



Growing the Pie

A plan to increase government revenues,
save jobs, protect consumer health, and
chip away at the illicit cannabis industry



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**With the right mix
of changes, we can
GROW THE PIE for
governments and
the cannabis sector.**

Executive Summary

Legalization has been a success for Canadians, cannabis consumers, and for governments.

Legalization has been a challenge for the legal cannabis industry, struggling due to:

1. High tax, high-cost Excise Duty Framework.
2. Complex and costly regulation.
3. Unbridled competition from the illicit market (40-50% market) leaves many consumers outside health protections of regulation.

With the right mix of changes, we can GROW THE PIE for governments and the cannabis sector:

1. Adjust excise duties so cannabis companies can survive and innovate to compete with illicit providers.
2. Reduce the excise duty's operational burdens.
3. Eliminate excessive Health Canada regulatory fees.
4. Expand protections of the regulated environment for cannabis consumers by allowing restricted formats of cannabis edibles popular in the illicit market.

Solutions

1. Excise Duty Rate

- Federal/Provincial/Territorial cooperation on reviewing the excise duty rates (CCTA process.)
- Adjust excise duty rates to enhance market capture from the illicit market and to ensure sectoral profitability similar to alcohol and tobacco.
- Revise excise duty to the lesser of 10% of the price or a dollar a gram.

2. Excise Duty Operations

- Eliminate the costly F/P/T physical excise duty stamp approach and replace it with a "National Digital Label" for important operational cost savings.
- Alter the CRA remittance flows so producers are remitting ONLY the federal portion of excise and allow PT jurisdictions/distributors to collect and retain their share (Manitoba model.)
- Reduce/eliminate operational burdens for licensed producers with a treatment similar to alcohol.

3. Health Canada Regulatory Fees

- Reduce/eliminate Health Canada's Annual Regulatory Fee which is effectively a 2.3% topline tax on recreational cannabis sales in favour of service-based fee structures.
- The government refrained from introducing a similar regulator fee on tobacco saying it would impair their fight with illicit suppliers.

4. Level the Playing Field and Protect Consumer Health

- Increase edibles THC limit to 100 mg of THC (each package containing up to 10 units of 10 mg THC each.)
- Edible consumers acquire these products from the illicit market due to THC format restrictions.
- All illicit products tested contain unsafe levels of pesticides and other substances and are packaged like candy.



Summary of Asks

- 1. Adjust** excise duties so cannabis companies can survive and innovate to compete with illicit providers.
- 2. Reduce** the excise duty's operational burdens.
- 3. Eliminate** excessive Health Canada regulatory fees.
- 4. Expand** protections of the regulated environment for cannabis consumers by allowing restricted formats of cannabis edibles popular in the illicit market.

Appendix



Legalization has been a success for governments, citizens, and consumers

- No increase in youth consumption of cannabis.
- Displacement of \$5 B plus of illicit sales.
- No increases in issues related to public order, community or workplace safety.
- Safer, tested, quality-controlled, and innovative products for consumers.
- Taxes (excise, sales, and income) and income (profit) from operations of provincial distributors.
- Quality jobs in small towns, rural communities, and cities across Canada.
- Strong social acceptance and support for cannabis legalization have been maintained.

Lower the Excise Duty Rate

The excise duty rate is set too high for a new industry competing with an entrenched illicit market.

- 71% of licensed producers (LPs) had an increase in excise rate in 2022 (% of gross sales.)
- Two-thirds of LPs had an excise deficit owed to the CRA as of September 2022.
- 83% of LPs reported negative net income in 2022.
- 73% of LPs had a negative EBITDA in 2022.

Source C3 2023 Survey Data

Reduce Excise Duty Operational Burdens

The operational burden of the cannabis Excise Duty Framework is **costing licenced producers millions of dollars** yearly and **governments are facing significant arrears and defaults in payment of the actual duties.**

- The cannabis stamp was designed for the tobacco industry.
- The cannabis industry has hundreds of producers and packaging formats making compliance with the 13 jurisdictional stamps expensive and a market barrier for smaller companies.
- Cannabis has a liquor distribution model. Replacing the current cannabis excise stamp and remittance model with one similar to that for alcohol would produce substantial operational savings of benefit to producers and their consumers.

Eliminate Excessive Regulatory Fees

- Governments earn \$1.5+ billion dollars per year from legal cannabis.
- Licensed producers also pay ~\$75 million per year in Health Canada annual regulatory fees in the form of a 2.3 % tax on recreational sales.
- Tobacco and alcohol do not pay an annual regulatory fee to the federal government. (Tobacco was proposed but dropped.)
- The cost of regulating the cannabis industry should come from excise duties and other taxes earned and fees tied to specific regulatory services. It should not be applied as an across-the-board additional tax.

Level Playing Field with the Illicit Market

10 mg THC limit on edibles ceding \$300+ million per year to the illicit market and encouraging consumption of **untested products packaged like candy.**

- Edibles average 6% of Canadian retail sales, but 12-14% of US sales.
- The edibles category presents an **untapped opportunity** for employment, taxes, and income growth.
- Unprofitable companies cannot innovate in response to consumer demand (alcohol and tobacco profitable.)

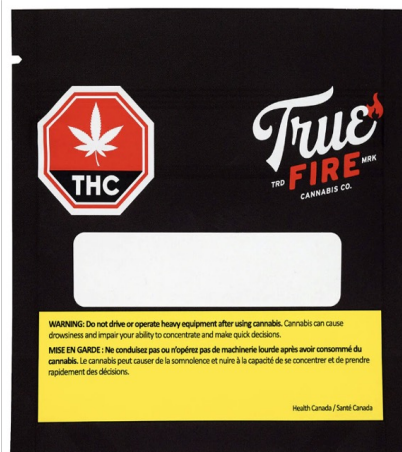
**10 mg THC limit
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Illicit Market Packaging – Child-Friendly



Legal Market Packaging – Child-Proof

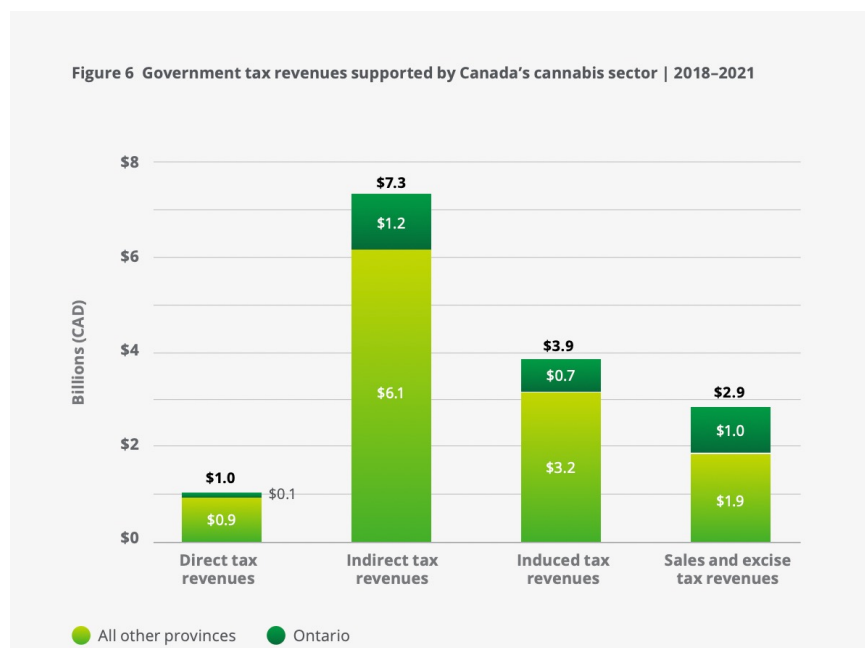


Legalization – Tax Revenues

– snapshot on the first 3 years

\$15 B in total tax revenues

- \$2.9 B from sales and excise taxes
- \$7.3 B from indirect taxes
- \$3.9 B from induced taxes



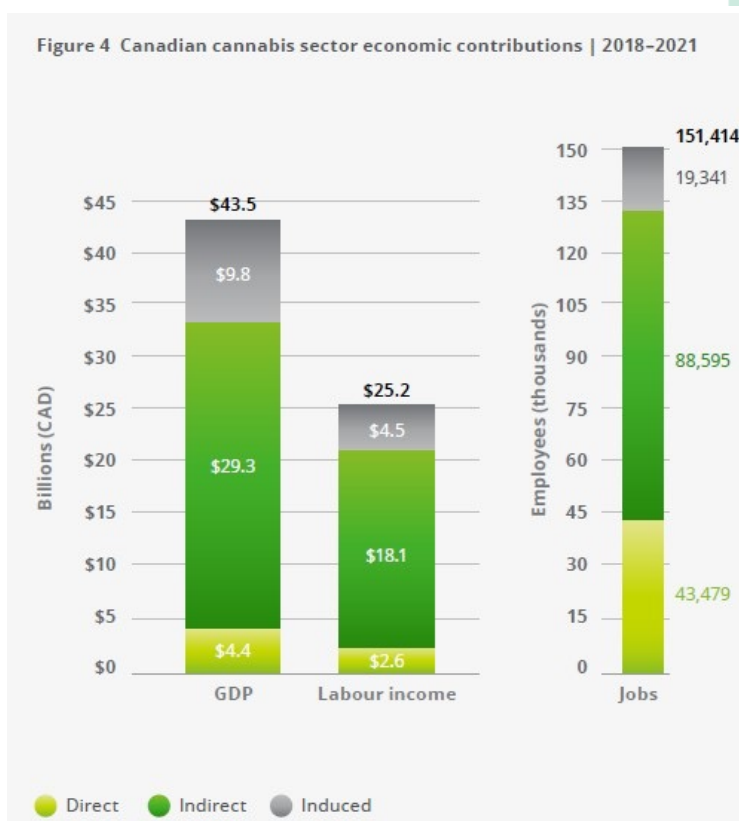
Excise is a small part of the tax base, with a significant impact on the jobs and indirect and induced taxes from legalization.

Source: Deloitte, An Industry Makes Its Mark, 2021 Cannabis Annual Report

Legalization - Labour Income and GDP

- contributions from the build-out phase

- \$25.2 B in labour income
- 98,000 direct and indirect jobs annually



Source: Deloitte, An Industry Makes Its Mark, 2021 Cannabis Annual Report

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**Cannabis Council
of Canada**

Contact:

**George Smitherman
President and CEO
Cannabis Council of Canada
George@Cannabis-Council.ca
416 816 7118**

**Pierre Killeen
Policy Advisor
Cannabis Council of Canada
Pierre@Cannabis-Council.ca**

Thank You



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