GROWERTALKS

Corr on Cannabis

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Cannabis as a Commodity

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The word “commodity” gets bandied about quite a bit. Poinsettia and garden mum growers regularly complain about commoditization of their crops. What they usually mean is prices are hitting rock bottom, then going lower, because buyers don’t see any differentiation between one poinsettia or mum and another.

That largely matches up with the definition an economist would give for a commodity. A definition from an economist would likely include something about the market treating various sources of a product as equivalent regardless of who produced them. Or as Karl Marx wrote, “From the taste of wheat, it is not possible to tell who produced it—a Russian serf, a French peasant or an English capitalist.”

Commodities are often raw materials, such as mineral ores, petroleum, sugar, rice, corn, wheat, etc. traded in large quantities, with little restriction, with prices that fluctuate based on supply and demand.

These commodities are often traded on exchanges to facilitate transactions. However, for this to happen, there needs to be some standardization of the commodity. For example, petroleum is categorized into light or heavy, sweet or sour.

With all this said, is cannabis a commodity? If it isn’t one now, will it become one? There are lots of maybes.

Often the cost of a raw material commodity is only a minor fraction of the cost of the finished good. Today, sugar on the commodity markets sells for about 16 cents per pound. In contrast, a 2-liter bottle of Coca-Cola at my local grocery store was selling today for $2.19. A bottle this size has almost half a pound (!!!) of sugar. Therefore, the commodity price of sugar is less than 4% of the retail price of the Coke.

What does this have to do with cannabis?

Some cannabis, especially low-THC/high-CBD cannabis, is similar to the sugar in Coke. In the United States, prices for high-CBD cannabis biomass declined up to two-thirds in value in 2020 compared to the previous year. Prices for CBD extracts, isolates and distillates also declined, although not as precipitously. CBD biomass and CBD raw materials are becoming commodities.

If CBD biomass, extracts, isolates and distillates are raw materials, equivalent to a commodity like sugar, the CBD

equivalents of Coca-Cola are consumer packaged goods like CBD-infused beverages, topicals, edibles, etc. Prices for these sorts of products have stayed stable or increased. These value-added products are often branded, packaged attractively and have marketing campaigns. Kind of like Coca-Cola.

In contrast to CBD cannabis, high-THC cannabis biomass and raw materials (extracts, isolates and distillates) have not become commoditized … yet.

In the U.S., cannabis with a THC content over 0.3% remains federally illegal, despite individual states allowing growth, processing and sale. National distribution is restricted. “Multi-state operators”—cannabis companies that have a presence in multiple states—cannot transport THC products across state lines. This has prevented these companies from developing national distribution of branded products. Although high-THC cannabis biomass and raw materials haven’t reached commodity status, federal legalization would likely influence that by removing restrictions in transactions.

Another characteristic that’s delayed commoditization of high-THC cannabis is a significant market for smokable products, unlike high-CBD cannabis. There’s still a place for producers to sell cannabis with flavor profiles that are differentiated from competitors. But products derived from extracted cannabis (edibles, vapes, etc.) are growing, while smokable dried cannabis is at best stable or declining. This will push the cannabis raw materials used to produce consumer packaged goods toward commodity status.

Consumer packaged goods are typically sold year-round. Manufacturers like price stability of inputs. Coca-Cola doesn’t want to change the price of a bottle of Coke every time there’s bad weather in sugar production areas. This has led to the creation of futures markets for commodities, which allow the purchaser and the supplier to agree on a price for the commodity in the future.

One company has begun to offer limited futures contracts for cannabis. One World Pharma has launched a futures program from their production facilities in Colombia for cannabis extracts as an ingredient. By purchasing a future contract with the company, manufacturers of cannabis-infused consumer packaged goods will know the price for the cannabis extract when it’s needed, making pricing of finished products more stable. So far, these contacts are only available for four months in the future, approximately the time to produce and extract a crop.

For a material to be treated as a commodity, there needs to be standards of quality. Cannabis has a head start in that direction, since most jurisdictions require testing, although what’s tested and threshold levels for approval for sale vary from place to place. Standardization of the standards would make trading of cannabis even more like a commodity.

Product life cycles influence how quickly a product becomes commoditized. As I’ve written before, cannabis time moves much, much faster than calendar time. How the cannabis industry moves toward commoditization isn’t unique in trajectory, but the speed is much faster than would occur in other crops.

An aspect of commodities lacking with cannabis is price transparency. There are benchmark prices for commodity products that are easily accessible. There are a few companies working to develop something similar for cannabis, publishing “benchmark prices,” but this needs further development.

The management consultant Peter Drucker famously said, “In a commodity market, you can only be as good as your dumbest competitor.” That’s a pretty cynical viewpoint. But realizing what is and is not a commodity today, and planning for what will be a commodity tomorrow, is pretty smart. Producers of cannabis biomass and raw materials need to be smart and prepare for commoditization. **GT**

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