

Intelligence MEMOS



From: Rosalie Wyonch
To: Cannabis-Concerned Canadians
Date: April 20, 2018
Re: **IT'S 4-20. HOW'S THAT LEGALIZATION THING GOING?**

Two years ago, on April 20, Ottawa announced steps to legalize cannabis. Since then, governments across Canada have been developing regulation, taxation, and licensing policies governing the sale and cultivation of marijuana, in time for the legalization target date of July 1, 2018.

With legalization fast approaching, has enough progress been made to protect public health, minimize black market activity and, in doing so, funnel resources away from criminal activity?

Legal recreational marijuana will compete with the existing, functional and prolific black market, and so legal products will need to be similarly priced and similarly convenient for consumers to access. Convenience will be determined by the retail distribution system and the availability of legal supply. Prices will be affected by taxes, producers' costs of complying with new regulations, and overall supply-chain efficiency.

Prices in the legal market are unlikely to be competitive with the black market. The average price per gram in the illegal market is [\\$7.48 per gram](#), while legal medicinal marijuana is about [\\$9.20 per gram](#). The federal and provincial governments (except Manitoba) have agreed to [an excise taxation framework](#) where the tax rate will be \$1.00 per gram or 10 percent, whichever is higher. The federal government will receive 25 percent of this revenue, up to \$100 million, with the remaining revenue going to the provinces. This [tax policy](#) has the advantage of applying a standard rate across the country, but also has the drawback of encouraging producers to price at \$10 per gram, as their effective tax rate is higher than 10 percent at lower prices.

Therefore, it is very unlikely that the legal market will be price competitive given black market prices are cheaper than medicinal marijuana as it is, not to mention the [addition of excise and sales taxes](#) and the massive expansion in demand for legal marijuana.

Customer experience and convenience also matter in competitive markets. Retail outlets and delivery services will have to be conveniently located or easy to access, and there need to be enough retail channels in the legal market to meet market demand. Ontario, Quebec, PEI, New Brunswick and Nova Scotia have opted for a government monopoly on retail and distribution. Nova Scotia is the only province to decide to sell marijuana out of existing liquor outlets, leveraging an already existing retail network. Other provinces that have opted for government monopoly [will not have enough retail outlets to compete with the black market](#). Whether these provinces will be able to offer recreational consumers convenient access to legal marijuana will depend on their online ordering systems.

There is one remaining concern with legalization: the supply of marijuana. At the end of 2017, licensed marijuana producers had 52.4 tonnes in inventory.*1 In the last quarter of 2017, about 20.8 tonnes of marijuana were produced and 17.5 tonnes sold. With total market demand estimated at 773 tonnes annually, [the current supply will need to expand](#) to come close to being able to meet market demand.

So, in short, there has been significant progress in determining taxation, pricing targets and distribution. But there are remaining policy challenges, especially with regard to competitive pricing and insufficient legal supply.

**As measured in tonnes of dried marijuana equivalent. Cannabis Oil inventories were converted to dried marijuana equivalent based on pharmacokinetic equivalency (1 g of Cannabis oil = 1.21g of dried marijuana).*

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