



Recreational Marijuana

Issues, opportunities and the political
landscape

Today's Presentation:

History of Cannabis regulation in Canada and lessons learned from LP's

Global Summary of the Cannabis Landscape

The Canadian Climate for Recreational Marijuana

**which will include: regulatory considerations, distribution, retail and things
that concern the LCBO**

History of Cannabis Regulation in Canada

- ▶ 1999–Marijuana Medical Access Program (MMAP)
- ▶ 2001–Medical Marijuana Access Regulations (MMAR)
- ▶ 2003, 2005, 2009, 2010–Revisions to the MMAR
- ▶ 2014–Marijuana for Medical Purposes Regulations (MMPR)

MMAP-Qualified patients were granted the authority to possess cannabis for medical purposes

MMAR-Due to a lack of legal sources to access medical cannabis, the MMAR was established in 2001 to allow qualified patients to possess medical cannabis with the support of a medical practitioner

Under the MMAR, authorized patients had three ways to obtain medical cannabis. 1) Produce under a Personal Use Production License 2) Designate an individual to produce under a designated person production license or buy dried cannabis from Health Canada, which contracted Prairie Plant Systems.

MMPR- Regulation aiming to treat cannabis as medication and to create licensing scheme for the commercial production and distribution of cannabis for medical purposes.

The MMPR outlines strict and standardized policies for growing, manufacturing, safe keeping, security, record keeping, packaging, labeling and shipping medical cannabis. It provides: regulations for LPs, choice of strains and suppliers, reduced concerns for personal growers and reduced some administrative burden on HC.

Lessons from Licensed Producers (LPs)–Medical

- ▶ Sell direct to customers and deliver by courier
- ▶ Theft occurs in the delivery system even though boxes are unmarked
- ▶ They are sophisticated business minds not typical “pot-heads”
- ▶ Financing from the big 5 banks was hard to get
- ▶ They offer promotions and have clever branding
- ▶ They sell in all Provinces and have thousands of patients
- ▶ Facilities are extremely controlled and inspected frequently by Health Canada

- ▶ LP's are legally allowed to grow and/or grow and sell medical marijuana. Currently the only legal access point in Canada. ~30,000 people across Canada with prescriptions.
- ▶ 29 LPs licensed by HC
- ▶ Tweed uses noble sounding names for their product (Argyle, Herringbone, Mayberry and Princetone)
- ▶ Mettrum uses a colour code and more clinical sounding names (Red number 1, Orange number 3 or blue number 5)
- ▶ Street names are far more creative and include (Pineapple express, amnesia haze, purple kush, sour diesel, girl scout cookies)
- ▶ Dispensaries
 - Not legal but also no enforcement
 - Proliferation of dispensaries across the country
 - Illustrates how the medical regs have failed because the dispensaries have illegitimated the system

Comparative Analysis of Jurisdictions

- ▶ Uruguay
- ▶ Washington State, USA
- ▶ Colorado State, USA
- ▶ Israel
- ▶ Netherlands
- ▶ Spain

Uruguay- Government controlled, both recreational and medical legal, government sets price, have to be 18, only for residents (no tourism), sold through licensed pharmacies, total ban on marketing.

Both Washington and Colorado regulate private companies to supply the recreational and medical markets, free market price, have to be 21, residents can purchase up to 28g/transaction but in Colorado tourist can only purchase 7g/transaction. Washington has 25% excise tax plus 8% sales tax and Colorado is 15% excise and 10% sales

Israel is a medical only jurisdiction controlled by government including prices, no age restriction/set by doctor. Sold in pharmacies and medical centres. 17% sales tax.

Netherlands- Coffee shop system, production is illegal and sourced on the black market, free market price, must be 18 and 5g/person, coffee shops cannot sell alcohol (but some do), coffee shops pay income and sales tax

Spain-Social clubs

Political Landscape



- ▶ Bill Blair is leading the Trudeau government's marijuana legalization project
 - Three member Cabinet team, and Federal-provincial-territorial task force
- ▶ No timeline set for completion
- ▶ Likely something more to come in the first term
- ▶ International Conventions

The Liberals plan to remove marijuana consumption and incidental possession from the Criminal Code, while creating new laws with heavy penalties to those who give it to minors or operate a motor vehicle under its influence.

There are three main reasons for this:

- 1) Keeping it away from minors
- 2) Taking money out of the pockets of organized crime
- 3) A failed medical system

The Liberals have set up a task force comprising federal, provincial and municipal governments, and will seek input from experts in public health, substance abuse and the police, to design a new system of marijuana sales and distribution.

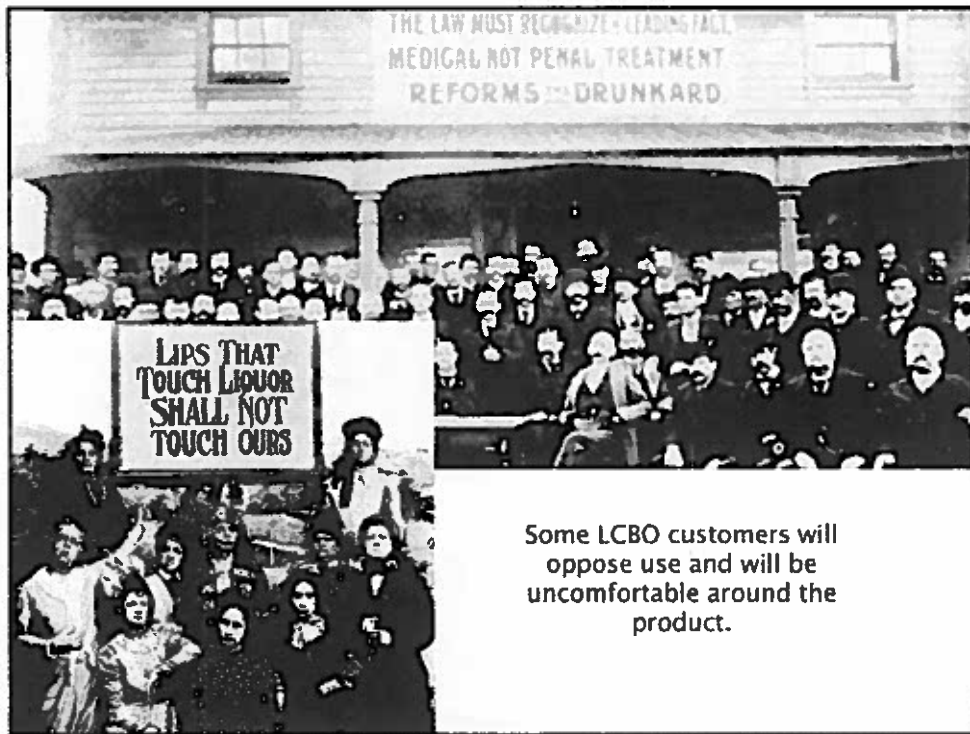
We don't yet know what this will be exactly but we have a strong sense that the Ontario government is advocating for a controlled and rigorous approach, in line with a government monopoly with tight controls like the LCBO. We do not anticipate any immediate changes to the medical system in the early stages but there is interest in legitimizing medical marijuana into the mainstream health care system.

Canada will have to amend its participation in three international conventions:

The Single Convention on Narcotic Drugs of 1961, as amended by the 1972 Protocol;

The Convention on Psychotropic Substances of 1971;

The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.



While it is thought that a controlled approach to sale is in the public's interest, there will be some customers of ours that oppose the use of Marijuana and will be uncomfortable around the product.

However, Forum Research's last poll indicated that...

Forum Research Poll (December 22, 2015)

Marijuana

Selling Marijuana: LCBO

'Do you approve or disapprove
[All Respondents]

'Do you approve or disapprove of legal marijuana or cannabis being sold
through each of the following channels?' + 'The LCBO'

Age / Gender

%	Total	18-34	35+
Sample	1003	146	112
Approve	56	69	56
Disapprove	35	24	36
Don't know	8	7	6

[All Respondents]

Age / Gender

%	Total	18-34	35-44	45-54	55-64	65+	Male	Female
Sample	1003	146	124	195	232	306	511	492
Approve	44	56	44	38	38	35	46	41
Disapprove	47	35	48	55	49	53	46	47
Don't know	10	9	8	7	13	12	8	11

Region / Likely to Use Marijuana

%	Total	E. Ont	W. Ont
Sample	1003	149	115
Approve	56	55	58
Disapprove	34	32	32
Don't know	8	12	10

Region / Likely to Use Marijuana

%	Total	E. Ont	416	905	GTA	SW. Ont	N. Ont	Yes	No
Sample	1003	149	152	286	438	251	165	168	835
Approve	44	41	50	40	43	45	47	65	38
Disapprove	47	46	42	51	48	45	46	30	51
Don't know	10	13	8	10	9	10	7	5	11

...close to 6-in-10 approve of legalized marijuana or cannabis (56%). This is similar to national rates of approval noted recently (November 4, national sample - 59%). Just more than a third disapprove of the idea (36%) and one tenth have no opinion (8%). Approval is common to the youngest (69%), the wealthier (\$80K to \$100K - 64%), in Northern Ontario (59%), among Liberals (69%) and New Democrats (66%) and among college graduates (59%).

One-in-six use marijuana now

Just less than one fifth of Canadian adults use marijuana or cannabis now (17%), and this is especially true of the youngest (29%), mid income groups (\$40K to \$60K - 29%), in Northern Ontario (23%), among New Democrats (24%) and those with some college or university (25%).

Close to one quarter will use marijuana if it is legal

Most want to see legal marijuana sold at specialized marijuana dispensaries

When asked the most appropriate place to sell legal marijuana the majority approve of selling it at specialized marijuana dispensaries (57%), while fewer than half approve the plan to sell it at the LCBO (44%). Far fewer see it being sold in convenience stores (15%) or by private individuals (17%). Among those who plan to use it once it is legal, the same

pattern applies, except with more enthusiasm for all channels (dispensaries - 84%, LCBO - 65%, convenience stores - 40%, private individuals - 44%).

Split opinion on individual grower exemption

Ontarians are exactly split on whether individuals should be permitted to grow their own marijuana once it is legal (44%) or not (45%). One tenth have no opinion (10%). Interest in the individual grower exemption is, once again, highest among the youngest (52%), mid income groups (\$40K to \$60K - 49%), in Southwestern Ontario (51%), among New Democrats (49%) and those with partial college or university (51%)

Majority see marijuana smoking allowed in private only, “vaping” in public

When asked where users should be permitted to smoke legal marijuana, the strong majority agrees it should be in private only (57%), while 3-in-10 think it can be smoked wherever tobacco is permitted (31%). Very few believe it should be allowed anywhere, even where tobacco is not allowed (3%). Among potential users of legal marijuana, a smaller, but still significant group agrees marijuana should be smoked in private only (30%). Vaping, or smoking e-cigarettes, on the other hand, is seen to be appropriate in public where tobacco is allowed (45%), while one third think it too should only be done in private (35%). One tenth think vaping should be permitted everywhere, even where tobacco is not.

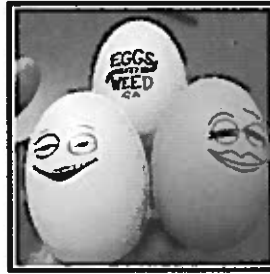
Who is interested in distribution?



Medical community and the government want to legitimize and integrate medical marijuana into the existing health care system. Shoppers has been vocal in expressing their interest in distributing medical marijuana with a play for recreational as well. Tobacco was once sold in pharmacies...

Regulatory Issues

- ▶ Impaired Driving
 - Roadside detection
- ▶ Production
- ▶ Formulation
- ▶ Potency
- ▶ Marketing
- ▶ Pricing
- ▶ Tax
- ▶ Consumption



The government has a lot of work to do to get the policy right. The results will impact how “a government controlled monopoly like the LCBO” does business. This is a good time for LCBO to turn their mind to how regulations will steer this business. Here are some examples of regulatory issues that need to be determined:

Production (quality, security, tracking, commercial activity between producers and the rest of the supply chain, production limits, BIG weed)

Formulation (availability of different formulas, promote low risk cannabis products (Vapourizers) and consumption behaviours in the long term.)

Potency Limits in THC/CBD ratios, (test and monitor potency of products, information about potency [accurate, effects and risks, LABELLING], encouraging safer ratios, ensuring staff are trained in strength/potency-related health issues so they can advise customers.) This will impose an added BURDEN on staff. (dosage) example bottle vs shot.

Packaging (child resistant, preserve freshness and quality, does not promote consumption or encourage use, standardization and non-branded.)

Availability to meet the demand and reduce illegal market supply while preventing over-

availability, **co-location???**, location –not near schools,

Marijuana and Alcohol Sales

- ▶ **Mark-up & price**
 - Depends on the policy objectives
 - Need to strike the right balance
 - Avoid black/grey market sales

- ▶ **Cannibalization of Alcohol sales?**
 - Anecdotal evidence from Colorado suggests that beer sales grew after the legalization of marijuana due to the influx of "Cannabis Tourism".
 - Cannibalization of alcohol sales is possible.

The challenge with pricing will be striking the right balance between conflicting priorities.

Deterring use

Reducing the size of the illegal market

Displacing cannabis use from or to other drugs

Generating revenue from sales

Taxation will need to be integrated into pricing regulation to maximize tax revenue while supporting and not undermining other policy aims

Sales, production, license fees

Great need to control taxation to prevent creating incentives for diversion, tax avoidance and fuelling the illegal market.

Social Responsibility

- › Strong reputation for keeping controlled substances out of the hands of minors
- › Check, Challenge & Refusal
- › Employee training
- › Support from health agencies like CAMH



Trudeau wants to keep Marijuana out of the hands of minors.

Consumption policy ties into our well established social responsibility mandate.

Trudeau wants to keep it out the hands of minors but the survey numbers show that it is easier for a 16 year old to get a small amount of pot more frequently than a small amount of alcohol. Legalization won't achieve this policy objective on its own without suppressing the black market.

Age threshold. Evidence suggests that Cannabis is harmful to the developing brain.

Checking ID

Prevent bulk purchases that could be re-sold in the black market or to minors

Appropriate public locations where cannabis can be consumed (Tobbaco)

The unresolved challenges to date are Impaired driving, the UN Drug convention and Tourism (cross-border trade)

What do the HEALTH experts say?

CAMH and CCSA both note that the harms of cannabis are significantly lower than alcohol. They advocate for a controlled system and incentives for vaping compared to smoking. They do not support high concentrates or advertising.

Considerations for LCBO

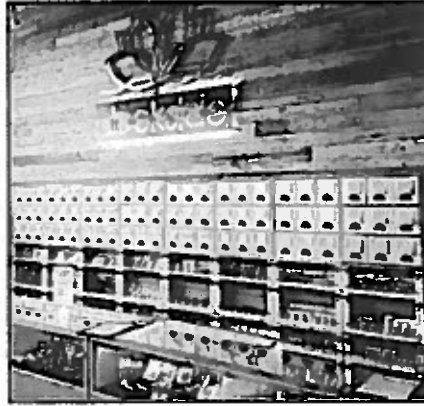
- ▶ Infrastructure
 - Capital, Capacity, Capability
- ▶ Format
 - Retail or wholesale?
 - Counter service, ecommerce, alongside alcohol or independent?
 - Medical growers AGAINST co-location
- ▶ Merchandising
- ▶ Product Handling
 - Theft, vaults, chain of custody
 - In store warehousing



- ▶ In store warehousing
 - Shelf life 6 months or it dries out
 - Vaults needed

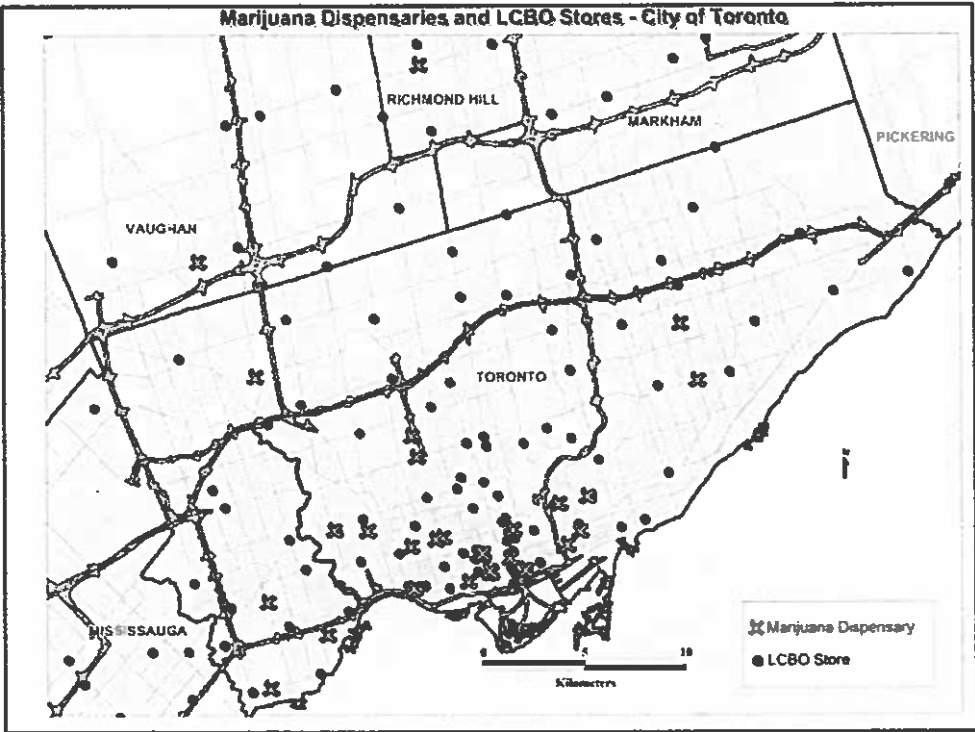
Other Issues for LCBO


- ▶ Profitability
 - Uncertain at this time
 - Mark-up, grey & black market, ability to grow at home?
- ▶ Lab testing
 - Lab doesn't have capacity to do all testing required (microbiological)
 - Onus on supplier or third party
- ▶ Customer perception
 - ▶ Need for customer insight



Lower margins on Marijuana will effect profitability --less room in the margin—might change in forty years

Talking hundreds on millions not billions





Questions >>

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Questions?