

**North Carolina Advisory Council on Cannabis
Market and Regulatory Subcommittee**

Co-Chairs:

Daniel Hirschman, General Counsel, NC Division of Environmental Quality

Missy Welch, Executive Director, Alcoholic Beverage Control Commission

Meeting Minutes

September 18, 2026, 1:00-3:00pm

Virtual via Teams

Attendees

Council Members Present – Daniel Hirschman; Kris Gardner; Forrest G. Parker, Missy Welch; Pat Oglesby

Council Members Absent – Rep. John Bell; Sen. Bill Rabon; Patrick Brown; Gary Sikes

Staff Members Present – Renee Metz; Kaycee Deen; Charles Mitchell; Anne Doyle

Agenda

- I. Welcome, Roll Call, and Ethics Statement
- II. Presentation 1: License Structure—State Control Model
- III. Member Discussion of Draft Recommendations
- IV. Approval of August Minutes and Next Steps

Purpose

Purpose Statement: The Market Structure and Regulatory Agency Structure Subcommittee will review market structure and regulatory agency structure considerations related to cannabis regulation and develop recommendations on oversight agency structure, licensing and compliance standards, and manufacturing requirements to support a well-regulated, safe, and economically viable cannabis market in North Carolina

Presentation 1: State Control Model – Renee Metz

Supplier (Production) Level

- How it works: Spirituous liquor is treated differently from beer and wine, but all producers are private entities holding permits (distillery, brewery, winery, or a non-resident vendor permit for out-of-state producers). The state is not involved in production but monitors and regulates through permits and licenses.
- No craft/micro distinction: North Carolina does not distinguish small, craft, micro or regular producers; a distillery is a distillery regardless of volume.
- Label approval and the First Amendment: The Commission approves every product sold in the state. Spirits are approved at quarterly meetings by the chairman and pricing director; beer and wine labels are approved by the product section. First Amendment protections have required approval of some labels the Commission found offensive.
- Out-of-state suppliers: These are harder to regulate because the Commission can act only on

violations that occur in North Carolina.

- Dormant Commerce Clause risk: Exceptions for smaller North Carolina producers have not yet been challenged, but similar in-state preferences have been challenged nationally.

Questions

- How can North Carolina farmers be protected?
- Should North Carolina restrict permits to in-state growers; whether different product types (gummies versus flower) need separate permits. The state is rarely involved at the supplier level for alcohol.

Distribution Level

- Spirits: Distributed through the state warehouse. The state does not own the alcohol; it charges a bailment fee for storage. Local ABC boards order products and pay distilleries directly.
- Beer and wine: Sold through private wholesalers. Both in-state and out-of-state producers must go through a North Carolina wholesaler, who then sells to retailers.
- Pros: The state knows and approves everything that comes in. The bailment fee funds the entire ABC Commission budget and the state warehouse contract (the company that trucks product statewide), so no state funds are used. A distribution tier adds monitoring; in one glass-contamination incident in her 20-plus years, wholesalers knew the lot numbers and which retailers received the product.
- Cons: More than 700 products must be special ordered because the warehouse lacks space. The public wrongly believes the state owns the alcohol and the local ABC boards, so education would be needed. A wholesaler can be pressured from both sides (retailers and suppliers demanding non-compliant terms). A single warehouse in Raleigh, which is not central, makes trucking inefficient. Smaller North Carolina producers are allowed to act as beer and wine wholesalers, another exception with Dormant Commerce Clause exposure.

Questions

- Should producing and distributing be separate?
- Should North Carolina have separate processor, cultivator and manufacturer permits and allow overlap?
- Where processing would occur?

Retail Level

- Local votes: Spirits retail runs through local ABC boards and depends on local votes, which produces inconsistencies (for example, a municipality in a dry county that approved off-premise malt beverages and later mixed beverages ended up allowing on-premise malt beverage sales). Renee would hesitate to support local votes for cannabis.
- State-run stores (pros): They would be public-health oriented rather than profit oriented and would not need multiple permit types (alcohol has roughly 35 to 40 retail permit types).
- State-run stores (cons): Permit fees and annual renewals currently go to the general fund, so that revenue would be lost. It is unclear whether the cannabis industry would be large enough to support state-run stores. State employees do not hold permits, which limits recourse (see below).

- Enforcement capacity: More than 20,000 businesses hold ABC retail permits and roughly 80-some Alcohol Law Enforcement agents cover the state. Funding for enforcement of cannabis retail outlets would need to be identified.
- Local ABC boards are authorized by statute to sell spirits but hold no permits, so for violations such as underage sales the Commission can only write or call.
- No siting criteria: There are no criteria for how many outlets or where they may locate (density, population, downtown Charlotte versus Fayetteville versus Greensboro), or for the mix of convenience stores versus restaurants.
- Quasi-ABC/Quebec-style direction could put current vape and hemp shops out of business unless the state contracts with them to operate as state stores under enforceable conditions, as some states have done with alcohol.
- Off-premise consumption only (no cannabis equivalent of cigar bars)
- Home production and events: Alcohol rules now let people share home-made beer and wine at public events without state approval, and events have expanded, which complicates enforcement when rules differ locally.

Questions on Warehouse, Transportation, Security

Transportation Contract and Performance Standards

- The contract which supports transporting liquor between the warehouse and local ABC boards, includes performance measures (KPIs); at a recent warehouse compliance meeting, the contractor's own delivery-accuracy target was cited as 99 percent.
 - Can a similar private-contractor model with KPIs could address transportation for cannabis?
 - Efficiency concern is distance: driver-hour and mileage limits make trips from Raleigh to the mountains inefficient. On-time standard was originally higher and was lowered in contract negotiation.
 - Lesson learned: expectations and performance standards should be settled before a contract is executed, not after. Any cannabis transportation contractor's terms should be examined closely.
 - Existing security practice: ABC trucks are locked at the warehouse and can be opened only by the store manager or designated staff.

Feasibility of using the ABC warehouse for cannabis

- How feasible would it be for cannabis to flow through the ABC warehouse, with and without a new warehouse?
 - The warehouse holds roughly 1,000 products on the floor, with about 750 more special ordered because there is no space. Adding cannabis would be near impossible; the warehouse has been at capacity for years, and some products cannot be approved for ABC stores for lack of storage.
 - The satellite warehouse in Clayton has some space, but using it would take significant effort.
 - Timing may be favorable: if a cannabis warehouse were approved before ground is broken on the new, more automated ABC warehouse, the new facility could be designed to accommodate both.
 - Funding must remain separate: bailment and surcharge fees can go only to alcohol and ABC operations, so cannabis would need its own model.

- One idea floated was to repurpose the old warehouse for cannabis storage once a new ABC warehouse is built, keeping the two operations fully separate. No timeline was discussed.
- Are there any security concerns?
- Mirror the ABC warehouse: a guard on duty 24 hours a day, full perimeter fencing, and inspection of every truck entering and leaving. Employee controls include criminal background checks and termination and charges upon any theft. Security level would depend on budget.
- Does hemp require different storage conditions than liquor?
- Yes: heat, oxidation and decarboxylation degrade or change the material, affecting potency and margins, and product shelf stability varies (flower, chocolates and other edibles). A full-spectrum facility needs walk-in coolers and freezers and a very large climate system
- A single facility of this kind can use more energy than the town of Bryson City and the Swain County school system combined. In answer to a member's question, it was confirmed that the current ABC warehouse is not temperature controlled.

Member Discussion of Draft Recommendations

Draft Recommendations, Tier 1: Cultivation, Craft Farms and Pricing

- Protecting craft farmers depends on who sets price and whether a middle tier is needed, and the group's discussion of start-up costs showed that "small" in this market is still likely a multi-million-dollar undertaking.

Pricing, Quality and the Illicit Market

- The state does not have to set prices, but someone does. If the state runs retail without setting price, and distributors set it, farmers risk the outcome seen in the beef industry, where the farmer gets the least and the distributor the most.
- In the most successful, safest cannabis markets, legal product is often still more expensive than the black market; people move to legal product because it is a safe, sovereign choice.
- Craft farmers succeed mainly on quality and brand. Their cost per gram is far higher than a large multistate operator's (he cited roughly \$4 per gram of flower for a craft grower versus about 20 cents for an MSO), so they must be able to command a premium of two to three times.
- If the state or retailer sets price and craft product does not meet the quality standard, it will not sell. If affordability is the top goal, as in the Canadian model, quality and farmer margins must still be accounted for.
- Market size matters: the number of customers determines how many licensees the market can support without over-saturation that puts craft or large producers at risk and feeds the black market.
- Need more data on volume, revenue and margins before making a decision.

Start-Up Costs for a Small Craft Grower

- Forrest used a hypothetical grower under 5,000 square feet of canopy. At roughly \$1,000 per square foot the build-out is about \$5 million; some indoor facilities have been built for as little as \$450 per square foot (roughly \$2.25 to \$2.5 million).

- New entrants often lack experience at this scale, are sold equipment they cannot evaluate, and may find the power grid cannot serve a location.
- Testing parameters and other facilities add to the cost. No one starting with a quarter million dollars could realistically meet the demands of a license unless too many licenses were issued to be worth anything.
- Pat asked whether the group needs to "bend over backwards" to help people who have \$2.5 million to invest; Forrest agreed this is an inclusion discussion that has not yet reached true health and safety costs.

Craft License Versus Standard Cultivation License

- Separate smaller cannabis businesses and farmers from standard cultivation
 - What distinction would make a craft license meaningful and level the field? Note that ABC lets small breweries self-distribute based on production volume.
 - Is there room for a small cannabis business in this model?
 - Forrest answered that "small" should mean as small as can be while remaining safe. He said this is not a backyard-shed operation: producers need planned, budgeted supply chains, contracts and financial resources a year ahead.
 - Potentially let producers go direct regardless of size or number while acknowledging small growers cannot produce at scale at the same unit cost.
 - No definition of "craft" or "small" (for example, by canopy size or production volume) was reached.

Potency-Based Regulation: Control Model for High Potency, Licensed Model for Low Dose

Regulating high-potency products through a state control model and low-dose products through a license model, similar to how the ABC system treats spirits versus beer and wine.

- Highly potent products should potentially be regulated differently, as spirits are.
 - Alcohol's most potent products are regulated more tightly and its lower-potency products with fewer restrictions. ABC stores are not always convenient for consumers "by design."
 - Would a specific percentage or milligram level define the line?
 - For beverages, he said most states with them settle at 5 to 10 milligrams, with some allowing 20 to 25 milligrams
 - No specific percentage or level defined for flower
 - Beverages behave like beer, wine or mixed drinks, with a fairly quick onset and drop-off, whereas edibles build and fade more slowly. He also distinguished consumers who prefer low-dose products, such as those sold now in grocery stores and wine shops, from those who seek very high potency, and would not mix the two in the same retail outlets.

Draft Recommendations, Tier 2: Wholesale and Distribution

Members were split on whether a private distribution tier is needed. Some members supported direct producer-to-retailer sales for in-state licensees while others advocated for an independent distribution tier.

In favor of an independent distribution tier

- An independent distribution tier for what it has done for beer and wine: it levels the playing field so small craft brewers can compete with large suppliers, and small retailers can compete with big-box stores.
- The infrastructure already exists, so little added cost would be needed to move product to market. The system is imperfect and needs more thought for different cannabis products.
- The distribution tier is largely indifferent to whether retail is private or state-controlled; that is a policy choice.
- Even in the alcohol three-tier system, exceptions were created so producers can reach market without a distributor when none will carry their product. Each tier stays separate: suppliers set their price to the distributor, distributors set their price to retailers, and retailers set consumer prices.
- Proposing the opposite of forcing a distributor: small producers may want to stay regional or self-distribute, but may also choose a distributor for its trucks, staff and economies of scale. Distributors also help verify product integrity and collect taxes, especially for out-of-state product.
- Not concerned about in-state producers, who are licensed, inspectable and subject to permit revocation, selling directly to retailers, although Dormant Commerce Clause questions must be worked out. Concern is out-of-state product going directly to retail, where the state cannot enforce and the product approval regime could be bypassed.
- concern is producers who do not follow the rules or get products tested, noting that most tested hemp products in North Carolina have been found non-compliant (figure not sourced at the meeting), and that regulators need a "trust but verify" structure.

Arguments against an independent distribution tier

- When cannabis is federally legalized the market will change quickly, dominated by big alcohol, tobacco, pharma and agriculture, and that separate tiers guard against the kind of integration seen before Prohibition when breweries controlled saloons.
- If the goal is to price the black market out, prices must be low, yet craft producers succeed by pricing higher on quality and brand. Without data on volume, revenue and margins, an added tier may add cost to consumers and take margin from brands, and could be counterproductive.
- Farmers could be cultivators and distributors, as in some state models, remaining responsible for their product through lab testing.
- Added tier can raise costs for small producers. She said the state can still approve every product for sale, as with alcohol labels, and generate revenue without a warehouse. If the state does run a climate-controlled warehouse, it would bear that cost, and producers would bear theirs. She considered eliminating the tier a viable option.
- Distribution does not add health and safety protection, because product must be tested before it leaves the producer: no distributor would buy untested product
 - Forrest said he would not hand product to someone else for testing where it could be contaminated. His own facility tests potency and cannabinoid profiles up front, which drives pricing and quality tiers.
- Need for verification and described how regulated systems work: a licensee's traceability is connected to the regulator, who can inspect physically or virtually and see manifests, transport

logs and certificates of analysis from approved labs uploaded to a shared cloud system.

Out-of-State Licensees and Products; Dormant Commerce Clause

The group did not settle the legal question of whether North Carolina can limit licenses or product to in-state sources, and members asked for research and clarification before recommending an approach.

Regulatory and Accountability Concerns

- North Carolina has no way to regulate producers located in other states, so if out-of-state producers are allowed there must be a state-based entity that North Carolina regulators can monitor and take enforcement action against. Distributors serve this role in alcohol: they hold permits, have "skin in the game," can be inspected, and enforce the product approval regime. Direct shipments from out-of-state suppliers to retailers would lose that feature.
- The ABC Commission cannot verify information on out-of-state permit applications. Its audit section can physically inspect North Carolina premises but cannot do so out of state, so there must be some way to hold out-of-state producers accountable on both permitting and enforcement.
- Out-of-state producers need an accountable in-state connection.

Legal Discussion

- What does the Dormant Commerce Clause actually restricts? Does the state have to allow out-of-state product? Does it keep out-of-state people from acquiring licenses? Many states keep out-of-state product out. Is limiting licenses to North Carolinians the conflict?
 - The state cannot restrict an entity to North Carolina residents, since an out-of-state resident can obtain a North Carolina permit. She said the state can restrict all hemp or cannabis grown and sold in the state to product grown in-state; the state just cannot treat entities differently if it allows other states' products in. Forrest said this supports his view of an in-state-product-only market that supports more in-state farmers.
 - The issue has two branches: whether the state must allow out-of-state product, and whether it must allow out-of-state people to hold licenses. All litigation so far concerns licensees, and the circuits have split: the First and Second Circuits say out-of-state applicants cannot be excluded; the Ninth Circuit says they can. On product, he knows of no state that allows import of state-regulated marijuana, which he described as a historical accident stemming from the 2013 federal enforcement guidance, and on weak legal grounds. Rob Mikos of Vanderbilt argues that whatever rules apply to licenses should apply to products; so far, states have gotten away with excluding out-of-state product, and some with excluding out-of-state licensees.
 - The issue may be headed to the U.S. Supreme Court. Marijuana cannot lawfully move between states because it remains federally illegal, but don't yet know whether importing crops or plant material to make product is treated the same way.
 - The Revenue and Legal Subcommittee is expected to hear a speaker on federal issues and North Carolina compliance at what may be its last meeting of the year, in November.
 - Hemp-related loopholes (for example, plants under a certain height or age containing no THC) have allowed cannabis genetics and cuttings to be moved across the country. Even

in regulated markets, acquiring genetics is an exception where plants, not finished product, cross state lines.

- If the federal government legalizes cannabis these restrictions fall away, and that Congress could immunize states from Dormant Commerce Clause challenges for cannabis, as the 21st Amendment did for alcohol. That kind of action would be required for an only-North-Carolina-grown model.

Draft Recommendations, Tier 3: Retail, the Quebec Model and Low-Dose Products

Discussion of the two draft retail options (centralized state retail or an ABC-style decentralized control system) turned mainly to the economics of the Quebec model and to whether low-dose products belong in private retail.

Understanding the Quebec model

- Province-run, ministry-supported system whose stated goal is the most affordable safe access to cannabis and combating the black market through price.
- Much of the revenue supporting the state-run program comes from exports, which North Carolina would not have. Raised concerns about price compression on farmers and producers and whether domestic demand alone could support them without exports.

Low-Dose Products in Private Retail

- Low-dose products are already sold in grocery stores, convenience stores and wine shops and that there is a place for them in private retail, although that may be too big a leap initially. Distinguished consumables from flower, noting flower's odor can be off-putting.
- The distinction is product type as well as dosage, since everything is prevalent now because it is unregulated. They asked whether a 5 milligram THC beverage could be sold in an ordinary store or beer store and called the idea progressive and creative while still potentially safe and highly regulated, noting this would place other product categories in different categories.
- Forrest said the average customer in regulated markets, and at his store, is often over 50, and that customers of every age buy the highest-THC products first. Higher potency sells most and generates the most profit for producers, and many consumers have learned to dose themselves.
 - Limits on drinks and gummies are appropriate
 - Dedicated category for beverages? It could be a good opportunity for small businesses even though drinks are his weakest product line.
- Previously discussed a one-size-fits-all approach but now beverages and edibles may need different regulation from flower because they are different products with different consumers
 - Although it may be better to regulate them the same.

Alcohol and Cannabis Co-Mingling, On-Premise Sales and Impairment Data

There are public safety concerns about combined alcohol and cannabis use.

Approaches Discussed

- Separate permits: ABC on-premise permit holders would not be eligible for the permits issued for low-dose cannabis sales, keeping cannabis consumption off-premise, consistent with the consensus heard so far.

- One or the other: A restaurant could stock both, but a customer could order alcohol or a THC beverage, not both, possibly enforced through the point-of-sale system. Chris said retailers' input would be needed.
- Bars and restaurants selling both could be problematic, but servers could decline to serve a THC beverage to someone who has had alcohol, and vice versa (much as servers are trusted not to serve intoxicated patrons)
- Concerns raised: A member noted that group tables make ticket-level blocking clunky, because one person may order alcohol and another THC at a table of eight. There may be significant opposition from ABC retailers if they could not sell both, since alcohol revenue is declining and a cannabis permit would be a new revenue source.

Information Shared

- In its latest session, South Carolina discussed allowing 10 milligram THC drinks in cannabis dispensaries and 5 milligram drinks in restaurants and bars, separating by off- and on-premise; the bill did not pass.
- Toxicology data: Polysubstance use is something North Carolina must be thoughtful about.
- Dr. Greenblatt said a quick review using a clinical tool found meta-analytic evidence that the combination of alcohol and THC is significantly more impairing than either alone. He said the group could feel comfortable concluding the combination is substantially more impairing.
- Don't think other states allow sales of both together

Number and Selection of Licenses

How many licenses to issue, and how to choose licensees, should be treated as a high priority, since every other structural choice depends on the answer

How to Select and Limit Licensees

- If there are state retail outlets, the state must decide who the farmers will be, and that the group is looking at the capillaries and not the arteries of how product moves from farmer to customer without first deciding who participates.
 - Options: all comers (as in Oklahoma), a high license fee to screen applicants, an auction, a review of applicants to pick the best, or a lottery.
 - Large sums are at stake: a license in Virginia recently sold for \$110 million, with only five licenses issued and some of that value in property, plant and equipment. Licensees will want government protection from competition and from illegal sellers, unlike liquor, where barriers to entry are low.
 - Cited Oklahoma as an example of too many licensed sellers, where everyone loses money, the market collapses, and the government cannot regulate so many operators.
 - This question goes to the Market and Regulatory Structure Subcommittee

Responses

- Permit qualifications--ABC qualifications screen out some applicants but not many, and some bad actors have obtained permits under laws written long ago. Decisions about how to help farmers, how to limit out-of-state cultivators and what is wanted at retail will help set parameters for qualifications.
- How licenses are issued and how many licenses cannot be answered separately.

- The number of licenses will determine outcomes for farmers, producers and regulators.
- Recommendation that the group study population data, cannabis user statistics, and license counts in other states and what followed, noting some states with strong programs are also centers of intoxicating hemp sourcing.
- Over-licensing and over-saturation deteriorate every product category and these two questions should be high on the list.

Action Items / Next Steps

- Microbusiness licenses

Adjournment

Meeting concluded at 3:01

Next Meeting Date: Friday, October 16, 2026