

# Expect Delays: Challenges Ahead for California's Cannabis Distribution System

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Recreational marijuana sales became legal in California on January 1, 2018, marking a major milestone for the cannabis industry. California has adopted licensing regulations for commercial cannabis businesses, including those that transport cannabis product throughout the state. The California Bureau of Cannabis Control is responsible for setting the licensing requirements for distributors.

Pursuant to the new cannabis regulations, all businesses wishing to transport commercial cannabis must obtain either a "Distributor" or "Distributor Transport Only" license. All transportation then must be conducted by distributor licensees and their direct employees. Under the Distributor Transport Only license, transportation to retail licensees is prohibited unless the distributor is transporting immature plants and seeds from a nursery to a retailer.

All transportation of cannabis must be conducted in a vehicle or trailer and the product cannot be visible from outside of the vehicle and must be kept in a locked box, container or cage that is secured to the commercial vehicle or trailer. These vehicles must be equipped with alarm systems, remain secure at all times and not be left unattended in a residential area or parked overnight in a residential area. The distributor also must complete an electric shipping manifest, which includes the unique identifier issued by the Department of Food and Agriculture for the original cannabis product.

## Distribution Issues

Challenges likely lay ahead for this new, untested distribution system. Anticipating the potential for a distribution bottleneck, the state regulations allow for the vertical integration of multiple licenses. This allows a licensed manufacturer or retailer also to distribute if properly licensed. Many localities in California have nevertheless been slow to finalize the local permitting process. This delay has prevented many would-be distributors from obtaining their licenses.

Industry experts do not believe there are an adequate number of licensed distributors to handle expected demand. As recently reported by the [Associated Press](#), Terry Blevins, CEO of a security firm and part-owner of a marijuana distribution company in Southern California, believes that "There's going to be a huge bottleneck in the distribution network in California at some point." The state of Nevada saw a similar bottleneck earlier this year due to a lack of licensed distributors. The

distribution problem in California may pose a much larger problem.

A further complicating factor is the unavailability of California's computerized seed-to-sale tracking program, which is not yet active. This makes the current distribution process more cumbersome – and potentially riskier – if the distributor fails to closely monitor its manual documentation.

## The Sessions Memo

Finally, the January 4, 2018, Memorandum for All U.S. Attorneys issued by [Attorney General Jeff Sessions](#) to rescind the Cole memo, which prevented the Department of Justice from prosecuting state-legal medical cannabis activity, may have a chilling effect on mainstream transportation companies and keep them from entering the market. Though probably unlikely in cannabis-legal states, federal law enforcement now may stop, seize and charge individuals in possession of marijuana while product is being legally transported under state law. Companies that are licensed by the U.S. Department of Transportation may not wish to risk their federal license given the current enforcement posture by the DOJ.

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