

LEGALIZING & REGULATING CANNABIS IN SASKATCHEWAN

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Public Service Announcements

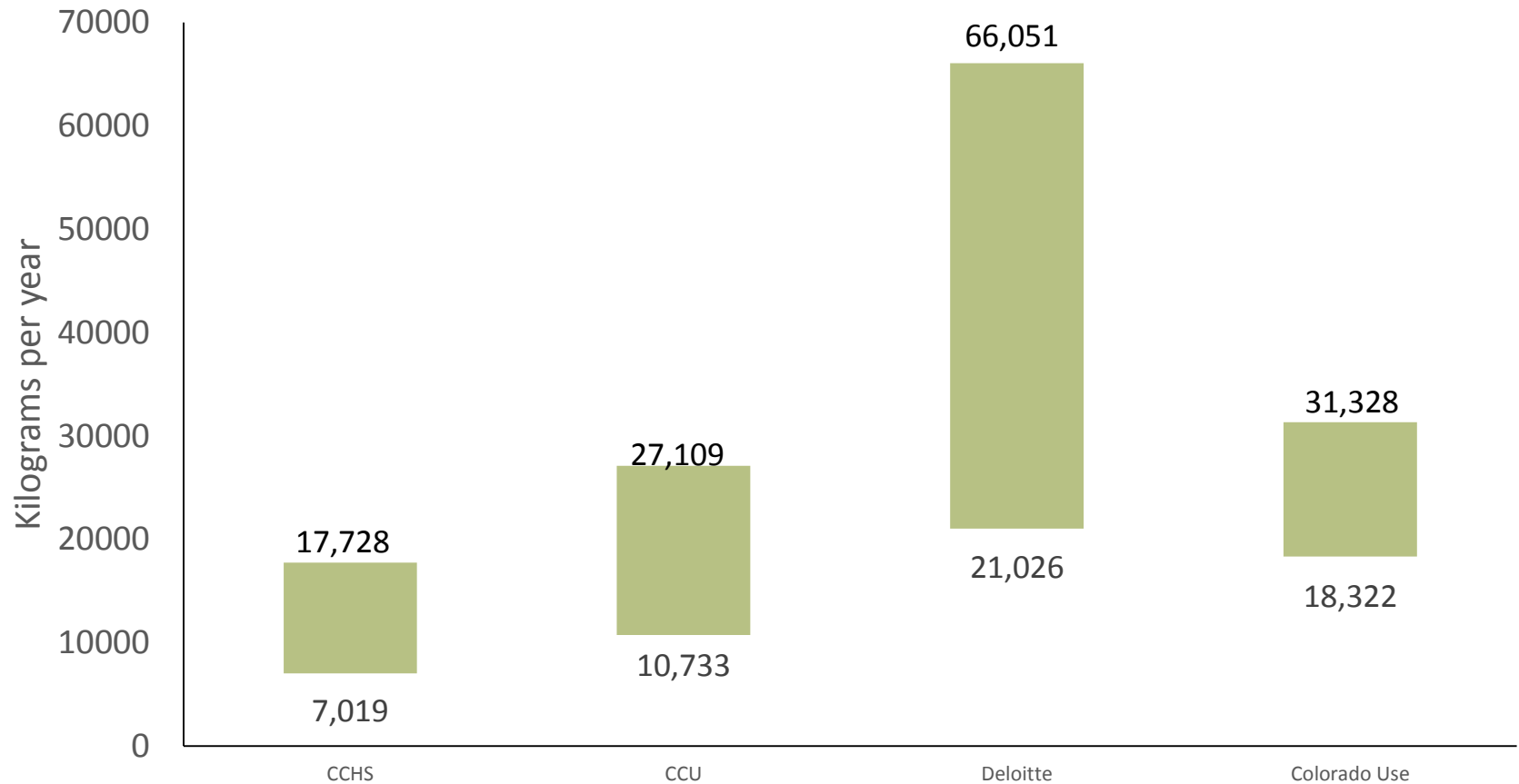
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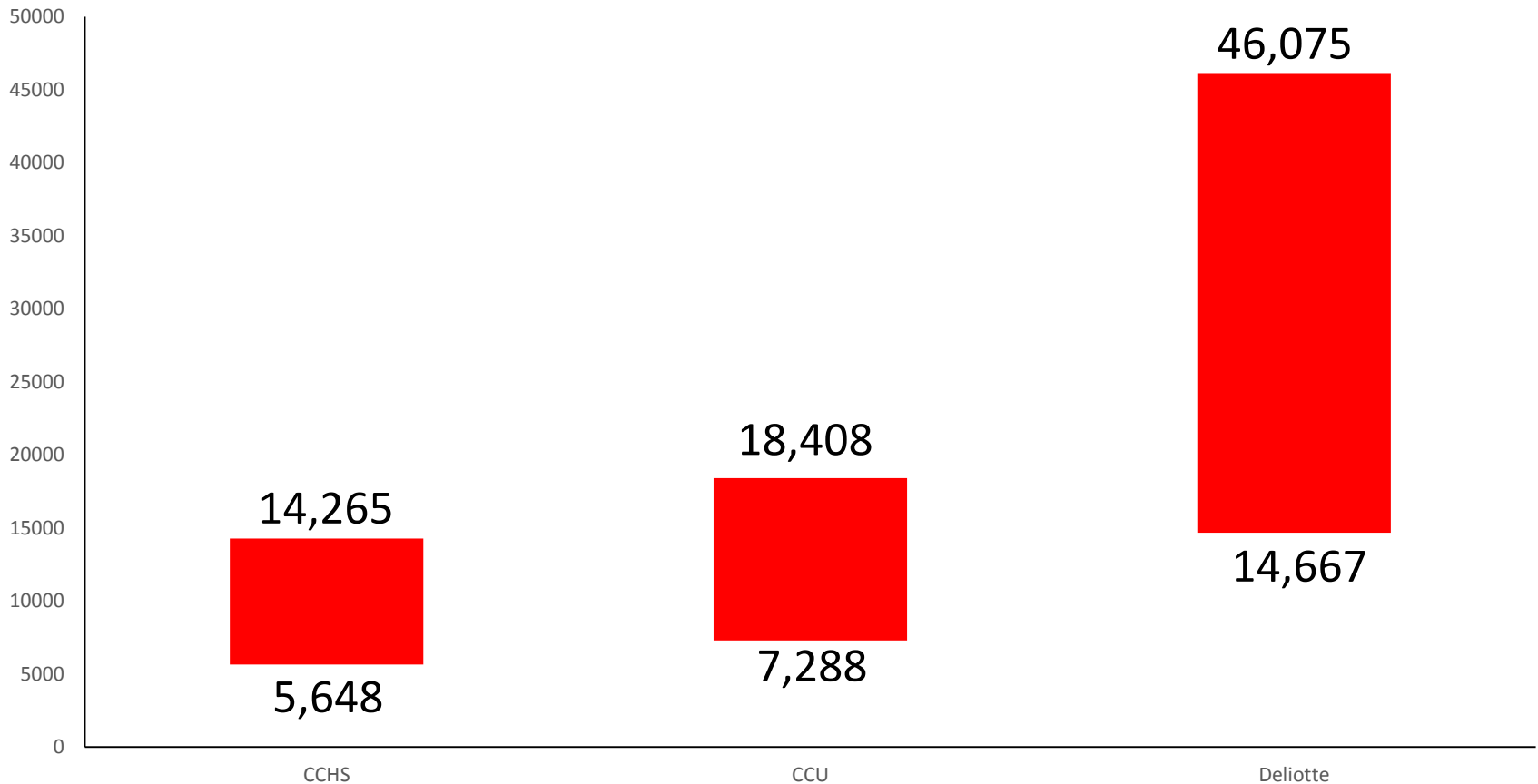
The Problem

- Cannabis is readily available in Canada despite prohibition.
- >50% Canadians have tried it, at least 20% are regular users
- Cannabis use is associated with a wide variety of health issues.
- Use by those under age 25 is particularly harmful.
- 18 to 24 are the most likely to use – 12 to 17 are next.
- Canada has the highest rate of use by youth among developed countries.

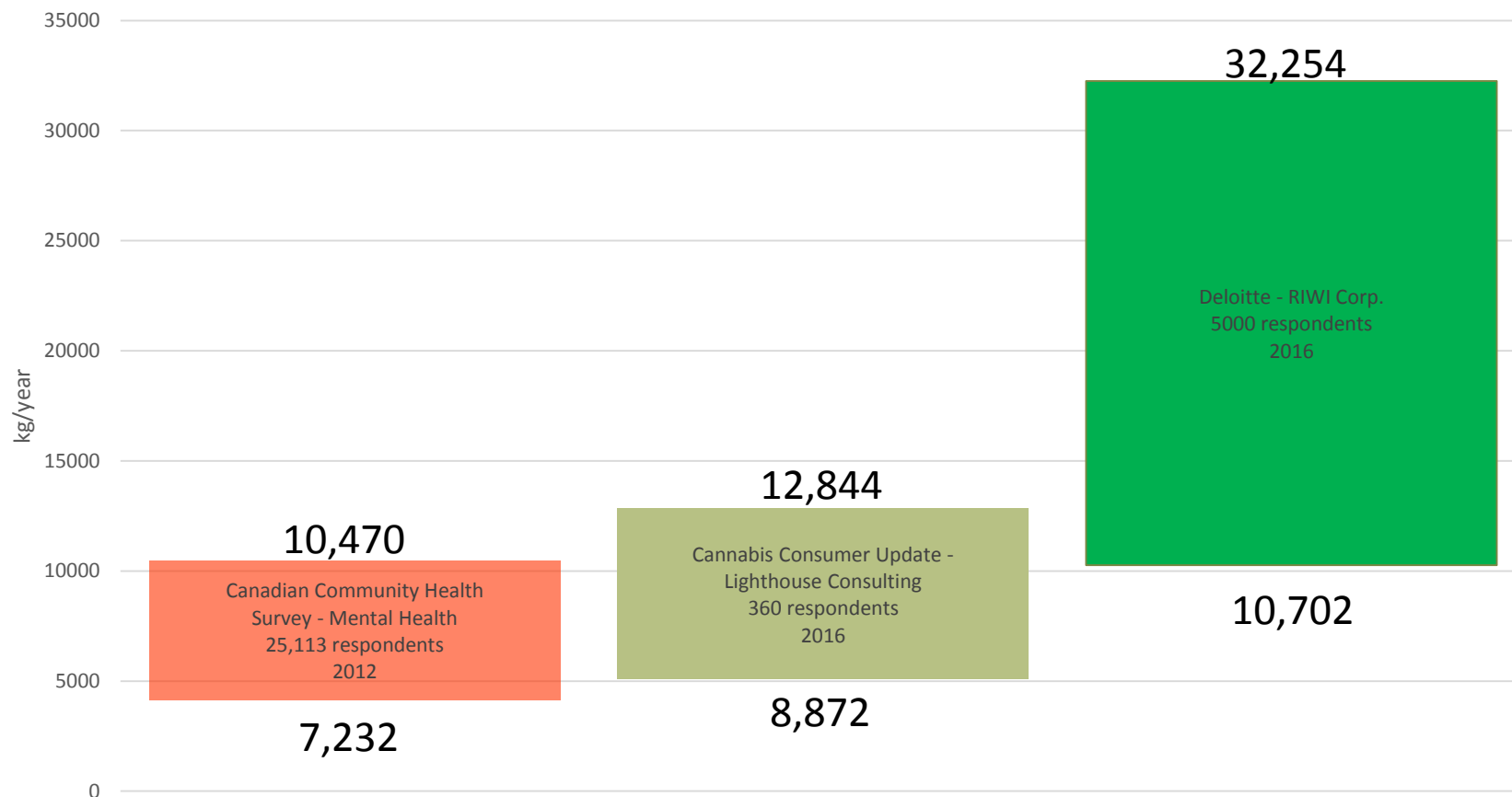
Current Demand – Saskatchewan



Current Demand – New Brunswick



Current Demand - NFLD



Federal Government's Solution

- Legalize and regulate access to recreational cannabis.
- Bill C-45 will make cannabis legal to buy, possess and consume.
- Production remains under Health Canada jurisdiction.
- Distribution and retail become provincial/local responsibilities.
- This will be a new legal industry and there are no established best practices.

Explicit Federal Objectives

1. Dismantle the illicit market
2. Restrict youth access
3. Minimize harm



Implicit Federal Objectives

1. Benefit from increased economic activity
2. Increase government revenue

Revenue Source (Market)	2014	2015	2016	2017*	2014-2017*
15% Excise Tax (Adult)	\$13,341,000	\$35,060,590	\$61,986,401	\$30,676,572	\$141,064,563
10% Special Sales Tax (Adult)	\$30,364,797	\$57,582,832	\$86,058,176	\$42,555,121	\$216,560,926
2.9% Sales Tax (Adult)	\$8,822,120	\$16,484,635	\$24,545,403	\$12,228,934	\$62,081,092
2.9% Sales Tax (Medical)	\$10,886,966	\$11,451,375	\$12,279,446	\$5,147,097	\$39,764,884
License/Application Fees (Both)	\$12,737,585	\$14,521,031	\$13,652,738	\$5,760,816	\$46,672,170
Total Taxes and Fees	\$76,152,458	\$135,100,463	\$198,522,164	\$96,368,540	\$506,143,635

Activity	Responsibility		
	Federal	Provincial	Municipal
Possession limits *	✓		
Trafficking	✓		
Advertisement and packaging *	✓		
Impaired driving	✓	✓	
Medical cannabis	✓		
Seed-to-sale tracking system	✓		
Production (cultivation and processing)	✓		
Age limit (federal minimum) *	✓		
Public health	✓	✓	
Education	✓	✓	✓
Taxation	✓	✓	✓
Home cultivation (growing plants at home) *	✓		
Workplace safety		✓	
Distribution and wholesaling		✓	
Retail model		✓	
Retail location and rules		✓	✓
Regulatory compliance	✓	✓	
Public consumption		✓	✓
Land use/zoning			✓

Note. Table adapted from the Alberta Government (2017) on the roles of provinces.

* provinces will have the ability to strengthen legislation for these areas under federal jurisdiction

Social Indicator	Jurisdiction			
	Uruguay	Colorado	Oregon	Washington
Date of Full Legalization	December 2013	January 2014	Oct 2015	December 2012
Prevalence of Use	Decreased	Stable	Stable	Decreased
Arrests	Increased	Decreased	Decreased	Decreased
Impaired Driving	NP	Increased	Increased	Increased
Fatal Impaired Driving	NP	Increased	Stable	Increased
Youth Consumption	Increased	Decreased	Stable	Stable
Hospital Visits	NP	Stable	Increased	Increased
Accidental Ingestion	NP	Increased	Increased	Increased
Proposed Tax Revenue	Not taxed	Increased	Increased	Increased
Economic Impact	Moderate	Large	Large	Large
Ancillary Sector Growth	Moderate	Large	Large	Large
Note. Jurisdictions without published data are labelled as NP.				
Sources: Campbell (2017); Colorado Department of Public Safety (2016); Health Technology Assessment Unit (2017); Washington Department of Health (2016); Light, Orens, Rowberry, and Saloga (2016); Johnson (2015); National Drug Board (2014); Oregon Department of Revenue Research Section (2016); Oregon State Police (2017); Retail Marijuana Public Health Advisory Committee (2017); Whitmore et al. (2017).				

The Saskatchewan Model

- Delay and hope it goes away? Or Leadership race?
- 60 privately owned retail outlets.
- RFP – reputable person with sufficient resources.
- Random selection of qualified applicants.
- Municipal zoning and opt outs.
- SLGA oversight.
- We don't know much else.
- Distribution?
- Advantages – low risk for gov't, flexibility, likely to displace illicit market
- Disadvantages – less control and more profits (losses?) for the private sector.

New Brunswick Model

- Total Public Ownership of Distribution and Retail – Alcool NB Liquor.
- Government Distributor, responsible of sourcing product.
- 20 Government run and staffed retail outlets.
- Advantages – complete control and all profits.
- Disadvantages – inflexible, high risk, illicit market viability.

The Newfoundland Model

- 41 Private retail outlets
 - Possibility of up to 4 different types of outlet
 - Scoring system establishes “winners”
 - NLC seems to be setting itself up to act as distributor (maybe)
 - Regulating pricing
-
- Advantages – highly flexible, responsive to demand (potentially), low risk for government
 - Disadvantages – less control, higher monitoring costs, and less ability to capture revenue

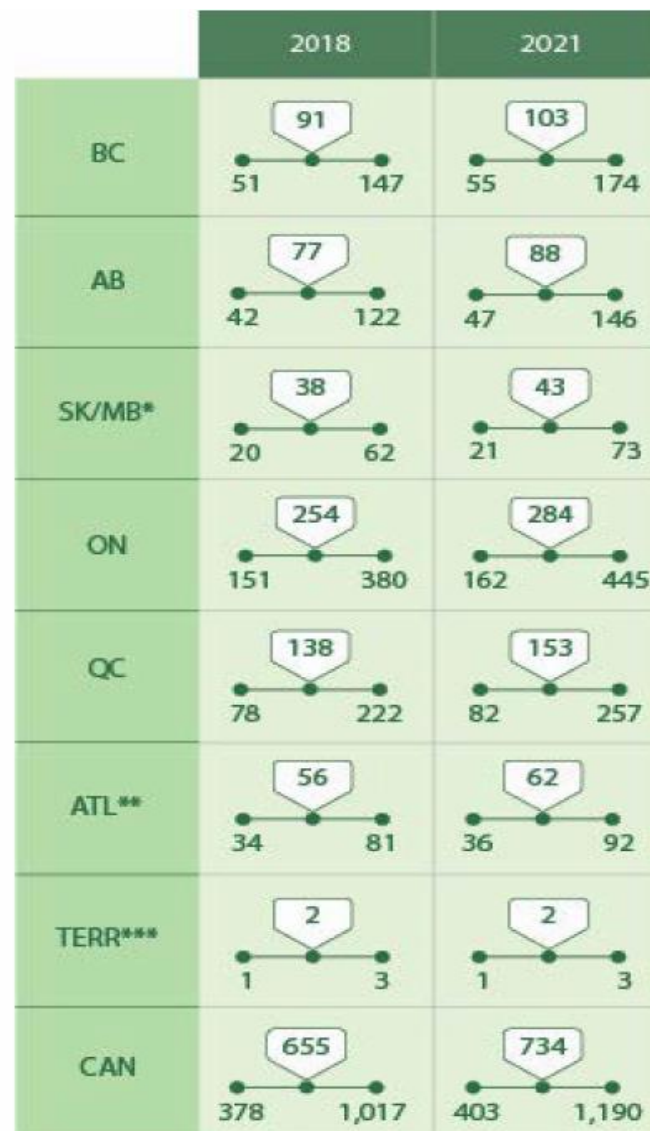
NLC's Retail Point System

Category	Points
Profile and Business Plan	30
Social Responsibility, Safety, and Security	35
Physical Design/Store Layout	20
Retail Mix and Location	15

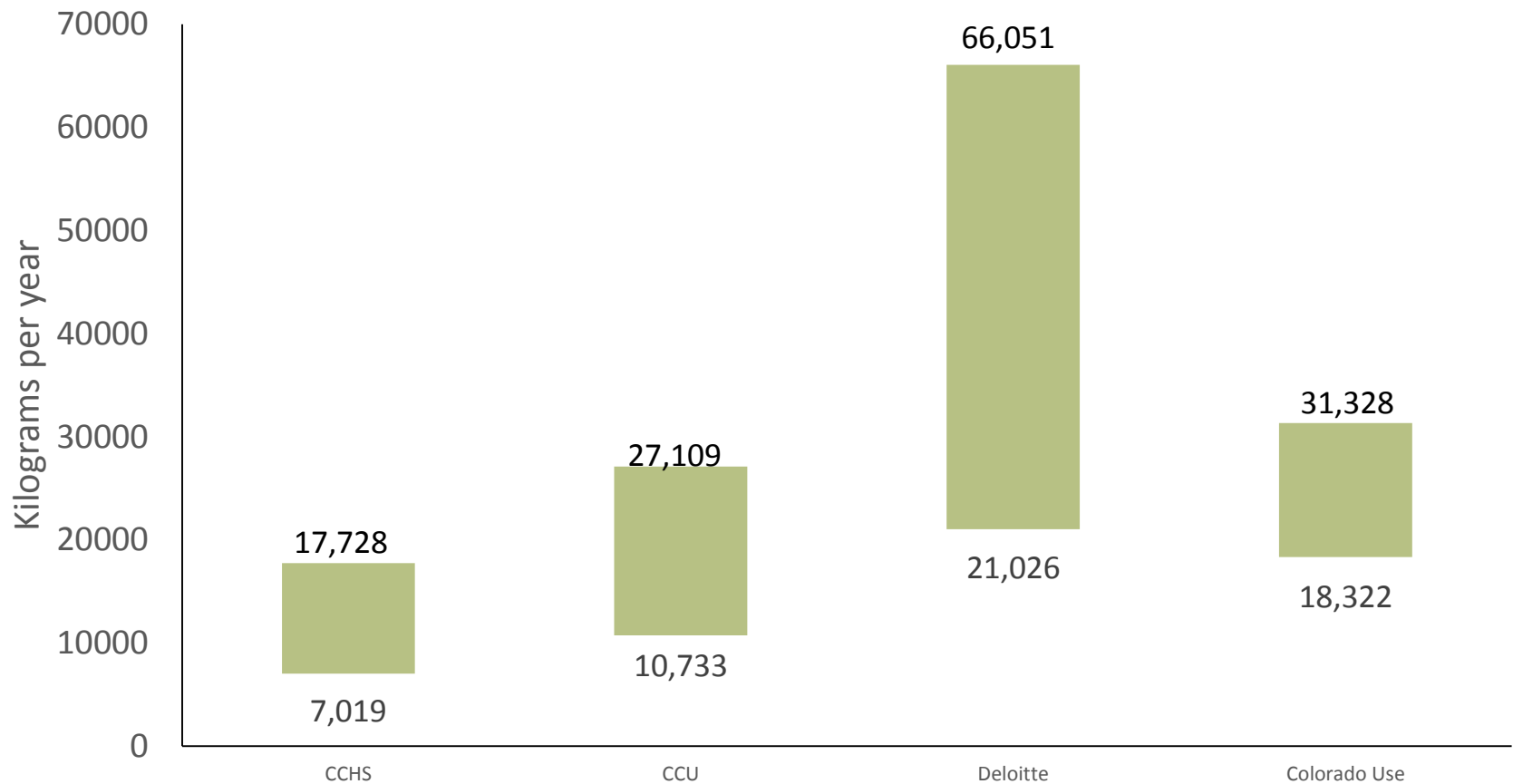
- Sell beer? -10 points. Sell beer, wine, and spirits? -25 points.\
- Less than 60 points? You're out.
- -5 points on Physical Design for each tier below tier 1.
- Most points wins.

PBO Demand Estimates

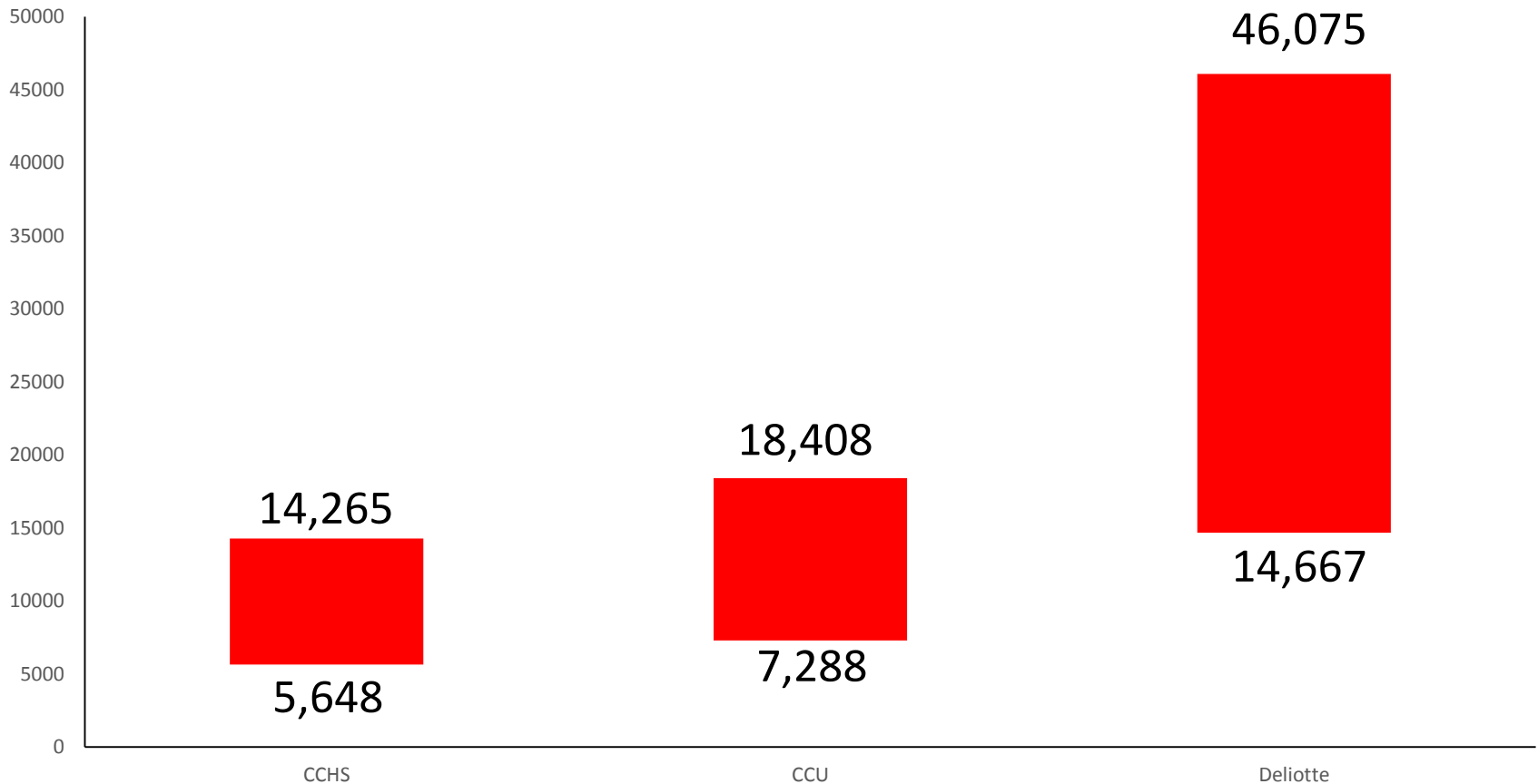
Something smells funny.



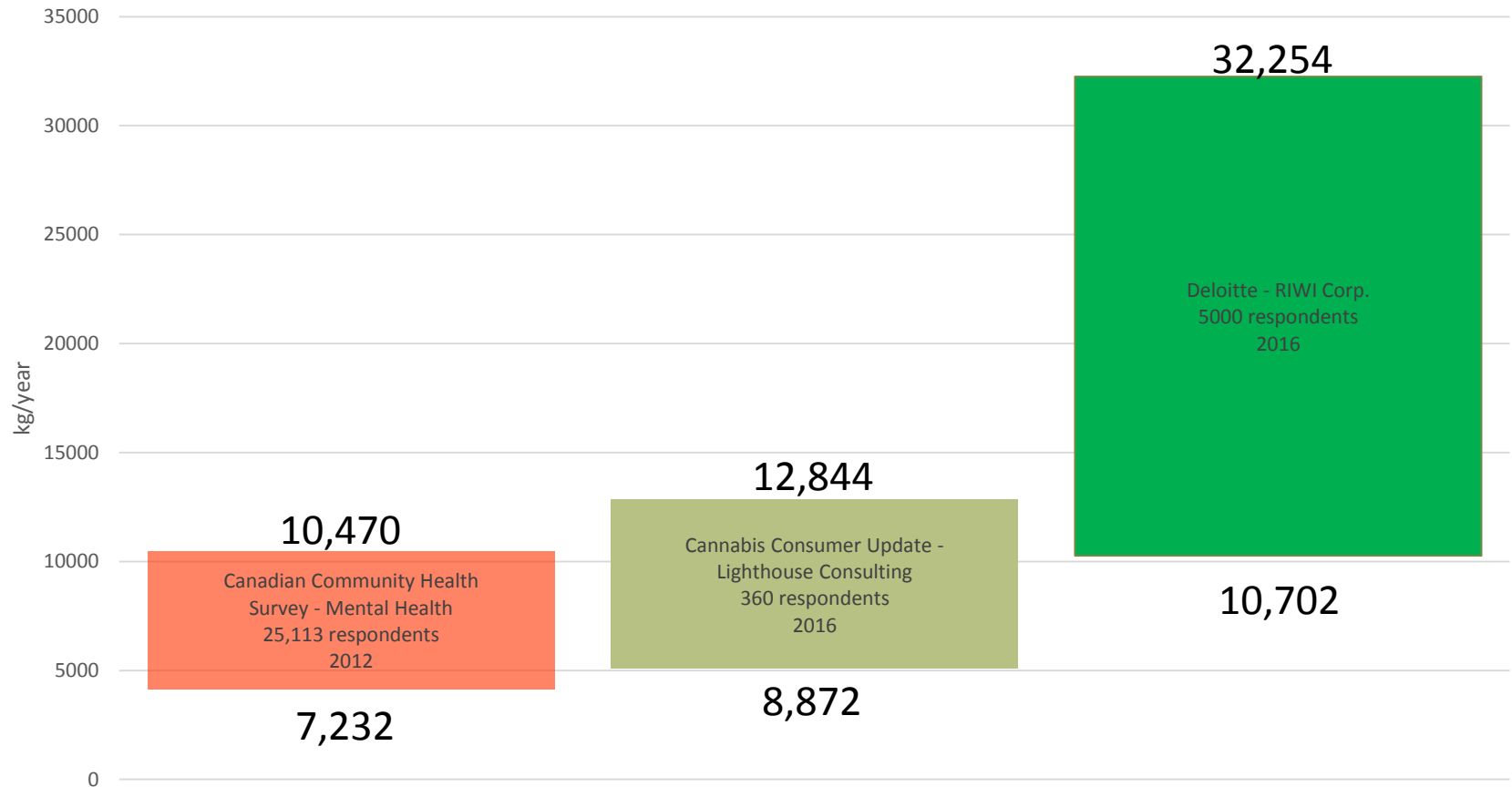
The Market – Saskatchewan Demand



New Brunswick Demand Estimates



Current Demand - NFLD



Saskatchewan Legal Supply

Collecting tax revenue requires legal supply

Licensed Producer	Greenhouse Location	Current Production	Stated Capacity
CanniMed Ltd	Saskatoon	1 428 kg	12 000 kg
rTrees Producers Ltd (Tweed Grasslands)	Yorkton	0 kg	12 857 kg
United Greeneries Inc	Lucky Lake	0 kg	11 700 kg
Total		1 428 kg	36 557 kg

New Brunswick Supply

Licensed Producer	Greenhouse Location	Supply Agreement	Estimated Retail Value of Contract
Organigram	Moncton	5 000 kg	\$40 to \$60 Million
Canopy Growth Corp	Smith Falls/Fredericton	4 000 kg	\$40 Million
Zenabis	Atholville	4 000 kg	\$40 to \$50 Million
???			
Total		13 000 kg	\$120 to \$150 Million

New Brunswick Supply

Licensed Producer	Greenhouse Location	Supply Agreement	Estimated Retail Value of Contract
Canopy Growth Corp	Smith Falls/???	8 000 kg	\$80 Million
Total		8 000 kg	\$80 Million

Predictions**

- All governments think this is going to end up being a golden goose.
- This is shaping up to look a lot like the early alcohol market.
- High barriers to interprovincial trade seem likely.
- Expect provinces to compete for producers, including by using protectionism.
- Economies of scale will mean massive consolidation – Aurora just bought Cannimed for \$1.1 billion
- Again the history of brewing offers hints.
- I expect we'll see a small number of major producers, with production facilities in most provinces.
- Watch Canopy Growth (Minority Owner – Constellation Brands)

Market Price

- Provinces have announced \$10 target price point.
- Estimated current price for medium quality in the illegal market (priceofweed.com)
- \$6.02 NB
- \$8.18 SK
- \$8.65 NL
- There might be a problem.

POTential Problems

- SK and NL face a likely shortage.
- How will consumers respond?
- NB has committed to pay for supply it might not be able to move at its target price.
- How will GNB respond?

NL Oddities

- NLC announced an agreement to buy 8 tonnes a year for 2 years from Canopy.
- “Proponents are advised that all cannabis must be purchased from a federally licensed producer. NLC will not play any role in the physical distribution or storage of any cannabis or cannabis related products. Shipping arrangements and costs will be paid by the licensed producers. . (p.11 NLC RPF)
- LCR’s will be solely responsible for negotiating payment terms with licensed producers.
- 8% “commission” will be paid by NLC to retailers.

How **Should** Provinces Respond?

Educate - Mitigate - Innovate - Regulate



Retail Market

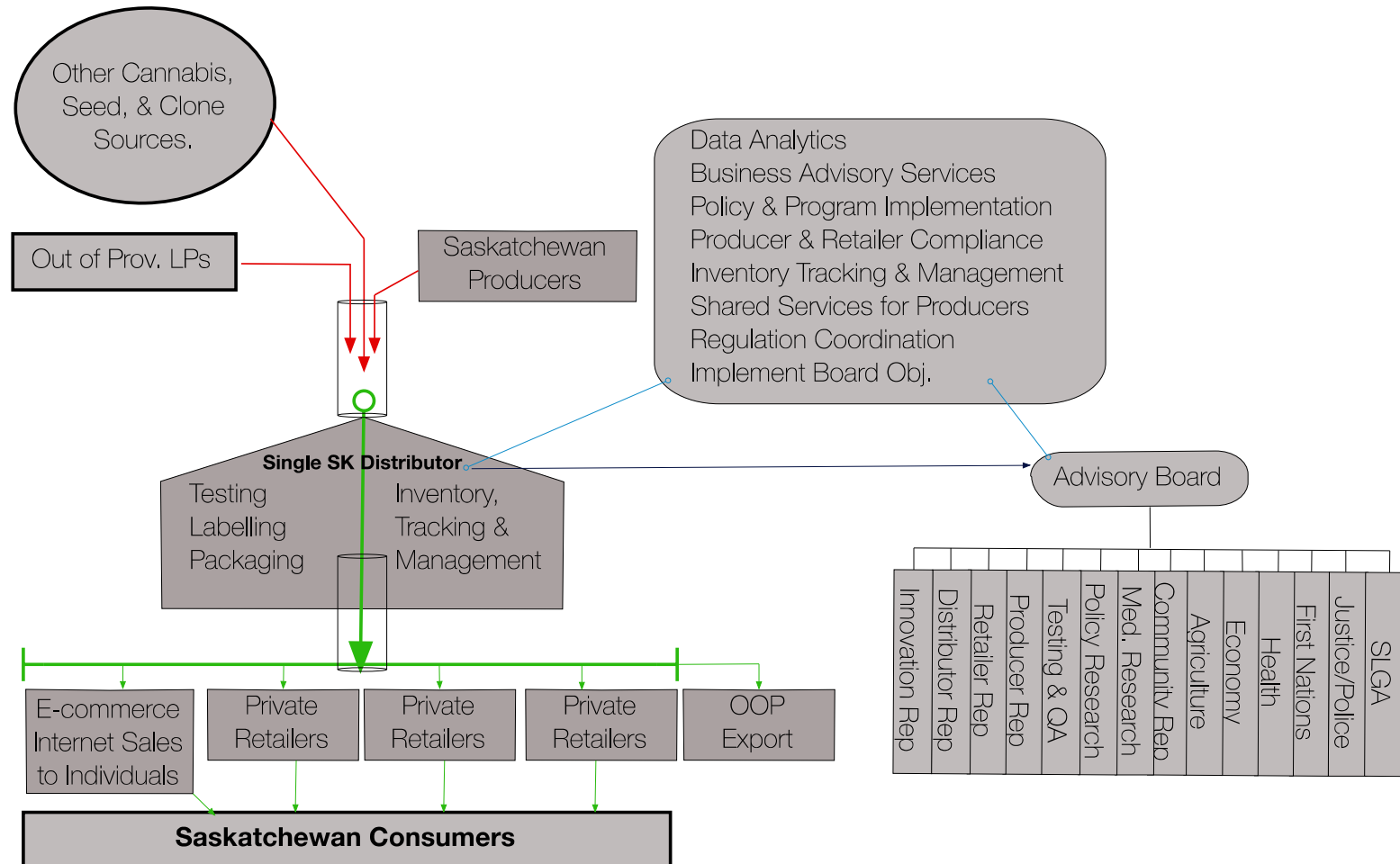
1. Align market forces and regulation by granting a limited number of geographically specific private retail licenses.
2. Require cannabis retailers to be stand alone shops (not selling tobacco or alcohol in particular) in major centers.
3. Enact zoning requirements preventing cannabis shops locating near to schools, youth centers, etc.
4. Develop a merit based model to grant retail licenses.
5. Expand the mandate of liquor authorities to include cannabis.
6. Move to single outlets for both recreational and medicinal cannabis.
7. Allow retailers to set prices to balance supply with demand.

Distribution

1. Establish a single distributor for cannabis products.
2. Mandate the distributor test cannabis for safety and potency.
3. Establish a governing board to over see the distributor and coordinate the implementation of policies and programs.
4. Require the distributor to work to reduce barriers to entry for producers.
5. Empower the producer to import and export cannabis to relieve shortages and/or develop export markets.
6. Keep taxes initially low to compete with the illicit market.



Market Overview



Summary

- The illicit market is large and well established across Canada.
- The existence of the illicit market places severe constraints on the policies to reduce youth access and general harms.
- Displacing the illicit market will be central to the long term success of the policy.
- The illicit market will not be displaced quickly or easily.
- Regulation, policy, and market forces must all be synchronized to meet the objectives of legalization and regulation.

Saskatchewan Predictions**

- Legal roll out will be “late”.
- Likely to get the product mix right
- Once established, a reasonable chance of displacing most of the illicit market.
- Determination of the distribution system will have a impact on the security and development of the market.
- Chaos is likely.
- Market power and vertical integration remain risks.

New Brunswick Predictions**

- NB will incur major expenditure setting up its distribution and retail network.
- Product mix?
- A shortage of specific varieties is very likely.
- Alcool NB Liquor Costs about \$0.62/\$1 of profit.
- Alcool NB Liquor retail markups are around 100%.
- Contracts guarantee a minimum purchase.
- Given taxes, demands from producers, and competition from the illicit market, it's very likely the NB government will lose money selling pot.
- Illicit market won't be significantly reduced in the near term.

Newfoundland Predictions**

- Private retailers are likely to demand the mix of products consumers want.
- Government distributor may have difficulty sourcing these products initially – 8 tonnes/yr from Canopy will help.
- It probably won't be grown here (at least to start).
- 8% commission will make for some interesting retailers. Big multi-purpose retailers are likely.
- Single major supplier will limit variety.
- Regulated pricing will pose a challenge.
- Allowing producers to run retail outlets will pose challenges.
- Retail industry will be dominated by large players.
- Vertical integration is likely.

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Report

Full Report and Policy Brief

<https://www.schoolofpublicpolicy.sk.ca/research/publications/reports.php>