



# Hawai'i's Medical Marijuana Economy: A Roadmap for the Future

An HDA White Paper  
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## Introduction

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As Hawai'i's medical marijuana industry gets off the ground, it is up to us, the dispensaries, related businesses, patients, healthcare professionals, and government officials to identify and implement the best path forward for the industry. To do this we need information, and since the modern medical marijuana industry is in its infancy across the world, we may have to cast our nets far and wide to find the data we need to make good decisions for our industry.

One of the most interesting results of the Hawai'i Dispensary Alliance's search for such information concerns the remarkable similarities between the Israeli medical marijuana market and Hawai'i's. Due to our research, we believe that there are a number of important lessons for Hawai'i's future that we can learn from Israel's experience in turning its agriculture, technology, and spiritual resources into one of the world's strongest medical marijuana industries.

## Israel's Experience

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The original information that sparked this research comparing Israel and Hawai'i was the similarity in projected market sizes – both the number of patients and the number of dispensaries. But once we looked deeper into Israel's medical marijuana industry, we discovered that Israel is essentially 2–3 years ahead of Hawai'i in the development of a similarly sized and regulated industry. This section will detail

a number of factors which make Israel a good model for Hawai'i's future, including: Israel's history with medical marijuana, its industry metrics, its particular national strengths, and its plan for the future.

## The History of Israel's Medical Marijuana Industry

Israel's relationship with cannabis is thousands of years old, with frequent mention throughout the Torah and related historical documents, and Israel currently has one of the oldest and largest regulated medical cannabis industries in the world. For our purposes we'll be looking at the modern history of Israel and the regulation of cannabis – a story intimately tied to the research of Dr. Raphael Mechoulam, “the Father of Marijuana Research”. Dr. Mechoulam is an organic chemist, first at the Weizmann Institute and then at the Hebrew University of Jerusalem since 1972, who was the first to isolate and identify the active compounds in cannabis – CBD and THC – in 1964 and 1965, and the endocannabinoid system in the early 1990s. He made these discoveries while working with Dr. Yechiel Gaoni, funded in part by the American National Institute of Health (which has funded his work every year for the last 50 years). Spurred by the scientific communities' lack of knowledge concerning the active compounds in cannabis, compared to its extensive knowledge of the active compounds in opioids and cocaine, Dr. Mechoulam has spent the last 50 years

working with groups across Israel, the US, Canada, Spain, Germany, Brazil, New Zealand, Italy, and Japan to refine our knowledge of cannabis and its potential medical implications. He now speaks frequently about the future of medical cannabis research and the progress being made to standardize medical products across the world.

Despite the fact that medical cannabis research was incepted in Israel, and its use has been a part of Israel's cultural heritage since ancient times, modern Israel's relationship to cannabis has been very conservative. Cannabis use for any reason has been banned for decades, and only recently relaxed for medicinal use under a highly regulated medical marijuana dispensary system. In fact, Dr. Mechoulam's discovery of the active components in cannabis in 1964 were based on trials of 10 pounds of hashish obtained from the local police evidence locker. Yet, unlike the United States, there is no particular history of stigmatization for marijuana use in Israel, just a general suspicion of drugs that the industry is working to overcome. This is why Mimi Peleg, who directs large-scale cannabis training for the Israeli government's state supported, discreet, successful and expanding medical cannabis distribution center, MECHKAR, argues that "patient education must be a part of any successful cannabis program." The change in public perception in Israel is being spearheaded by Boaz Wachtel, co-founder of Israel's Ale Yarik political party – the leader of the cannabis medicalization movement in Israel. According to Wachtel, the key to

this changing of public attitudes globally stems from "the success of cannabis medicalization on national levels in countries such as Israel, Canada, Netherlands, [which are] pointing to the fact that medical cannabis programs... help the sick and the dying."

While the population is increasingly friendly towards the use of medical marijuana (and Israel's sizeable population of recreational users), the medical system in Israel still reserves cannabis as a last resort for people with serious illnesses, often near the end of their lives, and places bureaucratic hurdles in the way of obtaining a permit. The modern Israeli medical marijuana program requires a patient to work with their doctor to first try four other drugs against pain, and the doctor must certify that those treatments did not help over time – then a doctor may recommend medical cannabis to the patient (the only exception is Tourette syndrome, for which medical cannabis is a first line course of treatment). After the patient receives the doctor's recommendation for a permit to use medical marijuana, the recommendation is passed on to the Health Ministry which verifies it and makes the final decision on whether or not to issue a permit. If a permit is granted, the permit is referred to one of Israel's eight authorized medical cannabis dispensaries, which then contacts the patient and works with the patient to meet their needs. Patients are not obligated to stay with the initial dispensary they are assigned to, but they do have to undergo a time intensive and costly process to switch dispensaries.



Right now medical cannabis permits in Israel are issued by the Health Ministry for cancer patients, Tourette syndrome, and those with pain-related illnesses such as Parkinson's, multiple sclerosis, Crohn's Disease, other chronic pain conditions and post-traumatic stress disorder as well as phantom pain, anorexia, and fibromyalgia. The medical marijuana dispensaries in Israel have embraced their historic role in the development of medical marijuana and its provision of medicine. They view themselves not just as agriculture companies or pharmaceutical companies but as treatment company's - dedicated to ensuring patients receive the best treatment available. Each of the dispensaries is also engaged in ongoing research, in cooperation with countries and organizations around the world, to develop better and more standardized medicines from medical cannabis.

### The Metrics of Israel's Medical Marijuana Industry

Which brings us to the current state of Israel's medical cannabis industry by the numbers.

Israel has a slowly growing population of 8 million people and according to a recent US survey, approximately 1.25% of a country's population will consume medical marijuana as a regulatory program reaches maturity. Thus it is estimated that there are ~50,000-110,000 eligible patients for medical marijuana under the current rules across the whole country.

Medical cannabis was first allowed in 1992 in Israel, but did not see many registered users until new regulations were adopted in 2007. The industry has grown considerably since then, starting with ~400 patients at the beginning of 2009 and growing to more than ~25,000 by the end of 2015.

- ~400 patients in 2007
- ~1,800 patients in 2009
- ~10,000 patients in 2012
- ~11,000 patients in 2013
- ~25,000 patients in 2015
- ~30,000 patients predicted by the end of 2016

This amounted to a \$40,000,000 industry in Israel in 2013.

It is important to note that patients in Israel are required to pay a flat monthly fee for their medicine, and are provided with between 20 and 30 grams of medicine per month by their dispensary in return. This places a low market cap on medicinal revenue for the industry, so the eight private companies licensed in Israel to produce and distribute medical marijuana are looking to maintain profitability in other ways - through research and product development.

As a result of its long history researching medical cannabis, and its current openness to continued research, Israel has become the United States' unofficial offshore medical marijuana research center. Despite the fact that the U.S. has a \$6 billion - and growing - medical marijuana industry, the government

continues to block scientific study of the drug. Those who wish to do so must go through the FDA, DEA and the National Institute on Drug Abuse. Even when American researchers are given approval for federally funded research, they have only one source: a farm at the University of Mississippi, operated by NIDA. So many US firms, as well as organizations from countries across the world, are partnering with Israeli dispensaries to research the medicinal benefits of medical marijuana and new products, technologies, and techniques. As a result, there are a lot of medical marijuana patents in Israel right now which are available to export around the world.

One of the organization's fostering this research and development is iCAN, led by CEO Saul Kaye, who estimates that the legitimate global cannabis industry will eclipse \$60 billion in cannabis revenue by 2018 – not including the ancillary services like “the lighting, the water, the electricity, everything, we’re talking about a very large economy.” So large is the potential global industry that the Israeli Loss Adjusters Association recently stated that if Israel is able to take a lead in the global acceptance of medicinal cannabis, it would have greater economic potential for the country than exploitation of the country's ample natural gas reserves. And there is reason to believe this optimism, there are over 200,000,000 people taking cannabis illicitly worldwide, with more and more able to access legitimate medicinal and recreational markets every day at an average global price fluctuating between \$5 and \$15 dollars a gram.

In addition to the growing global economic opportunities, just within Israel itself legalization would enable the growth of a sizeable industry. According to the Jerusalem Institute for Market Studies – legalizing marijuana would generate \$245 million dollars in taxes and save \$180 million dollars in law enforcement and penal costs directly related to marijuana usage. In the last year alone between 275,000 and 800,000 Israeli adults used marijuana illicitly, generating ~\$644 million dollars for the black market. At the same time, legalization would ease the burden on the justice system where ~5% of all criminal cases, court decisions, and criminal prisoners relate to cannabis offenses.

Israel's eight dispensaries are aware of this potential and working now to lay the ground work for their future success, even though only two of them are currently profitable. The Israeli dispensaries are vertically integrated – each doing its own growing, product development research, and dispensing. The largest and foremost dispensary, Tikun Olam Ltd., supplies 1/3 of the market and makes up almost 30% of the entire medical cannabis industry in Israel. In addition to supplying medical cannabis, Tikun Olam has spent the last decade compiling a 10,000 person, peer-reviewed treatment database (the largest and most comprehensive in the world) which it partners with organizations across the globe to use for new research – including recent joint partnerships with Compassionate Care Center of New York and MedReleaf, Corp of Canada. It has also developed



new strains of cannabis in double-blind studies to treat epilepsy, Crohn's disease, multiple sclerosis, cancer, and neuropathics. Most of Israel's medical marijuana is grown outside, so the largest expense for Israel's cannabis industry continues to be security costs rather than energy costs – “perimeter security with face recognition cameras connected to a center, and human guards around the clock. After that there is the labor cost, growing cannabis is a labor intensive industry.” There is also no marketing allowed – only a website, Facebook page, and Twitter.

### The Success of Israel's Medical Marijuana Industry

Israel has more than a few things going for it in the medical-marijuana industry. First, there are fewer hoops to jump through to get desired testing and research done. Second, the country's environmental and social climates are ideal for cannabis growing. And third, there is a wealth of knowledge in the country when it comes to farming, agriculture, and technology development.

#### *Government Support*

As mentioned above, the Israeli government has taken and is taking steps to meet the needs of the industry, but it will take a while before Israeli legislation catches up to the dynamic cannabis research and startup ecosystems supporting the industry.

The Israeli Knesset (the Legislature), prompted by leaders from several of its

major political parties, is currently considering a few different measures for the limited decriminalization of marijuana. Another bill would allow the doctors to directly prescribe cannabis instead of the Ministry of Health. Whereas these are not expected to pass this year, the conversation and openness of the country are growing substantially as it begins to grasp the economic potential of medical cannabis for Israel's future. Even the Police Inspector General recently called for the police and the state to work together to reexamine their stance on cannabis after sitting down to study what's happening around the world. There is also growing public support for medicinal use and legalization of cannabis in Israel, similar to the numbers in the US. A recent study by the Jerusalem Institute of Market Studies found ~75% of Israeli's believed that marijuana had legitimate medical uses and ~26% supported full legalization.

“We're working to reorganize the field of medical cannabis in order to lighten the process for those who need it and, on the other hand, to make it harder for the material to trickle into the regular market,” Israel's Health Minister Yaakov Litzman said. “There is no reason to make things difficult for whoever really needs it, just because there's someone who exploits it illegally.”

One area that the government has supported the industry recently is by empowering Israeli companies to import medical cannabis for testing through the government's Medical Cannabis Unit. This is allowing Israel to position itself as

an international hub for testing and development of new medical cannabis products. Relatedly, the Israeli government is also working with the UN to certify itself as an organization allowed to export marijuana under the restrictive international drug transportation regimes. This will allow Israel to become a major exporting player in the global market in the future.

Despite the ongoing complaints from dispensaries, patients, and doctors that Israel's medical cannabis regulations are too restrictive, the strict and tedious beginnings of the Israeli program could be the necessary elements of its future success. "The con in Israel is there are a large number of patients who can't get recommendations because they don't meet this limited list of conditions that have been chosen to start the process," said MAPS' Rick Doblin. "But the advantage is that Israel is building public support in a pretty steady way, with no backlash. When you have these broader, anything-goes [policies], there often is the potential and actuality of a backlash." Mimi Peleg, who directs large-scale cannabis training for the Israeli government owned cannabis distribution center, agreed that the Israeli government's heavy hand has been a blessing in disguise. "In a democracy, you've got to take into consideration that it's all about compromise. And in terms of slow and steady growth, we are having a responsible growth rate," she said. "I was shocked when I recently did a tour of cannabis clubs in California and Colorado to learn that in those states, you don't

have to be taught how to use cannabis, ever. There's a real disconnect going on there that I think we've got solved here."

### *Environmental and Social Climate*

Israel's climate is temperate, though a bit dry, yet it has one of the most highly developed agriculture sectors in the world. With only 20% of its land being naturally arable, Israel remains a large net exporter of food crops to the global market. Israel's environment and agricultural expertise is perfect for growing cannabis, and Israel is making progress in repurposing its agro-tech industry to the development of new and improved strains of cannabis. There is even a call right now in Israel to turn the recently struggling Arava agricultural sector into a dedicated 6,000-acre cannabis production area for export.

In addition to the environment facilitating the growth and future dreams of the cannabis industry in Israel, and the increasingly favorable social climate discussed above, the country also maintains a very spiritual attitude towards the industry as well. For example, the Tikun Olam dispensary and farm are imbued with a higher sense of purpose, reflected by the aura of Safed, an age-old center of Jewish mysticism where the dispensary is located, as well as by the dispensary's name, a reference to the Jewish concept of repairing or healing the world. There is also an on-site synagogue in a trailer and overlooking the farm, the blue-domed tomb of a rabbinic sage and his wife.





The industry is focused on relieving the pain of those in need – holocaust survivors, terminal cancer patients, epileptic children, and soldiers suffering from PTSD. Inbal Sikorin, the chief nurse at Hadarim retirement home explained how “a few years ago we found we had lost the way, we had learned to prolong life, but without quality.” Now, in partnership with Tikun Olam, the residents’ quality of life has substantially improved – one holocaust survivor used to sit with her hands and forearms long frozen in an upward, twisted position – now, with the help of medicinal cannabis products, she has joined a tai chi class. This story, and many more are making their way throughout Israeli society and changing minds as they connect with people on a personal level, and reconnect people to their ancient traditions of medicinal cannabis use.

### *Technology and Agriculture*

One reason Israel has been so successful economically is its fostering of a modern, cutting-edge technology industry to support its agriculture, medical, military, and natural resource industries. This cross-pollination of technology with other industries has now inseminated the medical marijuana industry and sparked a flowering of new ventures expanding the boundaries of modern medicine and the global cannabis industry.

Some examples of these tech leaders and a few of their recent innovations include:

- ▶ **One World Cannabis** – A NY publicly-traded R&D pharma & treatment company

- ▶ **BreedIt Ltd.** – An agro-breeding solutions company
- ▶ **Trendlines Agtech** – An Israeli incubator for food and agriculture companies that gets part of its funding from the Israeli government
- ▶ **Syqe Medical** – Is producing the world's first medical-grade metered-dosed cannabis inhaler
- ▶ **Eden Shield** – Which is developing a natural insect repellent
- ▶ **KanaboSeed** – A joint venture between BreedIt and Seach (another Israeli company) which creates designer cannabis strains at the request of physicians
- ▶ **Flux** – A Jaffa based company, created a system to grow plants, tomatoes or cannabis, in water
- ▶ **Cannabics Pharmaceuticals** – Recently partnered with Bazalet Pharma to produce medical cannabis capsules that are now available to all medical cannabis patients in Israel

In addition to the pure agricultural technology side, Israeli technology innovations in the cannabis industry can also be found in computerized watering and lighting systems; industry specific security equipment; bar code tracking systems; sorting, extracting and packaging technologies; and medical technologies such as a non-invasive brain scan to determine the most suitable strain for a patients’ ailment. The sheer diversity of technologies and opportunities that the industry in Israel is developing is a good indicator of the health of the industry and of its future potential.

## The Future of Israel's Medical Marijuana Industry

As Israel moves into the future, its governmental support for the industry, friendly environmental and social climate, and technological and agricultural sophistication will continue to support the growth of its medical marijuana industry. This is evidenced by the proliferation of marijuana related investments in the country, the diversity of hard-science research projects, and the increasing exportation of Israeli expertise in this industry.

### *Investment*

Israel's investment scene is growing quickly – offering a host of interesting investment opportunities and new partnerships in the medical marijuana industry and showing substantial promise for the future of the global industry. A few examples of the breadth and depth of the industry include:

- ▶ Yissum, the technology transfer arm of Jerusalem's Hebrew University, announced a deal with Australian medical cannabis venture PhytoTech Medical (which recently raised \$6 million in a public offering), to develop precisely dosed pills for the mainstream pharmaceutical market
- ▶ Tikun Olam is partnering with MedReleaf out of Canada to export new strains and provide testing and pharmaceutical development services
- ▶ Eybna, a local cannabis startup announced that has developed

natural terpene based cannabis flavors, free of illegal traces, with the intention of selling them as a branded component to product manufacturers around the world. Terpenes are the aromatic compounds that give each cannabis strain its unique smell and flavor

- ▶ Philip Morris, invested \$20 million in Syqe Medical for their medical-grade metered-dose cannabis inhaler

### *Research*

In addition to the growing investment realities of the medical cannabis industry in Israel, pure medical research (and attendant product breakthroughs) continues to be a defining attribute of Israel's contribution to the global industry. For the last 50 years the US has outsourced its medical marijuana research to Israel, and that trend is only accelerating. A few research partnerships of note involving Israel's leading institutions include:

- ▶ Dr. Mechoulam – who is working with three U.S. companies to develop cannabinoid drugs, including Kalytera.co a California based company
- ▶ Cannabics Pharmaceuticals, Inc. – a Maryland company conducting R&D in Israel, is finalizing the first large-scale clinical trial of cannabis to treat cancer patients
- ▶ Tikun Olam – is continuing to grow and use its one-of-a-kind, decade long database of 10,000 cannabis patients to make



breakthroughs in cancer and PTSD treatment in conjunction with US organizations

- ▶ The United States National Institute of Health – continues to grant Dr. Mechoulam \$100,000 to continue his research into the chemical components of cannabis in an attempt to create standardized prescription pills

### *Exports*

Finally, as Israel opens itself to the potential futures of medical cannabis, it is seriously investigating the legal and economic potential of becoming the world's first large-scale exporter of medical marijuana products. To reach that goal Israel will have to combine government support with private interests to build a new industry – but this has been done times beyond count across the developing world from much weaker foundations than the current Israeli medical cannabis industry.

- ▶ As mentioned above, there are calls within the country to turn the newly struggling Arava agricultural sector into a dedicated 6,000-acre cannabis production area for international export.
- ▶ The government has already taken steps in this direction by turning its Medical Cannabis Unit into an approved importer of cannabis under the UN rules governing international travel of elicit substances, and it is very close to obtaining similar permission to export cannabis.

- ▶ Israel currently hosts one of the world's largest cannabis technology conferences – the 2nd Annual CannTech Conference will be held in March 2016, hosted by iCAN.
- ▶ Israel leads the world “in research and development, from the medical side to the medical devices to the agro side” according to Saul Kaye, CEO of iCAN, and more importantly it leads the world in integrating these disparate technology fields to find new solutions to new problems.
- ▶ Finally, over the last fifty years Israel has demonstrated its ability to grow new export industries from scratch to become world renown – it has done it with natural gas, military hardware, computer technology, agricultural exports, and medical technology to name a few.

In closing this section on the potential futures of Israel's medical marijuana industry, it is important to remember why so many people around the world see such a future in this bustling new industry organized around the use of a single plant. This optimism for the industry, according to Saul Kaye, CEO of iCAN, stems from the idea that it is not just a new industry, but a new medical marijuana *economy*. “Every business can touch the future cannabis economy. If you're a marketer, if you're an online guru, if you are a tech person, if you want to develop a drug, a prescription medication, if you want to develop grow-tech, everything can be developed into this new economy.”

## Hawai'i's Future

Which brings us to Hawai'i and the lessons that we can learn from Israel's experience about how to create a safe, sustainable, effective, and profitable world-class medical marijuana industry for Hawai'i's future. The following metrics will help the medical marijuana industry in Hawai'i gauge the progress of its own development over the next few years.

- ▶ While Israel's population is a little larger than that of Hawai'i, the growth rate of Israel's patient base – from ~10,000 to a ~25,000 over the course of three years – very closely mirrors all of the projections that we have seen for Hawai'i's total medicinal market: from ~10,000 patients prior to Act 241 a year ago, growing to ~14,000 patients today, and continuing to grow to ~25,000 patients in 2017
- ▶ Both Israel and Hawai'i have similarly bureaucratic systems for issuing patient licenses – including primary caregiver oversight and a restricted list of ailments
- ▶ Both Israel and Hawai'i have designed a medical marijuana system with 8 vertically integrated dispensary and grow operations
- ▶ Israel and Hawai'i both have high levels of illicit, but non-stigmatized marijuana usage leading to widespread support for medical marijuana legalization efforts – as well as old cultural connections to the use of marijuana

- ▶ Both Israel and Hawai'i are agricultural powerhouses with a government looking to revitalize old industries with new technologies
- ▶ Israel and Hawai'i both subsidize their technology and green industries
- ▶ Both countries have highly developed medical, medical technology, and medical research sectors

Based on these similarities, important numbers and concepts that Hawai'i's industry should consider when predicting its own future include:

- ▶ 1.25% – the percentage of the population who is likely to qualify for a medical marijuana license – in Hawai'i: ~17,750
- ▶ 2 – the number of Israeli dispensary licensees which have earned back their investment costs over the last three years
- ▶ 25–30% – the market share of the largest dispensary licensee in Israel
- ▶ \$40,000,000 – total Israeli dispensary revenue from medicinal products in 2013 for ~11,000 patients
- ▶ Research Partnerships – Israeli experience has shown that both current and future success for medical marijuana dispensaries relies on a strong focus on basic research, pharmaceutical advancements, and medical technology innovation in partnership with other organizations. Success in the medical marijuana industry is not



guaranteed in the same way that full legalization seems to guarantee fiscal solvency for dispensaries.

- ▶ Investment – The two solvent dispensaries in Israel both invest heavily in medical research to push the industry forward. So obtaining sufficient financing to fund several years of medical research in addition to dispensary operations may be important for the long-term success of an organization in a medical marijuana only industry.
- ▶ Treatment not Sales – The other key factor contributing to the success of Israel's two solvent dispensaries is a focus on treatment and on the patient, not just on growing and selling good marijuana.

Because of these similarities, Israel's experience over the last few years is a good metric for the next few years of growth for Hawai'i's industry. You have likely gleaned many lessons specific to your organization and the place you see for yourself in the industry just by reading through the history and status of Israel's current industry. So let us turn to the potential futures of the medical marijuana industry in Hawai'i.

The Hawai'i Dispensary Alliance believes that the medical marijuana industry has three choices for its future:

1. The industry can devolve into competing fiefdoms controlled by each dispensary licensee with high medicine prices and little potential

for growth or expansion.

2. The industry players can work independently to build a small, relatively profitable industry that remains hobbled by antagonistic relationships with the public, the various levels of government authority, and related industries.
3. The industry and the government can work together to foster and sustain a medical marijuana *economy* in Hawai'i that capitalizes on all of Hawai'i's strengths to become a globally renowned progenitor of medicinal research, new technology solutions, and holistic patient care.

Each choice depends on the actions of those involved in the industry, and each choice results in a very different future for Hawai'i. Let us look at how each of these potential choices can shape Hawai'i's future, and what each of us can do to welcome or prevent them.

### Competing Fiefdoms

A not unlikely scenario for the industry in Hawai'i is that each of the eight dispensary licensees will carve out a particular geographic niche and a comfortable patient base with a nice profit margin and then stop. This almost happened in both Ohio and Illinois before the legislation creating the industry even passed, and it happened in Nevada before the legislature expanded the licensing system.

On its face this option is not without its appeal for the dispensary licensees – the legislature created an oligopoly, so why

not benefit from the advantages of the system to repay your investors and make some money? And therein lies the chief danger of this approach – complacency. In a world with enough patients to go around and legislative barriers to new dispensaries, the current batch of licensees will have no incentive to improve the patient experience; cut costs to lower prices for patients; develop new techniques and medicines; or otherwise push the industry forward to benefit Hawai‘i as a whole. In fact, given a high-enough revenue cap for the industry (a sufficient number of patients) the dispensary licensees could actually spend their time and money advocating against expansion of the industry in favor of protecting their own bottom-line. The internet service provider industry in Hawai‘i, and across many parts of the US, is a perfect example of this type of thinking and of the dangers for both the industry and the end-consumer. Because there is little competition, instead of generating new technologies, business synergies, growth industries, and wealth for the economy at large, the ISP industry is characterized by high prices for consumers, poor service, and uncompensated fiscal and practical rents on the economy as each player tries to protect its market share from even the possibility of competition.

And this is the best case version of a static oligopoly in Hawai‘i, the scenario rapidly worsens in a world where the patient levels are not enough to sustain the eight dispensaries and they are forced to fight and cannibalize each other for

revenue – creating competing fiefdoms that each hemorrhage money in an attempt to obtain market share while simultaneously failing to provide adequate care for the patients they are meant to serve and adequate security for the communities in which they operate. If this description of the potential medical marijuana industry sounds bleak, that is because it is, but the one thing it is not is unrealistic. Take Israel’s example, while right now Israel’s legislature is looking to expand the industry beyond the current crop of dispensaries, previously, only two of the eight dispensaries were regularly profitable in a market with a similar number of patients as projected in Hawai‘i.

This need not be the only, or even the likely, option for Hawai‘i’s future. The Hawai‘i state legislature has already adopted provisions allowing for future expansion of the number of licensees in 2017, as well as for expansion of the patient pool by permitting dispensaries to accept patients with medical certification cards from other states as soon as 2018. Yet a larger market size does not fix the issue of a fundamentally oppositional industry where each of the eight major players is more concerned with short term profit maximization than with the development of the industry as a whole. This failure to work together will drive up medicine prices for patients; place high costs on Hawai‘i’s economy instead of contributing to Hawai‘i’s future growth; and justify extensive enforcement mechanisms.



## Independent Islands

But is it enough for the dispensaries to simply refrain from conflict with each other? Will industry cohesion provide the quality patient services and economic benefits that Hawai'i needs from this industry? Not necessarily. An industry is not built in a vacuum, but in this potential future for Hawai'i's medical cannabis industry, the dispensaries operate on the presumption that it is. Each dispensary focuses on being a dispensary – growing, manufacturing, and selling medicine – working to create sound businesses that provide quality and affordable patient care while complying with state and federal regulations to the best of their abilities. This certainly sounds better than a self-destructive oligopoly of an industry, but the insular nature of this model contains significant drawbacks for Hawai'i's future as well. While the dispensaries may work together to build a small, relatively profitable industry for themselves; without cooperating externally, and casting a vision for the industry as a whole, the potential size and growth available to the industry will be significantly curtailed by antagonistic relationships with the public, the various levels of government authority, and related industries across the state.

The first danger of an insular industry mentality is an antagonistic relationship with the public. The medical marijuana industry across the country is obviously benefiting from a growing groundswell of public support. Recent polls show upwards of 81% of the national population support legalizing some form

of medical marijuana and over 58% support legalizing recreational marijuana. Even back in the year 2000, 77% of people in Hawai'i supported legalizing marijuana for medical use. So there is significant and sustained public support for the idea of the medical marijuana industry in Hawai'i. But, it is the implementation of the industry that will most directly impact the future of the industry in the eyes of the public. There is already concern about a rigged application process, legislators applying for licenses, and mainland interests running the dispensaries; local communities across the islands have begun agitating against dispensary locations in their neighborhoods; and this is all in addition to the traditional public alarm over potential ties to organized crime, product diversion to minors, and the dangers of marijuana addiction. If the dispensaries focus their attention on being well-run, profitable, sustainable businesses that provide good medical services to patients, they will miss an important opportunity to engage with the public, change hearts and minds, and expand their profit potential. In Hawai'i, there is a further barrier to engagement besides the industry's own penchant for insularity – the current statutory ban on dispensary advertising. With neither the inclination nor mechanism to reach out to the public, the dispensaries cast aside an important tool for creating positive, future policy changes for the industry in the legislature and city governments and risk losing control of the narrative regarding their own industry.

The second danger for an insular medical marijuana industry in Hawai'i is the possibility of ignoring the potential for healthy relationships with Hawai'i's various governmental actors. Whether a consciousness or unconsciousness decision on the part of the licensed dispensaries, or merely an unfortunate casualty of the resource constraints inherent in starting a new enterprise, refusing to engage with every level of government and to advocate for a better industry poses significant risks for the individual dispensaries and the industry as a whole. Due to the significant news coverage of the cannabis industry across the country and the frequently conflicting positions taken by the various state and local agencies, dispensaries will not be able to simply operate according to the rules and hope to "fly under the radar." At the state regulatory level alone, each dispensary will likely have to comply with regulations issued by:

- ▶ Department of Health
- ▶ Department of Public Safety & Narcotics Enforcement Division
- ▶ Department of Business, Economic Development, & Tourism
- ▶ Department of Commerce and Consumer Affairs
- ▶ Department of Taxation
- ▶ Department of Labor & Industrial Relations
- ▶ Department of Human Services
- ▶ Department of Land & Natural Resources
- ▶ Department of Agriculture
- ▶ Department of Transportation
- ▶ Department of the Attorney General

At the county level, dispensaries should expect to interact with the local counterparts of each of the state agencies as appropriate, as well as the local:

- ▶ County Police Department
- ▶ Office of Economic Development
- ▶ Neighborhood Commission Office
- ▶ Department of Design & Construction
- ▶ Department of Planning & Permitting
- ▶ Department of Environmental Services
- ▶ Department of Corporation Counsel
- ▶ Department of Transportation Services
- ▶ Department of Information Technology
- ▶ Department of Facility Maintenance
- ▶ City or County Councils

This is to say nothing of the necessity for dispensaries to comply with federal regulations and interact with a large number of federal agencies as well; but right now we are only discussing the interaction of the dispensaries and local government organizations. All of these local entities can adopt their own regulations requiring inspections, certifications, and other forms of compliance from the fledgling industry; and each of the entities maintains a very different attitude towards the industry, usually exemplifying the attitude of those within the particular department. Additionally, the state legislature, judiciary, and governor's office; the county mayoral offices; and various local





commissions frequently promulgate rules, policies, laws, and resolutions. Each entity, issue, and government employee is a new opportunity to advance or hinder the industry; but the dispensary licensees will have no say in the direction of the industry, as regulated by any level of state and local government, if they remain focused on their own internal affairs.

The final two dangers both stem from a decision by the dispensary licensees to focus inwards on their own development and operations instead of engaging with related industries and taking a leadership role in creating the business environment across the state. The first is the very real possibility that the medical marijuana industry will become yet another industry in Hawai'i dominated by mainland interests and values. The second is the age-old problem of the *tragedy of the commons*, in this case, each of the dispensaries will benefit greatly from the growth of a medical marijuana *economy* in Hawai'i, but because no actor is responsible for the inception and management of the industry as a whole, the opportunity will be completely wasted to the detriment of the whole industry.

First, as in the case of Israel, the medical marijuana industry is comprised of so many more elements than just dispensaries and grow operations. To name just a few broad categories, the industry needs: laboratories, pharmacists, doctors, construction workers, greenhouse designers, retail associates, agricultural technology experts, real estate services, building and system design engineers, public relations firms, lobbyists,

community development experts, environmental consultants, renewable energy implementation, product and process development companies, lawyers, insurance companies, hospitals, alternative medicine practitioners, maintenance organizations, CPA's, investors, technology firms, incubators, marketing firms, banking services, compliance consultants, experience designers, educators, tourism industry liaisons, labor relations experts, product tracking software, and security providers. The dispensaries in Hawai'i can either foster local solutions for each of these needs – creating a local medical marijuana *economy* that generates additional demand, industries, and jobs across the islands – or the dispensaries can simply outsource fulfillment of each of these needs to mainland service providers and become mere retail outlets for mainland companies.

In addition to the risk of an industry dominated by mainland interests, there is the second risk that the industry will never develop simply due to neglect of the big picture by its chief stakeholders – a version of the tragedy of the commons. In the traditional formulation of the tragedy of the commons a group of stakeholders can each benefit from a shared resource, but none are responsible for its conservation nor are they incentivized to protect it, and so the resource is exhausted and everyone is left with nothing. In our case, the stakeholders are the dispensary licensees and the resource is the potential for a mature medical marijuana industry. For this reason, the

typical approach of starting a new dispensary like any other new business is precisely the scenario that the industry must be most vigilant in opposing in order to avoid the tragedy of the commons. The dispensary licensees are not starting new businesses in an established industry; they are starting new businesses *and* a new industry – with all of the additional responsibility and opportunity that entails.

It will be familiar and comfortable for dispensary owners to retreat to what they know and ignore the larger aspects of the industry as they simply focus on making their own businesses the best that each can be as a business. That is certainly a herculean task in itself, and there is nothing inherently wrong with this approach at an individual level; but it is through precisely this normalcy that the insidious appeal of complacency will seduce each individual dispensary licensee to take the easy way out. The issue then is not at the individual level, but at the collective level. Right now each dispensary can say it is not their kuleana; some other dispensary will pick up the slack and lead the industry forward; but history has shown that when every stakeholder thinks this, no one actually steps up. The end result is always the same: a limited, stagnant industry suffering from a lack of vision and large-scale organization. If this happens, dispensaries will be directly responsible for reducing the size, value, and potential profitability of their own industry, and they will miss out on the substantial cost savings and trust that come from working with local partners. More importantly,

Hawai‘i will miss out on a rare opportunity to create a new, sizeable local industry to replace those it has lost in recent years. It is time that Hawai‘i and the medical marijuana industry begin to dream again.

### **A New Medical Marijuana *Economy***

But what should our collective dream for the industry include? It is not enough to sit back and simply point out issues with the current approach of the industry; if we do not consider the alternatives, this exercise will be worth less than the pixels displaying this text. As we have seen, it is the eight initial dispensary licensees who must set the tone for the industry, lay the foundation for its future development, and take up the mantle of leadership. In this regard, each dispensary licensee will make a conscious choice: They will choose to either focus their attention solely on their own dispensary during its formative stages; or they will choose to work collaboratively – actively leading the creation of a new medical marijuana *economy* composed of positive, mutually reinforcing relationships with state and local governments, local communities, and local businesses that will create unforeseen value for the dispensaries and for all of Hawai‘i.

As such, it is not only the dispensary licensees with a role to play in the industry – the state and local governments, the public, and businesses from across the state must each decide how they will respond to this new medical marijuana *economy*. Each part of the



industry must work together to capitalize on Hawai'i's strengths while embodying the values of transparency, compliance, flexibility, proactivity, and vision. So let us finally consider how we might convert this general roadmap for the future of Hawai'i's medical marijuana *economy* into concrete actions for each stakeholder.

### *Dispensaries and the State*

As we saw earlier, Hawai'i can build a medical marijuana *economy* that capitalizes on Hawai'i's strengths to become a globally renowned and profitable progenitor of medicinal research, new technology solutions, and holistic patient care. But this requires the industry and the state to work together. Dispensaries cannot simply rely on the sufferance of well-meaning legislators to determine what is best for the future of the industry. They must take an active role by informing the legislature, state agencies, and local governments what the industry's needs are, and by suggesting opportunities for cooperation and state involvement in the industry. Similarly, the state and its subdivisions cannot merely rely on the dispensaries to create an industry that will benefit all of Hawai'i. The state must provide the support necessary to create positive, profitable feedback loops between the dispensaries, Hawai'i's public, and related industries across the state

There will only be eight dispensary licensees for at least the first few years of Hawai'i's medical marijuana industry. In the time between 2016 and 2018 there

will be at least three major occasions to change the law to better serve the needs of the industry and Hawai'i's medical marijuana patients – two more legislative sessions and the Department of Health's release of the final administrative rules governing the industry. It is imperative for the industry, and for the individual success of each of those eight dispensaries, that they get together to identify and fund a forward-looking, long-term legislative agenda to take advantage of these opportunities. The only way the industry will be able to identify and implement beneficial changes for dispensaries, patients, and local businesses is by coordinating direct lobbying activities with public relations campaigns and community outreach efforts at both the dispensary and the industry level.

Hawai'i's medical marijuana industry and the State of Hawai'i must work together to craft policies and regulations that foster the growth of the industry as an essential part of Hawai'i's plans for its economic future. Only through active state protection and support of the medical marijuana industry as a future engine of economic growth across Hawai'i's islands will the industry ever be able to capitalize on Hawai'i's many strengths to reach its potential. Based on Israel's experience with not only its own medical marijuana industry, but with all of the industries which it has developed into world-class engines of quality exports and economic growth, we know that this supportive relationship between the state and industry requires a few things from both parties, namely:

transparency, compliance, flexibility, proactivity, and vision.

- ▶ **Transparency** – The industry and the government both must be transparent and open in their intentions and their processes to enable the industry to work with the government and vice-a-versa, and for both to be able to work effectively with the public. The Hawai'i state government must be transparent at every level – legislative, executive, agency, city, county, and local community board. It should clearly state its goals for the industry and the tools it is empowering its agencies with to make those goals a reality. Our state's administration should make every effort to solicit the opinion of the industry and the community in public forums to ensure that its actions are headed in a direction favorable to the growth of the industry and the future of Hawai'i. In response, the industry needs to be transparent as well, disclosing its associations and plans and working directly with government agencies to empower every aspect of the industry – not just dispensaries, but the myriad of follow-on and ancillary services and industries which relate to the medical marijuana *economy*. Transparency means the industry and each of its individual components must work openly with the legislature, local communities, law enforcement, and the various agencies including the

Department of Health, Department of Business, Economic Development, and Tourism, Department of Transportation, and the Department of Public Safety. The spread of accurate information about the state of the industry and the intentions of both the State of Hawai'i and the industry's participants is the only way to keep both sides on the same page and moving forward, and at the same time foster meaningful headway in the industry's public relations efforts.

- ▶ **Compliance** – The only way to win the public relations debate about the merit and safety of the industry is if the State of Hawai'i drafts and passes strong initial medical marijuana laws (which they have) and if every player in Hawai'i's medical marijuana industry plays by the rules. We have to change the hearts and minds of the populace through the good behavior of our industry before the legislature will be able to expand the industry in meaningful ways in the future. This request for strong regulations is time-dependent however, in the long run, such regulations will eventually become a significant weakness for Hawai'i if we allow the industry to remain where it is for the next ten or even five years. Thus the industry will require flexibility to be successful.



- ▶ **Flexibility** – In the short term, as in Israel's experience, heavy initial regulation allows the establishment of a legitimate industry who's proper functioning over several years will engender goodwill and public trust, but then the industry must be expanded and regulations changed to allow the growth of the industry and the attendant creation of a medical marijuana *economy*. This will take a concerted effort on the part of the industry to comply with current laws while at the same time lobbying for future expansions of the industry and government support. Many nations have taken this road for the development of new industries – the US with textiles, India with pharmaceuticals, Brazil with technology, and Germany with banking to name only a few – and it is now Hawai'i's turn to consciously turn this opportunity into future growth for all.
- ▶ **Proactivity** – Both the industry and the State of Hawai'i must work proactively to make the medical marijuana *economy* a reality for Hawai'i. The industry must be proactive in pushing the state to make the industry a priority – requesting new legislation, subsidies, tax relief, laboratory support, research incentives, and market opportunities. Likewise the state must be proactive in investigating the progress of

medical marijuana in other states and countries to identify and capitalize on Hawai'i's unique comparative advantages in innovative ways. Neither the industry nor the state can afford to simply sit and wait for things to develop – we will be left behind. This industry is developing quickly around the globe and it will require both the industry and the state to continually push for new ways of approaching the industry to find what is right for Hawai'i and all of those who call it home.

- ▶ **Vision** – Tying each of these ideas together is the need for leadership and a long-term vision for the future of medical marijuana in Hawai'i. Every stakeholder in this new medical marijuana *economy* has the opportunity and responsibility to take a role in leading the industry forward and casting a vision for what the industry can do for Hawai'i. Whether telling your neighbors about the future you see for yourself in the industry, writing in the media about your goals and the goals of your business in the industry, or working with the legislature and state agencies on a strategic plan for the industry – each of us must evangelize for the industry and for what it could be. These different visions need not coincide in every detail; the important thing is that every member of Hawai'i's medical

marijuana *economy* dreams of what they can do in the industry and of what the industry can do for Hawai'i. Only then will we be able to collectively advance towards a future that provides jobs, education, economic development, and prosperity for all of Hawai'i.

These values are indispensable – the dispensaries cannot afford the luxury of working alone, ignoring the law and rule-making processes, or using the legislature to actively undermine each other. Yet that is precisely how the industry has behaved thus far. Consider HB 2707, an omnibus bill with a variety of measures impacting the future operations of dispensaries, and one of only two medical marijuana bills still alive in the legislature. Out of the fifty-nine dispensary applicants and their hundreds of associated board members, stock owners, and employees only five people submitted testimony. Those five pieces of testimony comprise a mere 6% of the total amount of testimony provided on the bill thus far. All thirty-seven other medical marijuana related bills introduced this session died without making it out of committee due to lack of industry and legislative support. Now, this particular bill does have a fair amount of support and momentum from its introducing legislators because it chiefly concerns fixes to the legislative mechanisms they introduced last session; but the industry cannot rely on that same level of legislative goodwill and support in the future, especially for major or innovative changes to the current legislative scheme.

A healthy relationship between the state and the industry involves the state, its agencies, and local governments working at the request of and in concert with the industry instead of the other way around. If Hawai'i's industry participants wish to be competitive nationally and internationally in the development and provision of medical marijuana research, products, and tourism, then the industry needs to identify its own vision of the future and coordinate its requests to state and local governments to make that vision reality. State and local governments have a lot of tools at their disposal to foster the establishment and competitiveness of a new industry, but they will not know how to use those tools to benefit the industry unless the dispensaries request and lobby for specific interventions. Here are just a few of the many tools that the industry can request, and the state can adopt, to foster the industry in its early years:

- ▶ Opening new markets via the expansion of the ailment and allowed medicinal products lists
- ▶ Tax credits to encourage the industry, much like the renewable energy credits and technology investment credits facilitated those industries, but with a more noticeable direct effect on firm profitability, employee wages, expansion, etc... due to the high federal tax burden
- ▶ Tax credits or subsidies meant to directly offset the federal tax burden
- ▶ Tax credits or other benefits directly tied to employing local talent and



- ▶ contracting with local businesses
- ▶ Direct subsidies for the dispensaries and grow operations to build in particular areas to boost economic activity
- ▶ Subsidies or tax credits for medical marijuana patients to make purchasing from dispensaries more affordable in the absence of insurance coverage
- ▶ Tax credits for related businesses doing business with medical marijuana dispensaries and grow operations
- ▶ A state sponsored laboratory to host medical research and product development
- ▶ Public education campaigns run through the Department of Health regarding the benefits and appropriate uses of medical marijuana in schools and local communities
- ▶ Designating all funding to infrastructure maintenance or education to boost state and industry public relations efforts when dispensary profits are eventually taxed
- ▶ Funding Hawai'i Tourism Authority sponsored marketing campaigns and medical cannabis friendly tourism policies once reciprocity with other states' medical marijuana certifications kicks-off in 2018
- ▶ Various decriminalization efforts to reduce the risk for dispensary employees and patients
- ▶ State sponsored envoys and working groups investigating

medical marijuana industry successes around the world and recommending similar measures for Hawai'i

- ▶ A state sponsored banking solution for the industry
- ▶ Continued facilitation of a start-up and technology economy across the islands to support innovation and research in the industry
- ▶ A program to transition Hawai'i's fallow agricultural land and expertise to the outdoor, large-scale production of medicinal cannabis and hemp for export
- ▶ Solicitation of Department of Business, Economic Development, and Tourism support through its Creative Industries Division for medicinal product and cannabis technology development
- ▶ Have the Department of Business, Economic Development, and Tourism Strategic Industries Division classify the medical marijuana industry as a strategic industry with the associated state support for such industries
- ▶ Work with the Hawai'i Strategic Development Corporation and High Technology Development Corporation to attract venture capital investment for the industry and for the development of new, exportable technologies

The medical marijuana industry in Hawai'i is already a legally and popularly tenuous venture, and the industry cannot rely on the continued good intentions and conflicting agendas of legislators and state

agencies to direct its future. Neither can the individual dispensaries hope to accomplish any of this alone, rather the industry must collaborate to create its own vision of what is possible, and then the industry must identify and fund specific government relations strategies at both the state and local level to make that vision into reality.

### *Dispensaries and the Public*

Industry success in Hawai'i also requires more than government support, it requires active public engagement – answering questions, providing positive information, conducting new studies, and fighting the stigma associated with cannabis use. As we discussed earlier, transparency is a key value for dispensaries looking to engage their local communities and the state as a whole. In fact, community outreach and public relations have proven to be essential components of some of the most successful dispensaries of the last decade. For instance, both the Berkeley Patients Group and Triple C Cannabis Club attribute their success, and even the security of their dispensaries, to their local community outreach programs. Because of its small size, Hawai'i is in the uniquely enviable position where many attempts at local engagement can also double as island-wide or even statewide public relations efforts that will benefit the industry as a whole. There are two broad categories of public engagement that the dispensaries, related businesses, and public should consider: local community engagement and statewide engagement.

Local community engagement will largely fall within the purview of each individual dispensary. This relationship with the public is a necessary part of finding a good location for a dispensary licensees' various grow operations and dispensary store fronts. While county and local governments are not allowed to impose any zoning or regulatory restrictions stricter than those contained in HRS 329 and 329D regarding the potential locations of dispensaries, a hostile local community alone can pose grave, even existential risks for a dispensary. For instance, protests and regular negative publicity sponsored by the local community can substantially damage a dispensaries' reputation and fragile client base, especially in an industry such as Hawai'i's where dispensaries are not allowed to advertise for themselves. This leaves only a few ways for a dispensary to engage with its local community and head-off a bad relationship and bad press before it can begin. Local communities should request these same types of engagement to ensure their voices are heard by the dispensaries. Dispensaries and local communities can look for common ground through a few different mechanisms:

- ▶ Dispensaries should host town hall style meetings where the dispensary owners and managers discuss the future of the dispensary and their plans to interact positively with the neighborhood. These meetings would also need to include dedicated question and answer times to allow for polite, respectful





interaction with the local community. The dispensaries should begin hosting these meetings even before the establishment of the dispensary to better understand the needs and concerns of the local community and how to integrate their new operations in to the neighborhood.

- ▶ Based on the questions raised at the town hall style meetings, the dispensaries should also host community education meetings, bringing in experts on the industry and issues of concern to the local community to answer the community's questions and present accurate information about the industry.
- ▶ Between meetings, dispensaries should receive and reply to comments through posted notices on the dispensary's website; an open comment box, phone line, or email account dedicated to community questions and information; and locally distributed, non-advertising literature.
- ▶ Dispensaries should send ambassadors to local community events or maybe even initiate a local door-to-door campaign. The intention would be simply to answer questions and engage the public.
- ▶ Dispensaries should provide

platforms for patients to share their testimonials with the local community. Unsolicited word of mouth testimonials from friends and neighbors regarding the positive impact of medical marijuana usage are one of the most powerful tools available to dispensaries.

- ▶ Dispensaries should also donate to local charities and civic organizations, support local ballot and legislative initiatives, and sponsor local school activities – basically anything that benefits the community and generates positive, non-advertising press.
- ▶ In turn, community leaders need to publicly engage the dispensaries, raising the concerns of their constituents, and then working with their constituents to understand the dispensaries' answers and address both sides concerns. If all of the conversations happen between community leaders and dispensaries behind closed doors, then the local community at large will continue to remain disenchanted or even oppositional to the industry.
- ▶ The first step in a profitable dialogue towards the resolution of issues is at least an attempt to engage with the opposite party with an open mind before bypassing them completely in favor of the court of public opinion. That said,

local communities and dispensaries can also use the press, the courts, and the legislature to air their concerns as well; but these mechanisms should only be used to solve problems as a last resort after a breakdown of civil dialogue between a dispensary and its local community.

The key feature of this approach to local public relations for dispensaries is the opportunity to put a human face on the dispensary. When the dispensary becomes a collection of humans actively engaged in the community, working alongside the people at local events instead of sitting behind locked gates 24/7, then the community will respond in-kind and the dispensary will be more likely to act in a manner aligned with the spirit of the community. It is up to the dispensaries to create the relationship they want with their communities. Will the dispensaries choose to be a human part of the local community or faceless, gun-toting security freaks from out of town, hoarding their piles of cash earned from selling illicit substances to minors, behind locked gates, in an inaccessible compound? This is obviously hyperbole, but not far from what groups opposed to the industry regularly claim. In the absence of information, and active engagement to control the narrative, local communities will not know whom to believe. The only answer to this conundrum is for dispensaries to embrace transparency, demonstrated at every meeting and even in-between meetings, regarding their intentions for the

dispensary and community, and any changes to their normal routine.

In this vein, each dispensary, related business, and medical marijuana patient must remember that they are an ambassador for the entire industry, and every eye in the state will be waiting for someone to make a mistake – which brings us to the idea of statewide engagement. The purpose of public interaction on a statewide level is two-fold – to raise public awareness of the dispensaries and to fight the stigma against the industry in all of its forms by educating the public. The industry as a whole must convince an entire state of more than one million people across four multi-island counties that the medical marijuana *economy* is a good idea. But even this grossly understates the magnitude of the matter – the medical marijuana industry is comprised of a huge variety of issues and underlying concepts that must all be effectively communicated in order to change the hearts and minds of the public and build a meaningful coalition for use in the political and social battles of the industry's future.

Fortunately for the industry, Hawai'i is not as large as many other states, so dispensaries can implement their own local community engagement plans, discussed above, and at the same time coordinate those plans into a larger collective effort to maximize the value of public relations for the industry as a whole. That said, the greatest barrier to dispensaries engaging with the public is the current ban on all forms of advertising by the dispensaries, so this coordination



of local community outreach efforts is likely the limit of individual dispensary's ability to engage the statewide public. To solve this issue, we need to identify the tools and strategies available to the industry to engage the public without violating the state's no advertising rules. Potential solutions include:

- ▶ **Coordination.** The dispensaries should attempt to coordinate, or at least leverage, their individual local community efforts into free island-wide and statewide press coverage. This can be accomplished by issuing press releases, informing local media of events, and posting regular updates on the dispensary's website and social media concerning the dispensary's activities. The dispensaries should also create a forum where they can share the approaches that work and those that need improvement.
- ▶ **Earned Media Coverage.** Dispensaries can also take advantage of other types of earned media to spread the word about their industry, their dispensary, and important issues. This can be done by writing opinion pieces for local and statewide print and online media outlets concerning topics related to the industry; by issuing press releases regarding dispensary and industry initiatives like charity events, new products, and new directions in medical research; by participating in coordinated public activities like the Hawai'i State

Cannabis Expo; by creating and maintaining a blog and other social media venues that provide valuable content to the public and foster a trusted and authoritative reputation for the dispensary; and by providing great service and medicine to patients. Each of these is a potential story for a media outlet and free publicity for the industry as a whole.

- ▶ **Advertising.** Non-dispensary entities are free to advertise on behalf of the industry. Industry non-profits such as a local trade association can run paid industry public relations campaigns (think "got milk?") in local TV, radio, online, and print media that advertise the industry as a whole and encourage the public to obtain their medical certifications. Individuals and advocacy focused non-profits can run advertisements related to specific legislation or industry ideals. All of the other businesses in the medical marijuana *economy* can run advertisements citing their involvement in the industry and even endorse particular dispensaries. This will take a lot of funding from both dispensaries and local businesses alike to enable the non-profits to run effective, professional campaigns that evoke positive responses towards the industry; but it is also the most effective way to spread knowledge of the industry,

its players, and its direction to the public at large and to increase the raw size of the industry's client base.

- ▶ **Public Education.** Finally, the industry should engage with the Department of Health, the Department of Education, the Department of Public Safety and other government agencies to devise and implement a statewide public education strategy concerning medical marijuana and its appropriate usage. Such a program can be sponsored by the dispensaries to provide additional public awareness for the dispensaries, and it should address the proper usage of medical marijuana and the consequences of illicit use and abuse. The program can be administered in schools and local communities. The industry can use these programs to show its dedication to the legal and ethical use of medical marijuana, and its intention to protect at risk populations from abuse.

None of these tools or strategies are sufficient in isolation. The industry must use them all frequently and in concert, with a high-level of professionalism and integrity in order move the meter of public opinion ever more in favor of medical marijuana usage and expansion of the industry in future years. Which brings us to the final note on statewide engagement with the public – just as local community engagement requires

dispensaries to both talk and listen, so too is statewide engagement not a one-sided conversation. The dispensaries and related businesses cannot force the public's mind in any particular direction, rather this is an opportunity for the state as a whole to join in a conversation about its own future. The industry's public engagement efforts at the state and local level should foster that conversation by providing both a space for people to voice their concerns as well as accurate, credible information to address those concerns. If the industry cooperates with itself to listen and respond to the community, then the size of the market across the state will grow substantially and the industry will mobilize sufficient public support to expand its boundaries in the future.

### *Dispensaries and the Industry*

Non-dispensary businesses are the final vital pillar of Hawai'i's new medical marijuana *economy*. As we learned from Israel's example, Hawai'i is at a unique and fortuitous turning point for the medical marijuana industry both locally and globally. With licenses soon to be announced, we have the opportunity to step onto the world stage in a huge way. But dispensaries alone cannot make this vision reality, it will take concerted support from all manner of adjacent industries across Hawai'i. Yes, actual medical marijuana production and sales are illegal at the federal level, but the dispensaries have taken on that risk. Hundreds of related industries can contract with, buy from, sell to, invest in,



profit from, and play alongside the dispensaries without violating federal law. Hawai'i must capitalize on its strengths and bring together disparate industries from across the economy to support the medical marijuana industry for it to succeed.

Hawai'i must build on its own strengths, just as Israel built on its cultural affinity, agricultural expertise, mild weather, technology sector, and extensive medical research history to create a world-class industry. We too can create a profitable industry that provides good service and quality medicine at an affordable price while discouraging diversion to the black market and gradually reducing the public's stigma of the industry. But these should be merely the baseline goals of the industry – the lowest acceptable outcome – we can do so much better for the patients, Hawai'i, and ourselves if we work together to create a new medical marijuana *economy*! We can reinvigorate Hawai'i's struggling agricultural sector; create a new global tourism market; attract investment from across the world for medical innovations; light a fire under our nascent technology industry and incentivize renewable energy development; and export a uniquely Hawaiian standard of care for the industry.

- ▶ **Agriculture.** Hawai'i is perfect for a new agricultural industry in so many ways – perfect climate; plenty of sun; abundant water; multiple growing seasons; valleys which can protect one temperamental crop from the next;

an experienced workforce; agricultural technology diffusion from the world's largest agro-tech companies; and proven facilities for processing, packing, and shipping agricultural products across the world. The medical marijuana industry should be looking for a way to develop in conjunction with state and county efforts to revitalize agriculture across the islands – providing new jobs and a sustainable production base for the creation of future exportable medicinal products. This opportunity comes at a uniquely opportune time for Hawai'i given the recent decline in other agricultural products across the islands.

- ▶ **Medical Tourism.** Hawai'i's largest export, itself, its brand, should be an integral piece in the development of the medical marijuana industry in Hawai'i. This has a few components, first the branding of medical marijuana from Hawai'i with a positive reputation for results and other qualities around the world. Second, partnerships between organizations in Hawai'i and around the world to market Hawai'i as the mecca of medicinal marijuana services. Like Thailand, Cuba, South Korea and other places known for their medical or plastic surgery vacations and expertise, Hawai'i's industry should lean-in to becoming the world's

legitimate medical marijuana destination. This will require Hawai'i's dispensaries to partner with the tourism and healthcare industries to create an appropriate tourist experience. If executed well, this opportunity could refresh the tourism industry's international image, provide an influx of needed capital, and allow Hawai'i to reach entirely new segments of the global tourism market.

- ▶ **Medical Innovation.** Hawai'i already hosts world-renowned research institutions in the University of Hawai'i, the John A. Burns School of Medicine, the UH Cancer Center, and many more. Paired with good laboratory space, varied demographics for controlled studies, and international research partnerships, Hawai'i offers its medical marijuana industry the opportunity to join Israel at the very peak of international medical marijuana research – finding new uses, developing new products, and making essential scientific breakthroughs. Further, Hawai'i is ranked #1 of the 50 United States by the United Health Foundation for the success of its medical industry in maintaining a healthy population. A state with a diverse population and a good ratio of medical facilities per capita, Hawai'i's medical marijuana industry should be working with every part of the medical industry

to explore new treatment options and test the new products it develops. Even integrating the opinions of doctors from different types of medical practices across the state into the recommendations of the dispensaries will go a long way towards legitimizing the industry. The industry should also forge partnerships with the Hawai'i Medical Association, insurance companies, medical centers, hospitals, and non-traditional practitioners in an effort to discover new forms of cooperation and results for the industry.

- ▶ **Technology Development.** Hawai'i has been working for some years now to foster a nascent technology industry – but it has struggled to get off the ground separated as it is from silicon valley and a fiber internet infrastructure. We have however been successful in fostering a green technology industry to meet our inherent local needs. In the same way, the medical marijuana industry should work with Hawai'i's nascent technology development eco-system and experienced agro-tech industry to develop new technologies for the growth, production, and manufacture of medicinal marijuana and related industries. The industry's huge energy needs will incentivize rapid development of green energy and energy efficiency technologies.



- ▶ **Social Climate.** Compared to Israel, Hawai'i has an even more favorable social climate and traditional connection to the use of marijuana as medicine – whether through non-western healing centers, Native Hawaiian traditional uses, or merely through regular exposure and acceptance on the outer islands. The industry should engage these additional sources of experience to benefit from their knowledge of what remains an understudied substance, turn the positive predisposition of these communities into strong alliances, and boost both patient count and product diversity. Additionally, integration of these alternative voices into Hawai'i's medical marijuana industry would interact favorably with attempts to brand the industry internationally. Just as the global surfing industry takes its branding cues from Hawai'i, or how Hawai'i consciously adopted “Aloha” as a strategy to attract tourism, so too can we find new ways to brand Hawai'i as a physical and spiritual healing destination where we care for those in need (**kōkua or mālama**).

For any of these strengths to translate into industry success, we need big new ideas, capable people, and capital. Our aim with this white paper is to start the conversation and inspire Hawai'i's business community members to each envision their own role in Hawai'i's future by providing a brief topography of a

medical marijuana *economy*.

Such a future will require help from:

- ▶ Entrepreneurs and established businesses
- ▶ Fresh-faced high school graduates and venerable businesspeople
- ▶ National corporations and international joint ventures
- ▶ Research partnerships and corporate licensing schemes
- ▶ Local surf brands and global tourism conglomerates
- ▶ Family farms and worldwide agri-businesses
- ▶ Domestic professional service providers and foreign consulting firms
- ▶ Island-based construction enterprises and mainland building contractors
- ▶ Home-grown inventors and commercial product companies
- ▶ Bishop-street financial institutions and Wall Street banks
- ▶ Community oriented investors and West Coast venture capitalists
- ▶ Private healthcare providers and institutional medical services
- ▶ Mom-and-pop accessory shops and big-box stores
- ▶ Hawai'i innovation economy startups and Silicon Valley tech giants.

In every sector of the economy:

- ▶ Academia
- ▶ Accessories
- ▶ Accounting
- ▶ Advertising
- ▶ Aftermarket accessories
- ▶ Agriculture
- ▶ Air freight
- ▶ Analytics
- ▶ Apparel
- ▶ Architecture
- ▶ Banking
- ▶ Beverages
- ▶ Biotechnology
- ▶ Botanics
- ▶ Branding
- ▶ Brokerage
- ▶ Caregiving
- ▶ Carpentry
- ▶ Chemicals
- ▶ Collateral material
- ▶ Commodities
- ▶ Communications
- ▶ Construction materials
- ▶ Consulting
- ▶ Controlled environments
- ▶ Cosmetics
- ▶ Creative services
- ▶ Customer service
- ▶ Delivery
- ▶ Distribution
- ▶ Education
- ▶ Efficiency
- ▶ Electrical
- ▶ Electronic equipment
- ▶ Energy
- ▶ Engineering
- ▶ Equipment
- ▶ Event planning
- ▶ Extractives
- ▶ Farming
- ▶ Film
- ▶ Financial
- ▶ Fitness
- ▶ Food
- ▶ Future studies
- ▶ Gas
- ▶ General contracting
- ▶ Government relations
- ▶ Graphic design
- ▶ Greenhouse
- ▶ Hardware
- ▶ Healthcare
- ▶ Hemp
- ▶ Hospice
- ▶ Hospitality
- ▶ Hotels
- ▶ Household products
- ▶ HR
- ▶ HVAC
- ▶ Hydroponics
- ▶ Industrial
- ▶ Industry associations
- ▶ Information technology
- ▶ Insurance
- ▶ Interior design
- ▶ Internet
- ▶ Investing
- ▶ Iron and steel
- ▶ Labeling
- ▶ Laboratories
- ▶ Law
- ▶ Life sciences
- ▶ Lighting
- ▶ Luxury goods
- ▶ Machinery
- ▶ Maintenance
- ▶ Management consulting
- ▶ Manufacturing
- ▶ Marketing
- ▶ Masonry
- ▶ Material sciences
- ▶ Media
- ▶ Medical facilities
- ▶ Medical research
- ▶ Medical technology
- ▶ Mobile applications
- ▶ Networking
- ▶ Non-profits
- ▶ Nurseries
- ▶ Nursing
- ▶ Packaging
- ▶ Paper products
- ▶ Payment processing
- ▶ Personal products
- ▶ Pharmaceuticals
- ▶ Photovoltaic
- ▶ Plumbing
- ▶ Procurement
- ▶ Product development
- ▶ Public relations
- ▶ Quality control
- ▶ Radio
- ▶ Real estate
- ▶ Renewable energy
- ▶ Reputation management
- ▶ Research
- ▶ Resource management
- ▶ Restaurants
- ▶ Retail
- ▶ Safety
- ▶ Security
- ▶ Sheet metal
- ▶ Shipping
- ▶ Soap
- ▶ Social media
- ▶ Software
- ▶ Soil & water
- ▶ Staffing
- ▶ Sub-contracting
- ▶ Synthesization
- ▶ Technology
- ▶ Telecom
- ▶ Television
- ▶ Textiles
- ▶ Tourism
- ▶ Traditional medicine
- ▶ Training
- ▶ Transportation
- ▶ Travel
- ▶ Union relations
- ▶ Utilities
- ▶ Venture capital
- ▶ Warehousing
- ▶ Waste disposal
- ▶ Web apps
- ▶ Wellness





But, as you can see, there is enough opportunity for all in Hawai'i's future medical marijuana *economy*.

The contours of the industry we create will not be determined solely by the dispensaries, the government, or the public – businesses across the state must also choose to engage with the dispensaries and the medical marijuana *economy* to keep it from suffocating. The mainland has already started and they are thinking globally. Hawai'i is arriving on the scene at the perfect time: no competing market has yet established industry dominance, but quite a few have created a stable foundation on which Hawai'i can build without repeating the same costly mistakes. In tech industry parlance we are the second-mover, Facebook to the industry's current Myspace.

But we must prepare now. As of March 2016 forty states, Guam, and the District of Columbia maintain active regulations legalizing some form of marijuana or CBD use, and there is pending legislation in the remaining ten states. In December 2015 the federal government again deprioritized and defunded enforcement of marijuana related crimes in states that maintain active marijuana regulations. Regulations across the states vary, but with growing public support and state adoption, it is very likely that we will see further movement on the federal level after the next president takes office in 2017. Federal legalization of either medical or recreational adult-use marijuana will massively expand the market and opportunity for Hawai'i

businesses; but we must prepare now by creating a sustainable world-class medical marijuana *economy* in Hawai'i. Or we risk being left behind by established mainland companies taking advantage of new federal regulations *next year*.

The momentum is ours to develop, grow, and evolve. But to do this we must combat institutional apathy and our own inherent conservatism and lack of foresight. Doctors and health institutions need to educate themselves on state and federal regulations and engage patients with their new knowledge – either analyzing patients for certification or referring them to doctor's who will. Likewise banks need to actively consider some way to engage with the dispensaries and related businesses. Each of the different industry sectors and players listed above has similar opportunities over the next few months to open their market to new growth as the dispensaries look for local vendors. If you choose not to, mainland companies will be more than happy to step-in; Hawai'i will lose clients; and even more of our industry and profits will be shipped offshore.

There is opportunity, risk, and reward for all who step forward – but if we do nothing, nothing will happen. Just as dispensaries will choose their future, Hawai'i's business community must choose whether we will let medical marijuana become yet another industry dominated by mainland interests, or whether we will take the business risks necessary to create a medical marijuana *economy* that the rest of the world will emulate. Time is running short.

## Conclusion

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Lest we forget, the *raison d'être* of this entire endeavor is the provision of quality medicine at an affordable price to people in desperate need. The Hawai'i Dispensary Alliance believes that the best way to fulfill this purpose is through the creation of a dynamic, creative, sustainable, local, world-class medical marijuana *economy* here in Hawai'i. The dispensaries will have to collaborate with the government, the public, and related industries for this to work – integrating the values of transparency, compliance, flexibility, proactivity, and vision into the industry while capitalizing on Hawai'i's strengths in agriculture, medical tourism, medical innovation, technology development, and social climate. We believe that Hawai'i's community cannot only make this happen, but that we can do it right the first time.

A first step is for the fifty-nine different dispensary applicants to consider what they will do if they are not awarded a license in the first round of eight licenses. Fifty-one different companies who have compiled incredible teams of qualified, experienced people and millions of dollars in real and potential funding will not get to build a dispensary in 2016. Will they give up? Will they throw millions of dollars away in industry damaging lawsuits? Or will they *pivot* to other aspects of the marijuana industry – turning their expertise and funding to any of the multitude of profitable, tractable problems that beset this new industry. Hawai'i needs local banks; laboratories;

research collectives; product development companies; consulting firms; grow and manufacturing subcontractors for the dispensaries; education institutions; technology companies; waste disposal firms; and any of hundreds of other potential services. Who better to create unique local solutions for the industry's needs than the dispensary applicants and their teams of industry friendly experts and investors?

This is just one way that the Hawai'i Dispensary Alliance believes Hawai'i should embrace the medical marijuana *economy* in the coming years. There is greater reward for each of us if we collaborate to create a large industry, functioning at the pinnacle of global commerce, than if we remain a small, feudal system of petty fiefdoms at war with ourselves. As dispensaries, government officials, patients, community members, and related industries, we must recognize Hawai'i's strengths and the need for immediate, decisive action in this unique moment of opportunity. Only then can we work together with common purpose for the good of the patients, the industry, and all of Hawai'i.