Interprofessional Committee for Gruyère (CIGC) is governed with strong leadership and collective decision-making. In addition to economic strategizing, the CIGC is understood to reinforce a culture of trust between farmers and safeguard the traditional understanding of the product's *terroir*, ultimately defines sustainability and quality in the specific local context of Comté milk production (Bowen, 2010). In Indonesia, a leader of the Koerintji Cinnamon Jambi Geographical Indication Protection Society said that the GI is a tool for communication and negotiation between supply chain actors, which protects the product's quality and therefore maintains its stellar international reputation (Menggala et al., 2021).

3. Legal Protection

GIs are legally protected by international, multilateral, and national trade laws (Vandecandelaere et al., 2020). In effect, a GI can be understood as a trademark for the intellectual property that composes the *terroir* of the product (Alston & Gaeta, 2021). They defend small farms against false competition, in which competitors co-opt a recognizable term to create impressions for the consumer that their product shares the quality distinctions associated with that term, when it fact it does not (Menggala et al., 2021). When backed by a formal organization and/or governmental recognition, GIs provide tangible legal protection to counter the misappropriation of the name and the misleading of consumers (Vandecandelaere et al., 2020).

In California, state law prohibits the usage of a county name on the branding or labelling of a cannabis product unless 100% of the product originated in that county ("Humboldt County



Marketing Assessment, 2020). This legislation provides a firm foundation for SLCGs to continue building protection and recognition around the “Humboldt” brand name.

4. Product Quality

Finally, in most industries, GI certification is only achievable if the farmer meets a bare minimum of production procedures and quality standards. This aspect of GI governance is understood to create value for farmers by articulating the definition of *terroir* and, often, providing the knowledge, capacity, and incentive for farmers to adopt superior production processes (Bowen, 2010). In their study of Koerintji cinnamon farmers, Menggala et al. (2017) write that the “value-added” in this supply chain is the quantifiable investment in an Internal Controlling System, which monitors farmers’ production and ensures the integrity of the final product. In the case of the Penja pepper, produced in Cameroon, the GI organization proposed new techniques that multiplied yield per hectare per year by a factor of six, raising total profits by 565% (Vandecandelaere et al., 2020).

In March 2022, the International Cannabis Farmers Association announced the initiation of a Humboldt County Cannabis Appellations Baseline Study, which seeks to study and quantify the effects of the local weather, water, and soil on the quality of sun-grown cannabis (Kemp, 2022).

CONTEXTUAL APPLICATION

As the heterogeneity of case study findings indicate, the connections between GIs and practical benefits to small farmers are subject to much exogenous interference. Authors point to a variety of factors that influence the extent to which GIs’ benefits actually reach farmers’ pockets, especially the governance structure of the formal organization, level of governmental support, and the cost of achieving GI-certifiable production practices, which could either increase or decrease marginal costs per unit of production (Vandecandelaere et al., 2020; Bowen 2010; Cei et al., 2018).

As of January 1, 2022, the state of California has established an appellations of origin program for cannabis, which will begin to accept applications sometime in the middle of 2022. Approved cannabis appellations in California will be the first in the world (“Cannabis Appellations Program, n.d.). Organizations like the Origins Council, which hosts the Mendocino Appellations Project, are already leading farmers in efforts to organize and apply for a cannabis appellation in the coming months.

If GIs were incorporated into a strategy to support small cannabis farmers in Humboldt County, it would be crucial to design a governing body that democratically and transparently represents farmers in the supply chain. The comparison between the CIGC, which includes farmers in unanimous decision-making, and the Consejo Regulador de Tequila (CRT) in Mexico, which does not include farmers, is stark. In the latter case, the majority of GI’s value-added is captured by transnational supply chain actors (Bowen, 2010). Additionally, a strong national GI policy to support producers is a necessary but insufficient condition for GI success. Without government support, it’s unlikely that GIs are enough to significantly fuel rural development and mitigate rural out-migration. Government support could take several forms: in Hawaii, the Department of Agriculture provided technical assistance to help farmers register a Kona coffee trademark; tête de moine cheese receive public funding from the Swiss government; and, in the cases of café de



Colombia and Darjeeling tea, public officials actually participate in strategizing and decision-making (Vandecandelaere et al., 2020). As a local government with a vested interest in the legal protection and economic success of the small cannabis industry, Humboldt County could engage in any or all of these forms of support to bolster a GI effort.

It's notable that California already hosts a system that closely resembles GIs: American Viticultural Areas (AVAs), which differentiates wine products. By 2019, there were 245 AVAs established, 139 of which belonged to California winemakers. Unlike GIs, AVAs don't indicate particular production practices, but simply a region of origin. In the U.S., they are defined and recognized by the federal Tax and Trade Bureau (Alston & Gaeta, 2021). Although AVAs are specific to the wine industry and are not directly translatable to the cannabis sector, the concept of regional distinction and a policy infrastructure, albeit governed at the federal level, do already exist.

COOPERATIVES AND GEOGRAPHICAL INDICATIONS

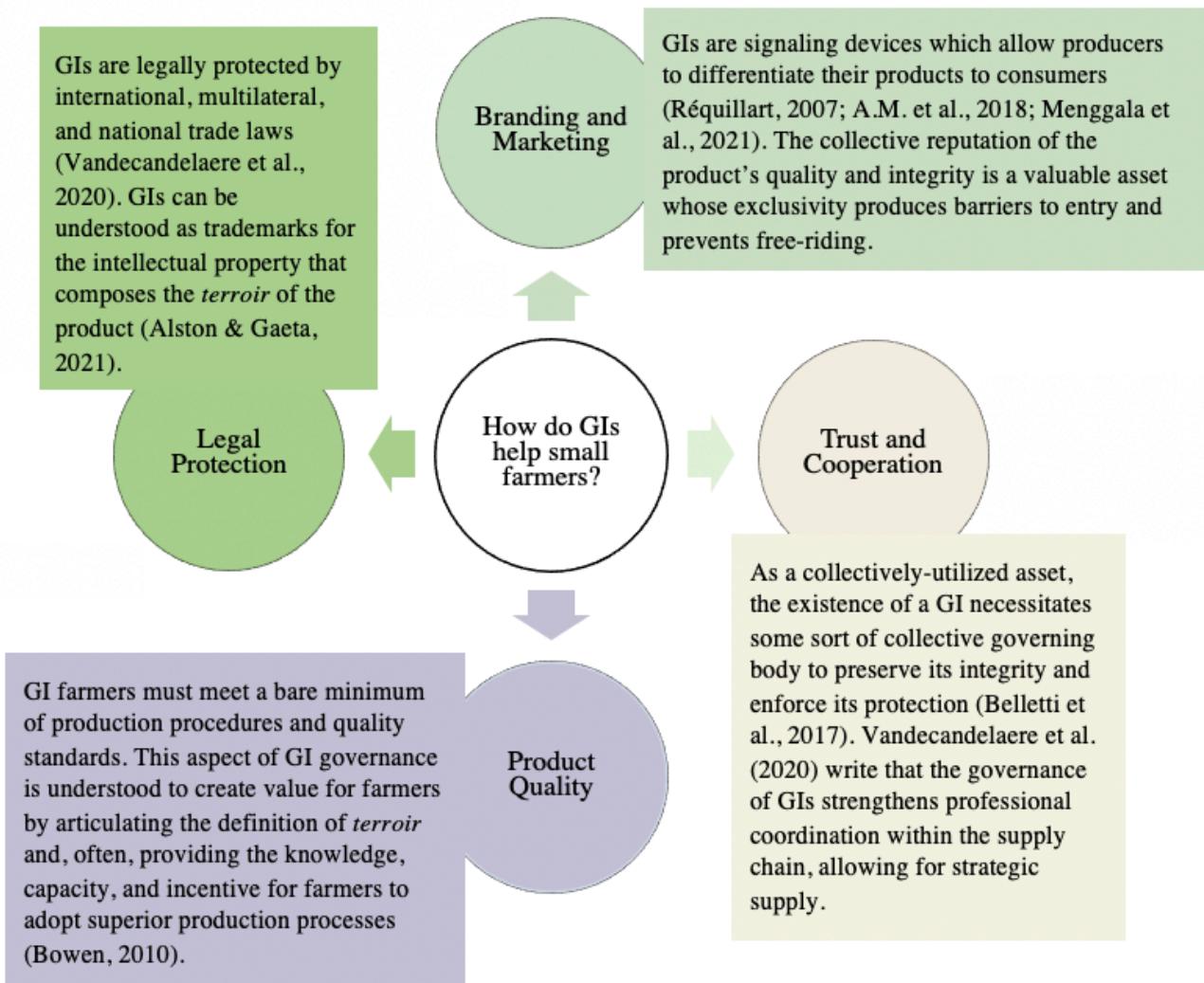
Finally, much of the literature suggests that cooperatives and GIs are symbiotic strategies to enhance the wellbeing of small farmers. Economic analyses show that farmers who belong to cooperatives reap more benefit from GI added-value than farmers who don't sell or market their product through a cooperative. For example, Parmigiano Reggiano producers who deliver to private processing firms experience zero or negative profits, on average, despite a 10-25% on-shelf premium for their product. In contrast, farmers producing the same cheese who deliver to cooperatively-owned processing plants come away with positive profits (Réquillart, 2007). In the case of Talliounine saffron, produced in Morocco, GIs increased farm-gate price by 40% for non-cooperative producers, and 500% for cooperative producers.

The relationship is bidirectional: while cooperative membership is associated with higher income benefits from GIs, GI utilization can also contribute to the mobilization of farmers into new co-ops. Between 2010 and 2014, the acquirement of a GI coincided with a massive movement towards cooperative formation among Talliounine producers. The number of cooperatives increased from 5 to 35 over these five years, while hundreds of farmers simultaneously gained a GI for their product (Vandecandelaere et al., 2020).

The Humboldt County Cannabis Marketing Assessment, researched and written to support the development of the marketing program, recommended that “marketing efforts should build close relationships with appellations and cooperatives as they develop,” and that “messaging should be developed with substantial community input and reflect community values” (“Project Trellis Marketing Program”, n.d.) Taken in conjunction with findings from the literature that agricultural appellations produce more financial benefit when governed, at least in part, collectively by farmers, it's clear the best outcomes for SLCGs will arise when cooperatives and GIs develop in connection and with mutual support.



Figure 9: GI mechanisms



B: FINANCIAL TABLES

Table 7: Financial effectiveness calculations

	Savings/unit	Number of units/farm	Total savings per farm	Number of farms	Total
Alternative 1	Workers Compensation Insurance: 20% per labor hour	\$50,000 in wages	\$10,000	Few	\$12,034
	Compliance Costs: \$3.39 per pound	600 pounds	\$2,034		
Alternative 2	\$50 per pound?	600 pounds	30,000	Few	\$30,000
Alternative 3	\$161 per pound	600 pounds	\$96,600	Many	\$96,600



*Table 8: Accounting for model farmworker cooperative
Acquired from the University of Wisconsin's Center for Cooperatives*

Farmworker Cooperative - Financial Considerations			
Starting Equity	\$5,000		
Revenue	Weekly	Monthly	Annually (8 mos)
Accounts Receivable (Farms)	\$ 4,200	\$ 18,200	\$ 145,600
Training fees	\$ -	\$ -	\$ -
TOTAL REVENUE	\$ 4,200	\$ 18,200	\$ 145,600
Variable Expenses			
Cost of Labor	\$ 3,200	\$ 13,867	\$ 110,933.33
Payroll taxes	\$ 264	\$ 1,144	\$ 9,152
Unemployment Insurance	\$ 160	\$ 693	\$ 5,546.67
Workers Comp - Farmworkers	\$ 48	\$ 208	\$ 1,664
TOTAL VARIABLE EXPENSES	\$ 3,672	\$ 15,912	\$ 127,296
Operating Margin	\$ 528	\$ 2,288	\$ 18,304
Fixed Expenses			
Payroll - Office staff	\$ 300	\$ 1,300	\$ 10,400.00
Payroll Taxes - Office staff	\$ 25	\$ 156	\$ 1,248
Workers Comp - office staff	\$ 5	\$ 20	\$ 156
Unemployment Insurance	\$ 15	\$ 65	\$ 520
Liability Insurance			\$ 5,000
Rent		\$ -	
Computer			
Phone		\$ -	
Internet		\$ -	
Office Supplies			
Trainings		\$ -	
TOTAL FIXED EXPENSES	\$ 344	\$ 1,541	\$ 17,324
NET INCOME	\$ 184	\$ 748	\$ 980

Variables	
Number of Farms	20
Hrs/wk/farm	10
Hourly rate charged to farms	\$21.00
Hours of work/wk on farm	200
Number of Farmworkers	10
Hours of work/wk/farmworker	20
Hourly rate paid to farmworker	\$16.00
Number of Office workers	1
Hourly rate paid to office worker	\$15.00
Hours of work/wk office	20
Equity buy-in for farms	
Equity buy-in for workers	\$500



C: UNDERLYING ASSUMPTIONS

⇒ **Two harvests per year:**

I calculated financial effectiveness with the assumption that the typical SLCG farm yields two harvest per year, each averaging 300 pounds of cannabis. According to Wilson et al. (2019), 48% of small growers harvest once, while 33% harvest twice annually. Additionally, Caulkins (2010), in his working paper “Estimated Cost of Production for Legalized Cannabis”, assumes that mixed-light growers produce two harvests per year. While the number of harvests varies between farms and years, two harvests seemed to be a reasonable and common annual outcome to use for basic calculations.

⇒ **300 pounds per farm:**

I calculated financial effectiveness with the assumption that the typical SLCG farm yield about 300 pounds per farm per harvest. This is the average yield of one SLCG with whom I have been in close communication. According to Bodwitch et al. (2017), the average small greenhouse operation cultivates 582 plants, which yield 0.6_pounds each to total about 349 pounds per farm. I privilege smaller growers and round down.

⇒ **Workers' cooperative charges the same as a FLC**

When calculating the financial effectiveness of Alternative 1, I assumed that the hourly cost of labor to farmers would not change between contracts with a FLC and a worker-owned cooperative. If a worker cooperative pocketed the same profits as a FLC, they would be significantly better positioned to fund their cooperative and operate with a net financial gain earlier. However, other models indicate that the difference between the price of hourly labor to farmers and the hourly wage paid to workers can be narrowed to provide even greater financial savings to farmers without necessarily lowering worker wage. A pilot cooperative farm workforce initiative in Colorado which ran in 2018 operated with a \$2 profit margin, compared to the \$7 average discrepancy separating farmer price and worker wage in the cannabis industry (“Mobile Farm Workforce Pilot”, 2018). A dynamic spreadsheet obtained from the University of Wisconsin Center for Cooperatives indicates that a \$1/hour reduction in price for farmers and a \$1/hour raise in wages for workers could allow a worker cooperative to generate net profit above its costs with the participation of at least 20 farms (see Table 8).

⇒ **A workers' cooperative would need to obtain a FLC license**

The definition of a farm labor contractor under California law is:

“Farm labor contractor” designates any person who, for a fee, employs workers to render personal services in connection with the production of any farm products to, for, or under the direction of a third person, or who recruits, solicits, supplies, or hires workers on behalf of an employer engaged in the growing or producing of farm products, and who, for a fee, provides in connection therewith one or more of the following services: furnishes board, lodging, or transportation for those workers; supervises, times, checks, counts, weighs, or



otherwise directs or measures their work; or disburses wage payments to these persons.” (Labor Code, Section 1682).

However,

“This chapter does not apply to:

- (a) A nonprofit corporation or organization with respect to services specified in subdivision (b) of Section 1682, which are performed for its members.
- (b) Any person who performs the services specified in subdivision (b) of Section 1682 only within the scope of his employment by the third person on whose behalf he is so acting and not as an independent contractor” (Labor Code, Section 1682.5).

I was unable to find an example of a farmer-owned FLC business in the state of California. The FLC license obtainment process was specifically made arduous with the intention of protecting farmworkers from exploitation. For this reason, it's possible that the novelty and inherent empowerment of the worker-owned FLC model could allow for a legal argument that such an entity should be able to circumvent the FLC guidelines and license requirements. Given Section 1682.5, it's reasonable to assume that a worker-owned cooperative would qualify as a farm labor contractor and therefore require the FLC license for operation.

However, Section 1682.5 does provide doubt that a partially- or wholly-farmer-owned FLC cooperative would be subject to FLC licensure. Firstly, the co-op may be registered as a nonprofit agricultural cooperative, in which case it would be subject to the exemption outlined in part (a). Secondly, as per the exemption defined in part (b), it could be argued that any individual who logically performs the activities listed in Section 1682 would assumedly be an employee of the cooperative who is therefore an employee of the “third person on whose behalf he is acting”. The farmers own the contracting body (co-op), the contracting body supplies the farmer, so in essence the farmers are still supplying themselves with labor.



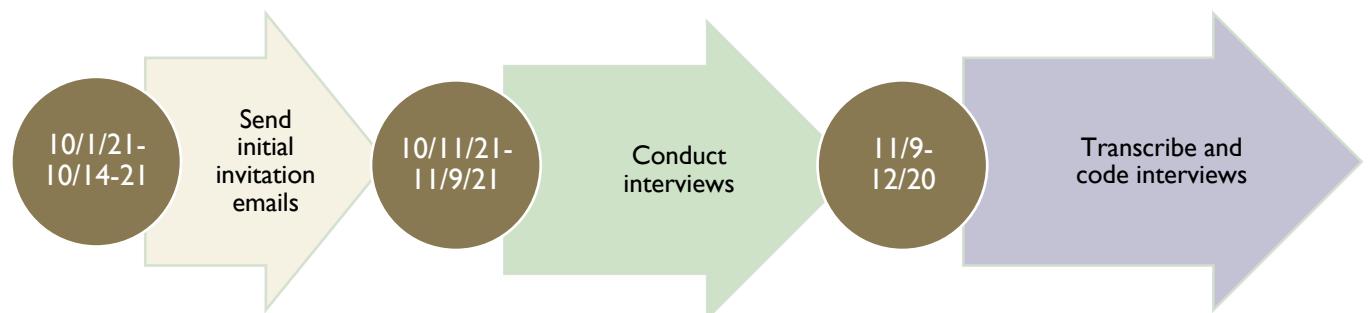
D: QUALITATIVE DATA

Methodology

Between September and November 2021, a team of three researchers composed of this report's author and clients conducted 28 one-on-one, semi-structured interviews with small cannabis growers in the Emerald Triangle. The data was analyzed with both inductive and deductive methods using Atlas.ti software. The collection of this qualitative data was a crucial research activity to inform the assumptions and values-driven objectives of this report. In the words of one SLCG: "Money shows data easily, economics gives you data to work with, which is what we used to get it through legalization. But now we need that human data because what [legalization is] doing in this community is devastating."

These 28 participants also participated in a prior round of research, at which point they indicated that they would be interested in being contacted for a follow-up interview. In the first-round survey, which was administered from August 6-September 21 2021, 82 respondents from the cannabis industry submitted responses. Over 85% said that they would like assistance developing cooperative systems.

Figure 10: Research timeline



The interviewers used the following list of questions to guide semi-structured interviews:

Ease into the conversation by asking board questions

1. Tell me about being a cannabis farmer in Humboldt.
2. What do you like the most/least about it?
3. What about this job is hard/easy?
4. I've heard [xyz]. Does that apply to you?

Ask open-ended questions that allow the interviewee to get into storytelling mode

5. Would you say that you've worked cooperatively in the past or at present?
6. Tell me about it.
7. Who else was involved?



8. What was hard/easy about the cooperative experience?
9. What is hard/easy about working individually?

Look for tensions, contradictions, surprises

10. How would a cooperative ideally work?
11. How are cooperatives done now?
12. Have you tried a cooperative route? What did or didn't work? Time, staff, resources, more?
13. How is that different?
14. How do you learn about what's new or happening with cooperatives?
15. Is there a cooperative you'd most like to emulate?
16. What motivates you? What part of a cooperative do you think will be most rewarding?
17. What concerns you about participating in a cooperative? How would you characterize potential risks?

Limitations

These interviews were conducted with respondents from a first-round survey who indicated that they would be willing to speak with a researcher for a follow-up interview. Not only did these individuals come from a sample which already expressed strong interest in forming cooperatives (over 85%), but the interview sample likely formed with selection bias: those growers who felt more strongly or were more curious about cooperative formation were probably more likely to make themselves available for an interview. It's possible that individuals with a strong interest/curiosity in cooperatives hold systematically different ideas, associations, and concerns about cooperatives. However, regardless of this possibility, CCEG will ultimately work only with farmers who opt into cooperative incubation. For this reason, the thoughts and opinions of highly-interested SLCGs are the most relevant data points to CCEG's strategy.

This research's small sample size is the one of its largest limitations. We spoke with only 28 individuals, the vast majority of whom—but not all—were small, legacy cannabis growers. More robust research with larger sample sizes are needed to corroborate the findings collected by our team and reported here.

Additionally, farmers were asked to describe their *ideal imaginings* for a cooperative, outside the known constraints posed by the market and regulations as they currently stand. While farmers certainly did make connections and comments about the current regulatory and market landscape, their comments about ideal cooperative activities should not be assumed to take into account the rigidity or unassailability of existing barriers.



Further Findings

Figure 11: What themes emerge in relation to cooperatives?

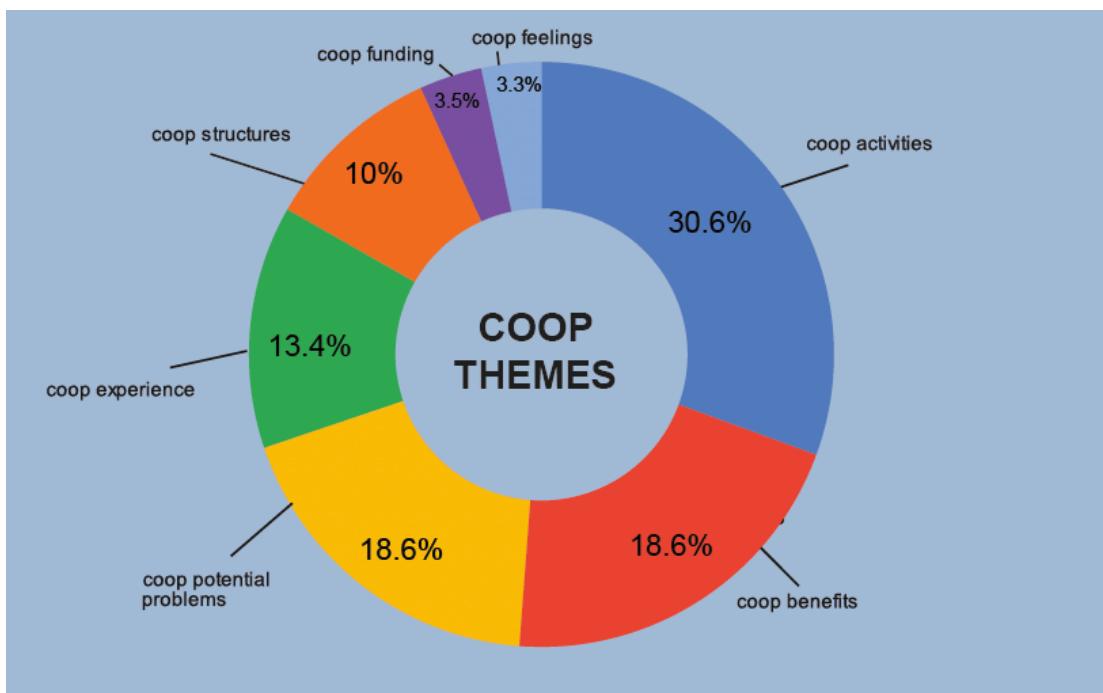


Table 9: All coded comments regarding distribution

<p>And distributors definitely don't do that. So what happens is that your bag goes to a distributor in Los Angeles, you pay transportation fees. Two months later, they say they can't sell it, they ask what you want to do, if you want to drop the price You say, no, let's just get it back home. So you pay transportation back. And the distributor comes back with your stuff and it's all brown. You can't even sell it anymore. It's garbage</p>
<p>The state created a model that doesn't work, there's no way to actually make money as a stand-alone distributor. You can if you're either a distributor-dispensary, a farm-distributor, but as a stand-alone distributor, that doesn't work. Mostly because you take on all the liability of the cultivation tax and excise tax, which makes a person or any entity very hesitant to take on anyone's product. It works counter to creating an environment where distros want to take product. If any product you take in, you immediately incur a gigantic bill, believe me, if you look at your bank account and you're a distributor, 90% of what's in your bank on any given is state tax money. And you have nothing to operate with.</p>



Distributors here handle 100-200 farmers, you can't sustain that.

I've heard nightmare stories of distros picking up product on 30-day terms but not paying for 19 months. It's wild to me, that is so illegal and yet here we are being tasked with the all of this compliance headache yet it doesn't seem like the state is coming after the distributors that are not conducting themselves as a compliant business, even outside of cannabis.

there are 3 distros that control over 75% of legal weed transactions in California. A lot of these big distros, they don't want to work with a farm that's under 4 acres in size, because for them, just on an administrative level, it doesn't make sense.

Now it's distribution companies come in, and then they have the power they take your product and what they do with it after they have it is a huge gray area, a lot of farmers have been seriously impacted by that. We're also in an area now where everybody's trying to get a piece of the pie. That is true of distribution companies, where they're doing a \$50 or \$100 markup, \$50 at the minimum, and farmers don't really know, there isn't a lot of understanding, once you agree to a price, what's the market? What are distribution companies making? What are retailers making? I think is a huge factor affecting us now is that everybody wants to mark it up so much that farmers are the ones taking the loss.

And also, moving your product is an issue. I spoke about the distribution factor where you're forced to work with a distribution company to sell your product, and they're marking it up, and it gets marked up across the board.

And then we have multiple distribution companies in this area as well. And I always think there should be one distribution company that deals with Humboldt as a whole.

Right now the retailers and the state are making 90% of the profit and the buyers and the distros are low-balling farmers, where we're not even able to break even, we're losing money now.

Last year, in the state of California, I'm not allowed legally to process the weed on my facility. I don't have a processing license, even though I'm so small, I have to send it off to be processed. Okay, so I take a quarter of my harvest, and I send it off to be processed. And it gets done like 200 miles down the road, and I can't be there when it's done. And they tell me it was only 3 pounds when I sent them like 40 pounds of material, and that it was all trim, and it was this and that.



The distribution model is the biggest problem right now, the fact that the distribution has to exist, the fact that you give them your weed, and I just bitched out a distro today, and then they get paid. They tell you you're gonna get paid in X amount of time, they don't pay you in that time, maybe they got paid, maybe they didn't.

Either way, the reason they get paid is because that's their problem. And they should pay you either way, that's why they exist. And half the time, they didn't get paid, and they get fucked, but I think they should still fucking pay you or give you interest, we're the ones that did all the work and they didn't do anything.

Definitely, with distributors. It's not my role here at all and I don't have a ton of experience in that field. But just from talking to the partner that does handle that, I mean, it's just...

And we don't have the scale that we can provide a volume at a competitive price, we're very much an afterthought for the distributors. You don't really have any leverage in that relationship at all. And processors, if anything, it's just the same.

But the distributor, like I said, we're just sort of an inconvenience is kind of the impression I get talking to the guy who handles our distribution and sales stuff. He's just like, Yeah, we don't have a lot of leverage, so we're sort of like, if we can make it work for whoever we can find, they'll pay us eventually, in theory.

One of our big hurdles with distributors is that, at the end of the day, we produce a really inconsequential amount overall. So a distributor doesn't want to do the work of promoting our brand

Essentially each of our harvests is a single delivery to a distributor's network of dispensaries. They want to know that they can come drop stuff off every two weeks from you like three times a year. Just having more volume to be able to tell them, if you work with us, we have X amount that you guys could sell for us. That definitely is more appealing from what I understand of the distributors' needs from a business perspective.

I would appreciate if I could avoid distributors and transporters.

The distributor is merely a transportation. We pay them to take it from the facility to the dispensary, following all the legal guidelines. Because the distributors don't make that much money, and they're doing all the back and forth between the producer and the retailer, they're not doing a good job of representing the producer. They're trying to make their own profit, and I respect them for what they're doing, but they don't have the bandwidth to represent us for who we are.



So working cooperatively to have that voice with our distributors

I started working at Humboldt Sun Growers Guild, which is a distribution company. I was the farmer coordinator there and a bunch of other things as well.

A lot of people are mad at distributors right now, which I think is misplaced anger. But in any event, they're all saying they need to start their own distro.

It was all on handshakes. I'm friends with Chris, he owns Redwood Roots. And they're a nice organization because they try to keep the legacy folks together and promote that and educate.

would it be the farmers who are fulfilling all of the different roles?

I think it would have to be. The idea behind this is we would be cutting out two different middlemen.

have craft distro come in and speak to them so they can understand supply chain issues so that when they're evaluating and grading, they understand that what they're really seeing is a broken system, not reality.

The dispensary is the worse part. We need farmers markets. We need access



E: IMPLEMENTATION: Mechanisms for Cooperative Pitfall Mitigation

In order to understand the nature of organizational design mechanisms that cooperative can adopt to mitigate common pitfalls (see Implementation), we may use Iliopoulos (2010)'s framework of community, contract, market, and hierarchy mechanisms, defined as follows:

- Community solutions **draw on common idea systems** to induce collective action
- Contract solutions **use mutual agreements** to induce collective action
- Market solutions **create financial incentives or penalties** to induce collective action
- Hierarchy solutions **impose power (authority)** to induce collective action

Table 10 categorizes suggested solutions by a) the pitfall they address, and b) their solution type.

Table 10: Strategies by pitfall and mechanism type

Actions	Pitfall			Type of Mechanism			
	Free-Rider Problem	Customer vs. Community	Democratic + Agency Costs	Community	Contract	Market	Hierarchy
<i>Highlight narrative of community</i>	✓	✓	✓	✓			
<i>Codify new member processes</i>	✓		✓	✓	✓		✓
<i>Itemize costs and benefits on checks</i>	✓					✓	✓
<i>Define customer vs. community orientation</i>		✓		✓	✓		
<i>Consider consumer education in marketing</i>		✓		✓	✓	✓	
<i>Contingent pricing for customer orientation</i>		✓	✓	✓	✓	✓	✓
<i>Monitoring/enforcement for customer orientation</i>		✓			✓	✓	✓
<i>Join networks/cooperative federations</i>	✓	✓	✓	✓			
<i>Target and educate future co-op leaders</i>	✓	✓	✓	✓	✓		
<i>Limit farm size differentials</i>	✓	✓	✓	✓	✓		✓
<i>Require turnout threshold for elections</i>	✓		✓	✓	✓		
<i>Institute one-farm one-vote</i>	✓		✓	✓	✓		
<i>Report regularly on management decisions</i>	✓		✓	✓	✓		✓



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