

# Intelligence MEMOS



From: Anindya Sen  
To: Bill Blair, Parliamentary Secretary to the Minister of Justice  
Date: April 20, 2017  
Re: **CANNABIS ACT GOOD FIRST STEP**

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So far so good. [In earlier research](#), I set out broad guidelines for marijuana legalization, which have been reflected in the work of the [Federal Task Force on Marijuana Legalization](#) and the recent [Cannabis Act](#) proposed by the Federal Government. The Federal Government has clearly articulated that public health, safety and the elimination of the black market are the primary objectives, minimizing the importance of generating tax revenues. Several other of my recommendations are also present in government policy, including personal possession of 30 g., initial availability of dried products as opposed to edibles, the revamping of impaired driving legislation, federal control of supply through licensing, provincial jurisdiction in retail distribution, and stringent penalties for illegal trafficking and sales.

A more contentious point is the proposed federal legal age of 18, with 21 being recommended by the [Canadian Psychiatric Association](#). Academic research does suggest harmful long-term mental health consequences associated with youth marijuana consumption. However, stringent age restrictions will ensure a flourishing black market. The government chose the lesser evil of allowing those 18 and over to access a regulated product and protecting them from activities associated with the illegal market, even though consumption at this age may have negative health consequences.

In the spirit of recommendation, I offer advice on the roll-out. The Federal Task Force recommended that marijuana not be sold through liquor outlets as it may encourage co-consumption of intoxicants, increasing the risk associated with both substances. While there is some [public](#) and [government](#) support, notably in Ontario and Quebec, for the notion that marijuana be sold through the government-owned liquor distribution outlets, this would legitimately raise the questions of whether the province would consequently have an incentive to encourage marijuana consumption in order to bolster revenues. Sales through the LCBO imply expensive renovations to existing outlets funded through taxes. Further, it should be noted that this is a model that has not been adapted in any other jurisdiction. Provinces should be able to choose the most efficient and effective retail delivery method, but broad guidelines from the Federal Government on sales to consumers as well as with respect to public consumption would be helpful.

Federal and provincial regulatory constraints on producers should be light and focused on safe and hygienic growing and handling. Suppliers need flexibility to increase production levels to achieve lower costs through economies of scale. This will ensure that they earn sufficient margins at lower prices and have an incentive to maintain consistent supply. Less flexibility might result in shortages and significant black markets as it will cause prices in the legal market to increase. Provinces should consider price floors to ensure minimum prices and minimize volatility. Finally, it is critical not to replicate Colorado taxes where wholesale and retail ad valorem taxes are close to 30%, which encourages the persistence of illegal supply. Wyonch (2017) finds that the market share of the black market is minimized with just the GST/HST and provincial sales taxes. A possible option would be to impose the GST along with a specific retail tax of 5% which would go to the province. Marijuana products would be exempt from any other provincial sales tax. This would result in consistency across jurisdictions as well as preventing inflated prices from high taxes.

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