
Regulated Substances & Gaming Committee

HB 2255

Brief Description: Concerning inversion and diversion of cannabis.

Sponsors: Representatives Waters, Wylie, Kloba, Davis and Cheney.

Brief Summary of Bill

- Requires the Liquor and Cannabis Board (LCB) to regularly audit the data in the Cannabis Central Reporting System (CCRS), with a goal of identifying and preventing illegal inversion and diversion of cannabis into and out of Washington's regulated cannabis system.
- Describes illegal inversion and diversion of cannabis.
- Directs the LCB to compare data in the CCRS with data or information like status of a cannabis license, status of a business license, and filings and reports related to taxes or business activity submitted to the Department of Revenue.

Hearing Date: 1/18/24

Staff: Peter Clodfelter (786-7127).

Background:

The Liquor and Cannabis Board (LCB) administers cannabis laws including licensing and regulating cannabis producers, processors, and retailers. The LCB may adopt rules regarding, among other things, the books and records required to be created and maintained by cannabis licensees, the reports to be made to the LCB, and inspection of the books and records.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

The LCB uses a system called the Cannabis Central Reporting System (CCRS) for mandatory data reporting by cannabis licensees. This data reporting system created by the LCB has been used since Washington transitioned away from a previous version of a traceability system that relied on a third-party vendor.

Under Washington law and the terms of their licenses, licensed cannabis producers may sell cannabis only to licensed cannabis processors and to other licensed cannabis producers, and may sell immature plants or clones and seeds to cooperatives, qualifying patients, and designated providers. Licensed cannabis processors may only sell cannabis products at wholesale to licensed cannabis retailers and to other licensed cannabis processors. Licensed cannabis retailers may only sell cannabis products at retail to adult consumers age 21 and over and to certain qualifying patients who are age 18 and over.

Licensed cannabis producers and licensed cannabis processors may use a cannabidiol (CBD) product as an additive for the purpose of enhancing the CBD concentration of any product authorized for production, processing, and sale. These CBD product additives may be obtained from a source not licensed under the Uniform Controlled Substances Act (UCSA), subject to requirements including that the CBD product not meet the definition of "cannabis product" in Washington law, not be a synthetic cannabinoid, and be tested for contaminants and toxins by an accredited testing laboratory.

Except for activities authorized under the following authorities, it remains illegal under the UCSA for a person to manufacture, sell, distribute, deliver, or possess with intent to manufacture or deliver, cannabis or cannabis products: (1) licenses issued by the LCB or the Pharmacy Quality Assurance Commission; (2) provisions of the Washington State Medical Use of Cannabis Act; and (3) terms of tribal-state cannabis agreements.

Summary of Bill:

The LCB is required to regularly audit the data in the CCRS to identify outliers or anomalies in data for inconsistencies in reporting, for the purposes of identifying locations where either or both the activities of inversion of cannabis or cannabis products, or diversion of cannabis or cannabis products, are occurring, and undertaking enforcement to prevent their occurrence.

Inversion of cannabis or cannabis products into the regulated cannabis system is described as a person licensed by the LCB as a cannabis producer, processor, or retailer, purchasing or obtaining cannabis or cannabis products from an unauthorized person or source.

Diversion of cannabis or cannabis products out of the regulated cannabis system is described as a person licensed by the LCB as a cannabis producer, processor, or retailer, selling or transferring cannabis or cannabis products to an unauthorized person or recipient.

In addition to data in the CCRS, including reports of sales of cannabis and cannabis products, for the purpose of preventing inversion and diversion of cannabis and cannabis products, the LCB

may also consider and compare any books and records of cannabis licensees that the LCB has authority to inspect. The LCB must also consider and compare the following data or information:

- the status of a cannabis license issued by the LCB and whether it is active and valid or whether it has been suspended, revoked, canceled, or has otherwise not been active and valid during any applicable time;
- the status of a business license issued by the Department of Revenue (DOR) and whether it is active and valid or whether it has been suspended, revoked, canceled, or has otherwise not been active and valid during any applicable time; and
- filings and reports related to taxes or business activity submitted to the DOR.

For purposes of the bill, the CCRS is defined as the system used by the LCB for the reporting of events or information submitted by or on behalf of cannabis licensees and certified laboratories to the LCB, as required by the LCB.

Appropriation: None.

Fiscal Note: Requested on January 12, 2024.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.