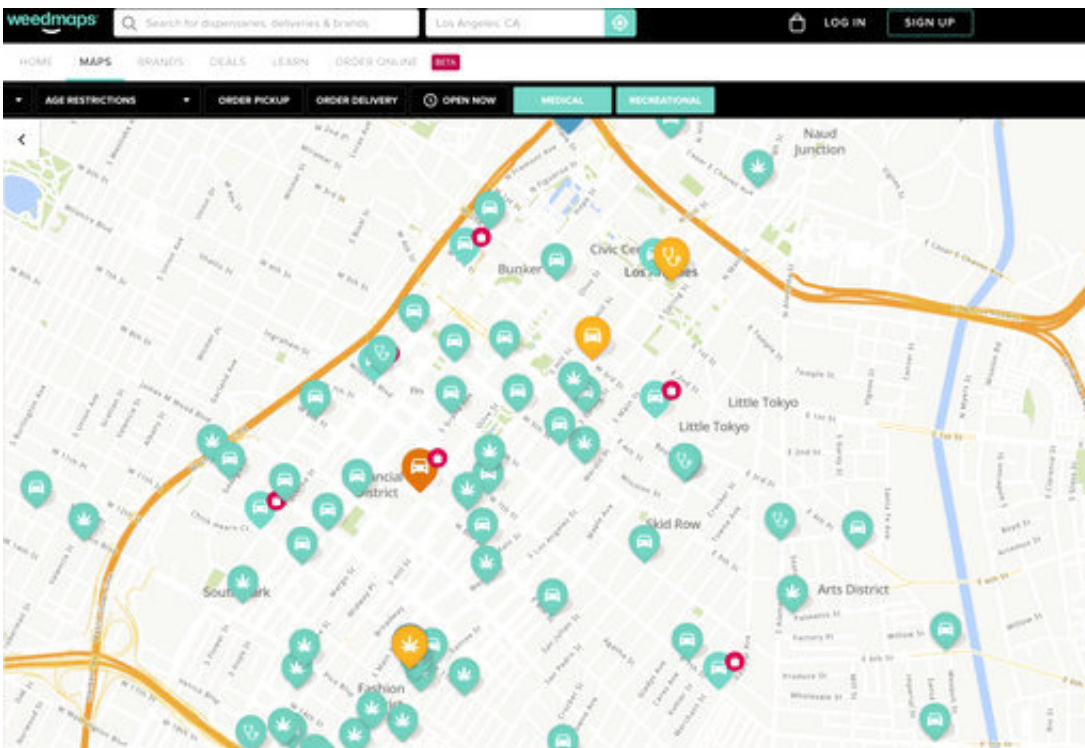


California regulators target web ads for illegal pot shops

March 29 2018, by Michael R. Blood



This frame from the Weedmaps website shows part of the map section of the online cannabis directory. State regulators have warned the popular website to take down ads from illegal sellers that appear or face possible penalties, but the company says it's not breaking any laws. (AP Photo)

Weedmaps is a go-to website for people looking to find a marijuana shop. With a few clicks on a cellphone, customers can find virtually any type of cannabis product, along with the fastest route to the place selling

it and ratings from other consumers to help them decide what to buy.

But legal and illegal operators advertise next to each other, and licensed operators in California say that's put them at a disadvantage in a cutthroat marketplace.

To them, Weedmaps is helping illegal sellers flourish without having any of the obligations licensed operators endure—collecting and paying taxes, insuring their businesses and employees, and abiding by safety rules for their products.

In other words, illegal shops can sell pot at cheaper prices, sometimes 30 percent to 50 percent less.

"That's Weedmaps' business model, to confuse the difference between legal and illegal," said Jerred Kiloh, a licensed dispensary owner in Los Angeles who heads the United Cannabis Business Association, an industry group. "It's an unfair playing field. They are pitting us against each other."

Weedmaps operates in over two dozen states, but the issue is coming to a head in California, which in January became the nation's largest legal marketplace. State regulators last month warned Weedmaps to stop advertising shops operating outside the law.

In a response, Weedmaps executives said they are eager to work with the state but asserted that the online directory doesn't fall under state authority and is shielded by provisions in federal law.

The company sees the core of the problem as a scarcity of legal outlets and hefty taxes that scare off consumers from licensed shops, not its online ads. In Los Angeles, where the pace of city licensing has been sluggish, only about 130 retail shops have authority to operate, while city

officials acknowledge hundreds more are making illegal sales.

Weedmaps says its experience dropping unlicensed businesses from its listings in Washington, Oregon, Nevada and Massachusetts had no impact on the size of those unlicensed markets.

"Scrubbing the internet of the reality of unlicensed operators ... does nothing to fix the underlying issues," Weedmaps CEO Doug Francis and President Chris Beals wrote to the state Bureau of Cannabis Control earlier this month.

The company some call a Craigslist for cannabis defines itself as an "interactive computer service" that falls under the federal Communications Decency Act. A key section of that law is designed to protect internet publishers, generally providing immunity to them for content posted by users.

But Kiloh is among those who argue Weedmaps is far more than an advertising platform, noting consumers can use the site to submit orders and summon deliveries from shops legal and otherwise.

"They are acting like Amazon, saying, 'Here is a shopping cart,'" Kiloh said. "They are creating a marketplace, not a platform for advertising, and it's driven by dollars."

The dispute over the online ads goes to basic economics for an emerging market sprung from what was mostly an illegal one: Lawful operators will struggle if they're competing with a robust black market that can undersell them.

Complaints have surfaced elsewhere, including over fees that in some cases can be tens of thousands of dollars a month for prime ad space. The company says some advertisers pay nothing.

"I strongly believe their response to advertise for unlicensed cannabis companies is a black eye to the industry," said Peter Marcus, a spokesman for Boulder-based Terrapin Care Station.



In this June 27, 2017, file photo, Jerred Kiloh, owner of the Higher Path medical marijuana dispensary, stocks shelves with with cannabis products in Los Angeles. State regulators have warned the popular website Weedmaps to take down ads from illegal sellers or face possible penalties, but the company says it's not breaking any laws. Kiloh said "That's Weedmaps' business model, to confuse the difference between legal and illegal," Kiloh, a licensed dispensary owner who heads the United Cannabis Business Association, an industry group. (AP Photo/Jae C. Hong, File)

Terrapin has five licensed dispensaries in Colorado and has advertised with Weedmaps for years, Marcus said. He said Terrapin worries Weedmaps' high-profile spat with California regulators will bring

unwanted attention from the U.S Justice Department, which continues to prosecute marijuana offenses under [federal law](#) that still sees cannabis as an illegal drug.

The appeal of black-market shops—and the lure of their ads—was illustrated this month after a raid at an illegal dispensary near Los Angeles.

Even after Los Angeles County sheriff's deputies shuttered the Compton 20 Cap Collective, hauling out employees and customers in handcuffs and seizing bags of illicit pot, the shop's page on Weedmaps advertised deals and displayed the dispensary's products, which included dozens of varieties of cannabis buds, extracts and edibles.

Despite the bust, prospective customers were asking about making purchases.

"Are they back open again?" one comment read.

In its warning to Weedmaps, one of hundreds of letters sent to businesses that California regulators believe are operating improperly, the state said the company should take down ads from illicit operators and warned the company it could face criminal penalties.

But it wasn't immediately clear how far that threat would go, since Weedmaps appears to be operating largely as usual. In their letter, the company executives said they would eliminate an internal "identifier" that appeared in business listings that state regulators said could be confused with a valid license number.

The company said in a statement it wants the licensed market to reach a "functional state where the unlicensed market is minimized."

California regulators are discussing appropriate next steps, state cannabis agency spokesman Alex Traverso said in an email.

In the Legislature, Democratic Assemblyman Jim Cooper of Elk Grove drafted a bill that would penalize unlicensed operators that advertise on the internet, \$10,000 for every violation.

"The black market is having a substantial impact on those businesses that are following the rules," said Mike Ziegler, a Cooper aide. "They are being undercut by those who choose to operate illegally."(backslash)

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