

**From:** [Gregory Smith](#)  
**To:** [CED AMCO Enforcement \(CED sponsored\)](#); [CED MCB AMCO \(CED sponsored\)](#)  
**Subject:** AMCO Inversion Letter  
**Date:** Friday, December 12, 2025 5:16:17 PM  
**Attachments:** [AMCO Inversion Letter.docx](#)

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Dear Marijuana Control Board Members and AMCO Enforcement,  
Please open the attached communication, I hope it is helpful and well received. I will be forwarding a “White Paper” attached to a separate email as it is very informative I believe. I truly appreciate any feedback. Thanks again for all you do!

Warmest Regards,

Greg Smith/ Nome Grown LLC

Dear AMCO Enforcement,

This communication is meant to be informative and bring awareness to the subject of “Inversion”. Which is the laundering of illicitly trafficked cannabis products into the regulated state supply chain. (Empire State Green Standard Alliance 11.08.2025)

I came across a couple of articles that illuminate the mechanics of inversion, to sum it up: Cultivators pad harvests reports by recording fake bulk harvest weights, purchases (or disposals) of low-value plant matter. When unlicensed illicitly grown cannabis is introduced, it is logged under those inflated totals and presented as part of their licensed production. Processors mirror the scheme and often report extraction yields far higher than inputs could ever produce, for example.

Recent research confirms that permissive regulatory climates are the strongest attractors for cannabis firms. Lax systems destabilize the cannabis market. Structural reform is urgent. METRC can track paperwork, but it cannot stop fraud from being entered as fact. It inhibits licensed cannabis from being leaked into the illicit market, but it cannot stop illicit supply from being typed in as if it were grown in a state licensed facility. Local Processors have been caught inserting unlicensed hemp-derived THC oil into Alaskan products. While emphasis has been on “diversion” of product, operators believe that “inversion” of product is equally, if not more; concerning than “diversion”. Inversion has a cascading effect; public health is put at risk, loss of state and local tax revenue and essentially a existential threat to licensed operators whom strive to comply. I have become aware of the signs of unregulated product in the Alaskan market such as incomplete/ inaccurate labeling (Inflated THC amts. or No THC, No Cultivator, Etc on exit label); fiercely competitive below market pricing on oil and extract products. Other anecdotal evidence comes in the form of reports from cannabis consumers; especially those whom reside in the villages of western Alaska. Multiple communications over time that reflect the common theme of travel to anchorage, buying \$50 an ounce weed, dabs and carts for \$25 a gram or less on the “black market”(even right on licensed premises) which is resold in their respective home village.

At its core, inversion is more than a paperwork issue- it’s an existential threat to Alaska’s cannabis industry. Alaskan consumers rely on the promise that what they buy is tested, traceable, and local. When product origin is falsified so is public safety assurances. Unverified cannabis can bypass pesticide standards, potency limits, or packaging requirements, undermining both public health and the integrity of enforcement. The stakes are even higher for small farmers and individuals and firms holding no more than 3 cannabis state issued licenses. Addressing the inversion that is rampant across multiple states as well as this one will require a multi-layered regulatory strategy that combines technology, enforcement, and transparency. If the state regulators fail to act decisively,

“homegrown” could become an empty slogan and legal operators could be driven out of business. Strengthening oversight as METRC can track and record transactions, it cannot verify truth. Reform state license structures so as to diminish monopolistic license stacking (associated with inversion in other states) rather than simple integration of the ma and pa shop nature. Sensible ownership limits, enhanced enforcement activity coupled with meaningful penalties as when cheating costs more than compliance, inversion will collapse.

I have attached a “White Paper” on the subject of “Cannabis Inversion: The Threat to Consumer Safety and Market Integrity” prepared by the Empire State Green Standard Alliance for reference. I look forward to joining you in starting the conversation on “Inversion” in effort to address this threat to the Alaskan people and the Alaskan cannabis industry.

I look forward to partnering with those committed to addressing the subject of “Inversion”.

**From:** [Gregory Smith](#)  
**To:** [CED AMCO Enforcement \(CED sponsored\)](#); [CED MCB AMCO \(CED sponsored\)](#)  
**Subject:** Cannabis+Inversion\_+The+Threat+to+Consumer+Safety+and+Market+Integrity  
**Date:** Friday, December 12, 2025 5:22:43 PM  
**Attachments:** [Cannabis+Inversion\\_+The+Threat+to+Consumer+Safety+and+Market+Integrity.pdf](#)

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Hello Again,

Attached is a copy of a “White Paper” that I find enlightening. Hope you experience this as well.

Thank you for your time and support!

Warmest Regards,

Greg Smith/ Nome Grown LLC



# Cannabis Inversion: The Threat to Consumer Safety and Market Integrity

Prepared by the Empire State Green Standard Alliance

Date: October 8th, 2025

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## Executive Summary

What is “inversion”? Cannabis inversion is the laundering of illicitly trafficked cannabis products into regulated state supply chains. This poses one of the gravest threats to consumer safety and the integrity of the legal cannabis industry. By deliberately concealing product origins, disregarding manufacturing standards, or leveraging fraudulent laboratories, bad actors undermine the safeguards legalization was designed to ensure.

Companies may participate in cannabis “inversion” because it offers a way to boost profits by bypassing the high costs, strict regulations, and supply limitations of the legal market while still accessing its consumer base and perceived legitimacy. Licensed operators face heavy taxes, compliance expenses, and stringent testing requirements that drive up prices and erode profit margins, making it tempting to supplement inventory with cheaper illicit products. By inverting unregulated cannabis into the legal supply chain, businesses can cut costs, fill gaps in supply, and compete more favorably on price, all while hiding behind the credibility of state licensure and lab certification.

Inversion disadvantages compliant operators, deprives states of vital tax revenue and erodes consumer trust. This white paper defines cannabis inversion, examines its impact on public health and markets, highlights recent case studies, and proposes statutory and regulatory solutions to close loopholes and protect consumers.

## Introduction

The legal cannabis industry has grown rapidly across the United States, generating billions in revenue and providing a state sanctioned and regulated alternative to the illicit market. At its core, legalization promises transparency, traceability, and consumer protection. Consumers should know what they are purchasing, where it was produced, and whether it meets safety standards.

Cannabis inversion threatens these principles. By allowing illicitly produced flower, oils, and concentrates to penetrate regulated supply chains, inversion reintroduces risks of contamination, adulteration, and fraud. It also undermines fair competition, enabling unscrupulous operators to profit at the expense of compliant businesses.

In New York, the legal cannabis market is still in its early stages, but it represents one of the largest potential markets in the country. The state has emphasized social equity by prioritizing licenses for individuals disproportionately impacted by prohibition, aiming to create a more inclusive industry. However, the rollout has been slower than anticipated, with regulatory challenges and lawsuits delaying the opening of licensed dispensaries. This slow progress has allowed the illicit market to thrive, presenting both a challenge to regulators and a temptation for inversion within the legal supply chain. Ensuring a smooth transition from illicit to licensed cannabis remains critical to building consumer trust and stabilizing the regulated market.

## Understanding Cannabis Inversion

Cannabis inversion occurs when illicit products are introduced into a legal supply stream. The tactics vary from false labeling as to origins, use of shell companies, deliberate misstatements about solvents or processes, or misrepresentation of potency. Frequently, complicit laboratories provide fraudulent Certificates of Analysis (COAs) that “cleanse” illicit material by declaring it compliant. The result is a product that appears legitimate but is, in fact, illegal, untraceable, and potentially unsafe. Motivations are clear: inversion offers high profit margins, circumvents compliance costs, and exploits gaps in regulatory oversight.

The practice is especially damaging because it undermines one of the fundamental goals of legalization: to replace the opaque, unregulated cannabis market with a transparent and accountable system. Consumers enter the legal market with the expectation that every product has been tracked, tested, and certified. When illicit material is inverted, that assurance breaks down, leaving individuals unknowingly exposed to products that may contain pesticides, mold, residual solvents, or mislabeled cannabinoid levels.

Inversion also destabilizes the legal industry by allowing unscrupulous actors to undercut compliant businesses. Licensed cultivators and manufacturers invest heavily in infrastructure, testing, and regulatory compliance. Their costs are substantial, and their margins are slim. In contrast, those who introduce illicit material avoid these expenses, yet profit from access to

legal retail channels. Over time, this imbalance discourages investment, drives down consumer confidence, and threatens the viability of legitimate operators.

To preserve the integrity of the legal cannabis market, regulators must close the loopholes that allow inversion to occur. Stronger auditing of supply chain records, routine verification of laboratory practices, and severe penalties for both operators and labs found complicit are essential. Equally important is the development of robust consumer education, so buyers understand the importance of buying from trustworthy, licensed sources. Only with a coordinated approach that combines enforcement, oversight, and transparency can the regulated industry achieve its intended goals of safety, fairness, and public trust.

## Risks to Consumers and Markets

The public health risks are significant. Products introduced through inversion often bypass [Good Manufacturing Practices \(GMP\)](#) required by the NYS Office of Cannabis Management, opening the door to contamination by pesticides, heavy metals, or pathogens. Adulterants and unapproved cutting agents may be used to stretch product volumes, creating additional health hazards. Equally concerning, mislabeling of potency exposes consumers to accidental overconsumption or unpredictable effects, particularly among medical patients and new consumers.

The economic and reputational damage is also severe. Compliant operators face unfair competition from those willing to cheat, while consumer trust in the regulated market erodes with every scandal. This dynamic risks driving consumers back toward the illicit market—precisely what legalization aimed to prevent. States, meanwhile, lose millions in tax revenues earmarked for public health, education, and welfare.

The following chart lists currently required consumer safety measures that are impacted when inverted products are sold to New York cannabis consumers.

Consumer Safety Measures in NYS Cannabis Law	Inverted Products in NYS Legal Market
Legal Licensure	✗
Traceability of Ingredients	✗
Good Manufacturing Practices (GMP)	✗
3rd Party Lab Testing	✗
Packaging and Labeling	✗
Tamper Evident Seal	✓

*Chart courtesy of Empire State Green Standard Alliance*

## Case Studies and Recent Examples

In June 2025, New York regulators broadened a statewide cannabis recall after determining that [IndoGro LLC](#) had used material sourced from an unlicensed out-of-state entity, violating New York's cannabis law. The recall initially stemmed from findings of unallowable pesticide residues in nine lots following retests, but the investigation was expanded to include [28 additional lots](#) due to concerns over origin and testing validity.

Separately, [Lexachrom Analytical Laboratory](#), a now-defunct New York cannabis testing lab, faces a proposed fine of up to \$2 million and a three-year industry ban over allegedly submitting unreliable tests and questionable Certificates of Analysis (COAs).

In one recall notice, the OCM explicitly flagged unreliable testing from Lexachrom as a factor in quarantining products from [East End Flower Farm LTD](#).

[Investigative reporting](#) from the New York Times has confirmed that these schemes are not isolated events but part of a broader, systemic challenge facing the cannabis industry.

These examples underscore a sobering reality that inversion and lab fraud are not rare anomalies but structural risks in the regulated cannabis sector. They show how weak oversight, inconsistent testing standards, and financial incentives can combine to compromise regulatory integrity, erode consumer trust, and undermine public health protections.

## Statutory and Regulatory Solutions

Closing down inversion activity requires coordinated statutory and regulatory action.

First, New York State must have the best seed-to-sale tracking system, mandating interoperable systems across jurisdictions and requiring real-time reporting of transfers to ensure products cannot be disguised or “washed.” Full chain-of-custody verification with digital signatures should be enforceable under law, with falsification treated as a license disqualifying offense. A long-delayed implementation is now expected to be in place before the end of this year.

Second, penalties for inversion must be explicit and severe. In New York State, cannabis inversion should be defined in statute and treated as an aggravated offense, with fines scaled to the value of illicit product and provisions for personal liability of corporate officers. No state has codified “cannabis inversion” exactly, but several adult-use states have close analogs.

Minnesota imposes civil fines up to three times retail value for unlicensed cannabis sales/imports. Washington classifies purchasing from unlicensed sources as a Category I violation, punishable by license cancellation. Illinois authorizes discipline for accepting cannabis

from non-licensed sources and ties accountability to principal officers/agents. Nevada uses category-based fines and progressive suspensions. Oregon and California rely on civil penalties, suspensions, and revocations for sourcing or diversion violations. Together, these frameworks show models New York could adapt—graduated fines, license suspension/revocation, and officer liability.<sup>1</sup>

New York should pursue interstate information-sharing agreements to coordinate enforcement against illicit cannabis flows. Joint inspection task forces along state borders are feasible through cooperative agreements with nearby regulators, helping to close gaps that bad actors exploit. At the federal level, while full enforcement funding is unlikely absent legalization, New York can press agencies such as National Institute of Standards and Technology and the Food and Drug Administration to expand technical guidance and voluntary lab standards, and advocate for public health grant programs that indirectly strengthen cannabis oversight.

Third, there is an urgent need for regulators to develop more robust oversight measures that focus on adherence to Good Manufacturing Practice (GMP) standards and greater laboratory oversight. For example, regulators should require GMP certification for all licensed manufacturers, enforced through independent audits, with non-compliance constituting statutory grounds for license suspension or revocation. In addition, all cannabis labs should meet ISO/IEC 17025 accreditation standards, and regulators should conduct blind re-testing at independent labs. Fraudulent Certificates of Analysis (COAs) must also be prosecuted as license disqualifying offenses, with meaningful financial and license disqualifying penalties. [The recent case involving Lexachrom](#), a New York testing lab that exited the industry amid allegations of faulty procedures and questionable COAs, highlights the urgency of stronger oversight mechanisms. Sufficient resources must be provided to support the State's important oversight and monitoring functions to ensure the industry is properly monitored and cannabis consumers are protected.

Fourth, truth-in-labeling statutes should be adopted, requiring products to disclose all ingredients, solvents, and processes. QR codes linking to verified COAs and source information would give consumers transparent access to product data. Intentional mislabeling should be characterized as consumer fraud, punishable by license suspension/revocation, and civil penalties. New York requires cannabis products to follow packaging and labeling rules under OCM guidance, including COA references and restrictions on misleading claims, and general consumer fraud statutes (GBL §§ 349–350) also apply. However, state law does not mandate full disclosure of all ingredients, solvents, and processes, nor has it defined intentional mislabeling as a distinct consumer fraud offense within the Cannabis Law. The Office of Cannabis Management's proposed revisions to the Packaging, Labeling, Marketing, and Advertising (PLMA) regulations—out for public comment till October 10th, 2025—would move in this direction by requiring ingredient lists, solvent disclosure, and scannable QR codes linking to verified COAs, though these reforms would remain regulatory rather than statutory.

Finally, whistleblower protections should safeguard employees who report inversion or lab fraud. To remove uncertainty, New York could amend the Cannabis Law (MRTA) to include explicit whistleblower protections for employees in licensed cannabis businesses. This would define

cannabis inversion and laboratory fraud as prohibited acts, require licensees to maintain internal reporting channels, and protect employees from retaliation when raising such concerns internally or to regulators. Clear statutory language would reduce reliance on the broader but less tested Labor Law § 740, give employees confidence to come forward, and strengthen regulatory oversight by ensuring information about inversion or fraud reaches enforcement authorities quickly.

## **Incentives for Compliance**

While strong penalties and statutory clarity are essential to deterring cannabis inversion, enforcement alone cannot secure the integrity of the market. Effective oversight also requires mechanisms that make compliance practical, affordable, and rewarding for all operators—particularly microbusinesses and equity licensees who often face the steepest financial and operational hurdles. If compliance is disproportionately burdensome for those the state has sought to prioritize, then the goals of equity and inclusion risk being undermined.

Regulators should design incentives that both strengthen public safety and advance equity. Options include reduced regulatory fees for businesses that maintain a record of clean testing, subsidized testing programs to ease one of the greatest financial burdens on small operators, and the creation of a public-facing “Verified Safe & Compliant” seal that helps compliant equity businesses build consumer trust and market share. Targeted tax credits or low-interest loans could further reward operators who voluntarily adopt enhanced traceability practices or undergo independent audits, supplying resources to reinvest in safe growth.

To ensure fairness, these programs must be embedded in statute or regulation, tied to measurable criteria, and applied transparently across license types, with neutral third-party verification. Done well, incentives can reduce the temptation of inversion, protect consumers, and create conditions where compliant operators can compete on quality and safety rather than price alone.

This paper introduces the concept of compliance incentives as an essential complement to penalties. A forthcoming policy brief will explore specific models in greater detail, including equity-focused subsidy structures and reinvestment strategies, so New York can both safeguard public health and fulfill its commitment to a diverse, inclusive cannabis industry.

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## **Conclusion**

Cannabis inversion in New York is not a mere compliance lapse; it is a profound threat to public confidence, consumer welfare, and the very legitimacy of the regulated market. When origins are obscured, standards are evaded, and oversight is manipulated, it is ordinary New Yorkers who bear the risks—through unsafe products, misleading labels, and a marketplace tilted toward unscrupulous actors.

The Empire State Green Standard Alliance therefore calls upon legislators, regulators, and industry leaders to exercise their full responsibility. Statutes must be sharpened to define and punish inversion as an aggravated offense. The Cannabis Control Board and Office of Cannabis Management must intensify their vigilance with independent audits, rigorous laboratory accreditation, and uncompromising enforcement against fraudulent practices. Truth-in-labeling must become the rule, ensuring that every consumer knows precisely what they are purchasing, how it was made, and that it meets the highest standards of safety. Whistleblowers must be protected, not punished, when they expose fraud in service of the public good.

New Yorkers deserve a cannabis market as transparent and trustworthy as any other regulated industry. Protecting consumers is the cornerstone upon which a fair, equitable, and enduring legal cannabis system will rest. The moment to secure that foundation is now.

## **Endnotes with References**

<sup>1</sup> Selected state penalty statutes and regulations:

### Minnesota

- Minn. Stat. § 342.09 (2023) (authorizing civil penalties up to \$1,000,000 or three times the retail market value for unlicensed sales/imports).

### Washington

- Wash. Admin. Code § 314-55-520 (2023) (penalty guidelines; Category I violation includes purchases from unlicensed sources, presumptive license cancellation).

### Illinois

- Cannabis Regulation and Tax Act, 410 Ill. Comp. Stat. 705/15-145 (2023) (grounds for discipline including suspension, revocation, and fines).
- 68 Ill. Admin. Code § 1291.70(a)(14) (2023) (discipline for accepting cannabis from sources other than licensed cultivation centers, craft growers, infusers, or transporters).
- See also 410 Ill. Comp. Stat. 705/15-15 et seq. (tying compliance obligations to principal officers and agents).

### Nevada

- Nev. Cannabis Compliance Reg. § 4.030 (2023) (category-based violations and penalty framework, including presumptive revocation for diversion).

## Oregon

- Or. Admin. R. 845-025-8590 (2023) (civil penalties, suspension, or cancellation for violations).
- Or. Admin. R. 845-025-1230(14) (2023) (prohibiting receipt of marijuana items from non-licensed sources).

## California

- Cal. Bus. & Prof. Code § 26031 (West 2023) (authorizing suspension, revocation, probation, or fines for licensee violations).
- Cal. Bus. & Prof. Code § 26038 (West 2023) (civil penalties for unlicensed commercial cannabis activity and aiding or abetting).
- See also Dep't of Cannabis Control, Disciplinary Guidelines (2021) (describing ranges of fines, suspensions, and revocations).

**From:** [Gregory Smith](#)  
**To:** [CED MCB AMCO \(CED sponsored\)](#)  
**Subject:** Lawsuit seeks court order compelling NY to stop illicit marijuana sales  
**Date:** Friday, December 12, 2025 5:08:18 PM

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FYI, thought this very pertinent

Lawsuit seeks court order compelling NY to stop illicit marijuana sale

<https://www.timesunion.com/capitol/article/lawsuit-seeks-court-order-compelling-ny-stop-21196920.php>

**From:** [Maya Benavente](#)  
**To:** [CED MCB AMCO \(CED sponsored\)](#)  
**Cc:** [Serezhenkov, Kristina R \(CED\)](#); [Rhonda Hubbard](#)  
**Subject:** Cannabis concerns  
**Date:** Wednesday, January 21, 2026 2:22:47 PM

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### **Drive thru sales**

- What is the rationale for considering doing away w/ the minor relationship and age limit cap? I believe this opens the door further for adults to buy for minors and they can be in the car!
- How can passenger ID, inebriation, and video-taped purchases be properly done with passenger buyers? Barriers to this include back seat passengers, tinted windows, poor lighting, limited cameras, etc. I don't believe that AMCO has researched the safety and security concerns enough.

### **Defining marijuana**

- How is marijuana being defined and limited with an ever evolving product? THC levels are higher. Hemp derived products are evolving.

The AMCO board seems to be more concerned with loosening regulations rather than protecting the public as mandated in their mission statement. It was stated in the public hearings for AO 360 that the areas of alcohol and marijuana should not be about limiting regulations. The Department of Commerce is vast so the regulations reductions can come from other areas.

The AMCO board should revisit current research on the adverse effects of marijuana and always have that on the agenda. As a business owner in the health industry, OSHA requires us to discuss a safety topic at all staff meetings. The AMCO board needs to balance public health and safety with economic development. They should also be well versed in Healthy People 2030 and Healthy Alaskans 2030. One objective of Healthy People is to reduce the number of people who had marijuana use disorder which has only gotten worse. In Healthy Alaskans, objectives relate to drug-induced mortality rates and substance use disorder treatment. The scorecards for those two objectives show "not improving."

[chrome-extension://efaidnbmnnibpcajpcglclefindmkaj/https://www.healthyalaskans.org/wp-content/uploads/2023/02/HA2030-Health-Objectives\\_pg10.pdf](chrome-extension://efaidnbmnnibpcajpcglclefindmkaj/https://www.healthyalaskans.org/wp-content/uploads/2023/02/HA2030-Health-Objectives_pg10.pdf)

[https://www.healthyalaskans.org/wp-content/uploads/2025/01/HA2030\\_Doc\\_2024.html](https://www.healthyalaskans.org/wp-content/uploads/2025/01/HA2030_Doc_2024.html)

<https://odphp.health.gov/healthypeople>

Lastly, how are **cannabis tax revenues** shared with local communities? And what have those revenues been spent on?

Thank you.

Maya Moriarty  
P.O. Box 1693  
Seward, AK 99664