

# Cannabis Market Study

PROPOSED FINAL REPORT | JULY 2025

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## Legislative Auditor's conclusion

Washington businesses produced two to three times more cannabis than retailers sold in 2023. Inaccurate and incomplete data limits the Liquor and Cannabis Board's capacity for data-driven regulation.

## Key points

- The Liquor and Cannabis Board (LCB) regulates Washington's cannabis industry.
- LCB regulates production by limiting growing space. It does not have an accurate measure of the amount of cannabis produced.
- JLARC's consultant, RAND, estimated broad ranges for cannabis produced, sold, and consumed in 2023 due to data limitations.
- These data limitations prevent LCB from answering the Legislature's questions about supply and demand and restrict its capacity for data-driven regulation.
- An existing oversupply of cannabis and 31.6% decline in producers since 2017 indicate challenging market conditions for producers that will be licensed through the Social Equity in Cannabis Program.

## Executive summary

Washington voters legalized recreational cannabis in 2012 with the approval of Initiative 502. It charged LCB with:

- Establishing regulations.
- Issuing licenses to cannabis businesses.
- Collecting a tax on retail sales.

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## LCB regulates cannabis businesses

Cannabis is cultivated for tetrahydrocannabinol (THC), a compound with psychoactive effects. THC is concentrated in the plant's flowers.

LCB issues three main types of cannabis licenses: producers, processors, and retailers.

LCB regulates cannabis production by limiting the amount of growing space (called canopy) that a producer may have. In 2023, cannabis producers had an estimated 12.2 million square feet of canopy.

Limiting canopy is a common regulatory approach among states with legal recreational cannabis. It is not a measure of the output from cannabis producers. LCB does not currently have reliable data that it can use to quantify the amount of cannabis produced by licensed producers. In addition, LCB's lack of production data meant that the Joint Legislative Audit and Review Committee's (JLARC) consultant, RAND, had to rely on other data and assumptions about production for its estimates of cannabis production.

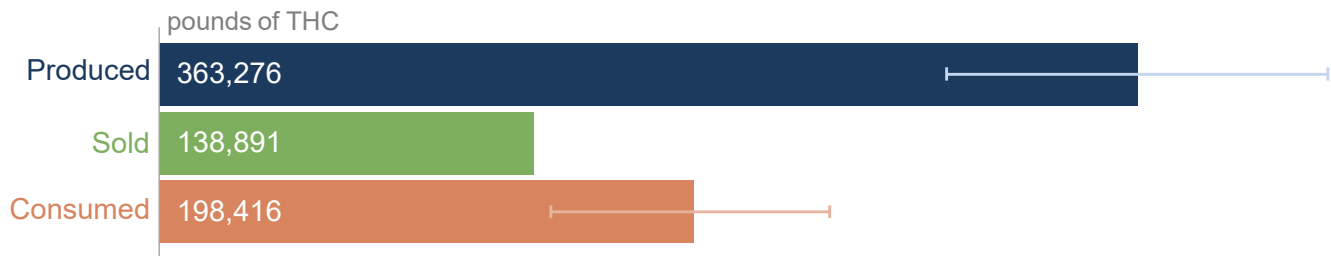
## Production is likely two to three times higher than sales

The 2023 Legislature directed JLARC staff to review whether cannabis production aligns with market demand and capacity. JLARC staff contracted with the RAND Corporation (RAND) to conduct this work. RAND performed a similar study for LCB in 2019.

Due to limitations of LCB's data, RAND was only able to estimate the level of cannabis production, sales, and consumption for 2017 and 2023. Though the estimates for 2023 have a high level of uncertainty, these are the best estimates using available data.

RAND estimated that production was two to three times higher than cannabis sales from licensed retailers in 2023. Estimated consumption is higher than legal sales. This suggests that consumers get roughly 60-70% of their cannabis from licensed retailers in Washington.

**Figure 1: Estimated cannabis production was two to three times higher than sales in 2023**



Note: Light blue and light orange lines indicate range of estimated values for THC produced and consumed.

Source: JLARC staff analysis of RAND report.

In the absence of production data, RAND relied on other data for its estimates. This included LCB data about producer canopy sizes and grow type, LCB monthly retail sales data, and detailed sales data from a private vendor.

## LCB's incomplete data limits its ability to estimate production and sales and regulate the industry

LCB set up its regulatory approach to require detailed data from cannabis licensees. This approach would allow for traceability of cannabis across the supply chain. The intent of this is to do the following:

- Ensure regulatory compliance.

- Prevent diversion (product exiting the legal market to the illegal market).
- Maintain product safety.

LCB has not had a usable traceability system since 2017. That was the last year for which reliable data about cannabis production and sales was available. LCB now uses a system called the Central Cannabis Reporting System (CCRS) to collect data from cannabis licensees.

JLARC staff analysis found that CCRS data is incomplete and unreliable. RAND was unable to use CCRS data to determine the actual amount of cannabis produced and sold. Major issues with the data include:

- Sales records are incomplete. This affects the ability to quantify total sales.
- Limited ability to link data, such as inventory, product detail, and sales records. This affects the ability to quantify the amount of THC sold and the amount of THC produced.
- Weight data for wholesale cannabis is unreliable. This affects the ability to quantify the weight of cannabis produced.

The current data system does not support a data-driven approach to regulate the cannabis industry. This affects LCB's ability to promote public safety, collect correct tax revenue, and identify diversion.

LCB plans to replace CCRS with a traceability system. It estimates a new system will be fully implemented by 2031.

Until a new system is in place, LCB will likely have incomplete and unreliable data with which to regulate the cannabis industry. 88% of states with legal recreational cannabis use one of two commercial traceability systems. More than a decade after legalization, Washington's lack of a traceability system makes it an outlier among states.

### Wholesale cannabis lots

A **lot** of cannabis refers to:

- The harvested flowers from one or more cannabis plants of the same strain, weighing up to five pounds.
- The trim, leaves, or other plant matter from one or more cannabis plants, weighing up to 15 pounds.

## Social equity program provides licenses to eligible applicants

The 2020 Legislature created the Social Equity in Cannabis Program. The program's stated goals are to:

- Reduce barriers.
- Promote equity.
- Increase participation in the industry by those adversely affected by the War on Drugs.

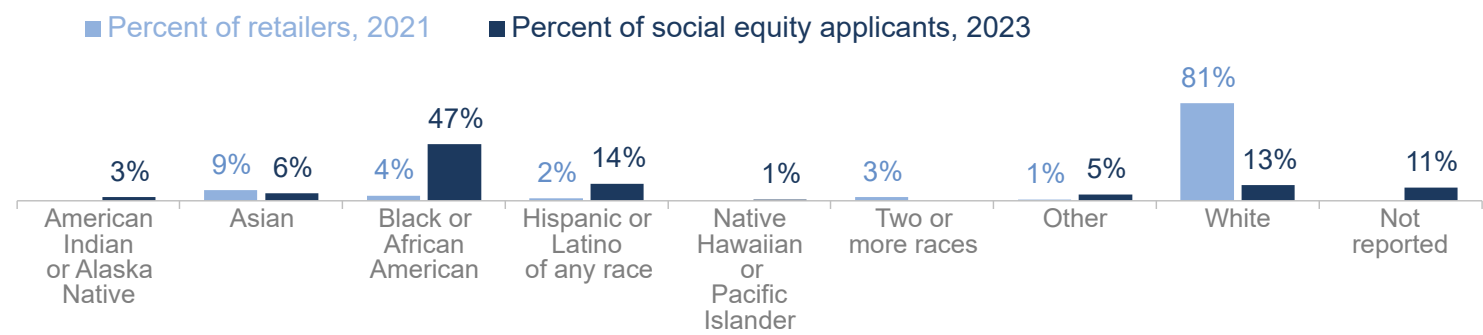
LCB can issue licenses to social equity applicants based on criteria defined in statute. LCB opened the first application window for 46 social equity retail licenses in 2023. The Legislature has authorized additional licenses, including:

- 100 new processor licenses, to be issued in 2023 and onward.
- 10 new producer-processor licenses, to be issued in 2025 and onward.
- 52 new retail licenses, to be issued between 2024 and 2032.

83% of states with legal recreational cannabis have social equity programs. Most of those programs have started in 2018 or later, and there is limited information about outcomes.

LCB issued nine social equity retail licenses as of February 2025. The program has reached a more racially and ethnically diverse population compared to existing licensees.

**Figure 2: Washington's social equity program has reached a more racially and ethnically diverse population compared to existing licensees**



Source: JLARC staff analysis of Liquor and Cannabis Board data.

**Social equity producer licensees likely to face challenging market conditions**

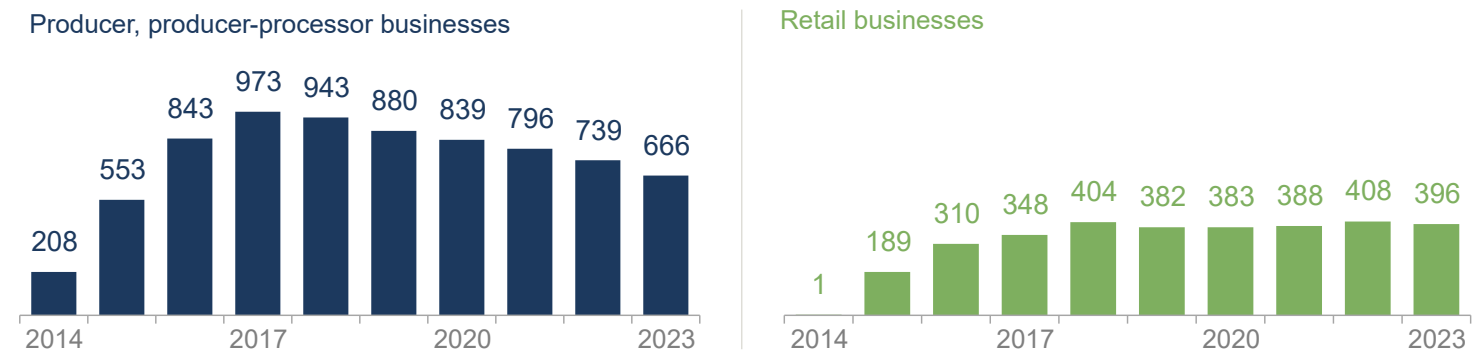
The Legislature asked JLARC staff to estimate the impact of ten new producer licenses that will be issued under the social equity program. These licenses have the potential to increase statewide cannabis canopy by 300,000 square feet, or 2.5% of the 2023 canopy.

Industry stakeholders stated that Washington's current cannabis market is challenging, especially for producer businesses. This is due to the imbalance between supply and demand, and various factors that make Washington's cannabis industry unique compared to other commodities markets.

JLARC staff analyzed turnover and survival rates for cannabis businesses. The number of cannabis producer businesses declined 31.6% since 2017. The number of retail businesses held steady over the same period. Producers have a higher five-year failure rate and year-over-year turnover rate than retailers.

This suggests that new producers are likely to encounter difficult market conditions.

**Figure 3: The number of producer businesses declined since 2017, while the number of retail locations remained relatively steady**



Note: 2024 data for producer and producer-processor businesses was unavailable during this study's fieldwork phase. The number of producer and producer-processor businesses is derived from Department of Revenue data. A single business may hold multiple LCB licenses. The number of retail businesses is derived from reports of sales and tax amounts to LCB. A single business may operate multiple stores.

Source: JLARC staff analysis of Department of Revenue data and Liquor and Cannabis Board data.

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## **Legislative Auditor's recommendations**

1. LCB should submit a plan to the appropriate committees of the Legislature by December 31, 2025, that details the resources and funding needed to collect accurate data from licensees by December 31, 2026.
2. The Legislature should consider other ways to increase social equity in the cannabis industry beyond new producer licenses.

LCB partially concurs with recommendation #1 and concurs with recommendation #2. You can find additional information in the **Recommendations section**.