

May 18, 2018

## BC Craft Cannabis Sounds Alarm Over Survival of Sector

*Community economic benefits, jobs, quality product and world-wide brand in jeopardy.*

Vancouver—Five groups representing craft cannabis growers and retailers are sounding the alarm over the survival of BC's craft cannabis sector. Today they delivered an open letter to Federal Justice Minister Jody Wilson-Raybould and BC Minister of Justice David Eby urging immediate action to save the sector.

"The combination of the federal government's legislation and regulations, and BC's direction are going to kill BC's small, community-based craft cannabis," says Ian Dawkins of the Cannabis Commerce Association of Canada. "If that happens, it will devastate rural economies and take decades to rebuild, so we are asking both levels of government to take action now, before it is too late."

BC craft cannabis is world-renowned for its quality, potency and variety of strains. BC was supplying between 40% and 70% of Canada's cannabis, but is now being pushed out of the emerging recreational market as provincial governments sign supply agreements with big Licenced Producers (LPs). BC craft cannabis employs over 14,000 full time people, most based in smaller communities and is BC's largest cash crop. If it is wiped out by Ontario or US based corporations, the impacts on BC communities will be huge.

The five groups have come together for the first time to call on the federal government to immediately allow registration of micro-cultivators. "Contracts to supply provincial distributors have already been let in many provinces, going to the big LPs," says Roxanne Judson of the Ethical Cannabis Producers Alliance. "There will be no contracts left by the time micro-cultivators are permitted to register."

The groups are also calling on the federal government to rework their proposed packaging and labeling regulations. "Craft growers are using their knowledge, their unique strains, and small scale, hand production techniques to provide a superior product," says Rosy Mondin of the Cannabis Trade Alliance of Canada. "If they cannot distinguish themselves from the industrial, mass production of the LPs, they will not survive."

The groups say Health Canada's proposed 200 square meter limit on micro-cultivators to is too small to be economically viable and ignores more sustainable outdoor growing. "After legalization in Washington state, micro-cultivators couldn't make it work, they couldn't even give their licences away," Says Teresa Taylor of the Craft Cannabis Association of BC. "The limit for indoor micro-cultivators should be at least 500 to 1000 square metres and Health Canada should allow outdoor micro-cultivators up to 1 acre."

The groups say the BC government must take immediate action to save the sector as well.

"The BC government's plan to physically warehouse cannabis will add enormous costs to the retail prices, and degrade premium craft cannabis which has a shelf life of just weeks," says Judson. "BC should look at virtual distribution in the form of advanced seed-to-sale tracking systems that are already being used in Colorado and Washington."

The groups say micro-producers and retailers need regulations like craft breweries. “If we are going to have locally-based, high-quality product generating the maximum community economic benefits, like tourism and spin off businesses, we need special rules for micro-cultivators,” says Ehren Richardson of the Canadian Association of Medical Cannabis Dispensaries.

The five groups say the BC government needs to protect access to grow cannabis on ALR land. “Cannabis production is a safe, agricultural business activity that belongs on ALR land,” says Dawkins. “NIMBYism and misplaced fear of cannabis cultivation is already preventing many craft growers from operating in commercial and industrial zones. The craft cannabis sector needs the zoning certainty of the ALR.”

“Our members have the expertise, the strains, the high-quality product, and they want to participate in the legal market,” adds Mondin. “If governments want the economic benefits created by the sector, they need to make it possible for it to thrive or stand idly by and watch it all collapse.”

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Signed:

Cannabis Trade Alliance of Canada, Craft Cannabis Association of BC, Cannabis Commerce Association of Canada, Ethical Cannabis Producers Alliance, Canadian Association of Medical Cannabis Dispensaries.

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To the Honourable Jody Wilson-Raybould, Minister of Justice and Attorney General of Canada,  
and  
the Honourable David Eby, Attorney General of BC,

BC's craft cannabis is world-renowned for its quality, potency and variety of strains. Until recently, BC craft cannabis was supplying between 40% and 70% of Canada's cannabis, but is now being pushed out of the emerging recreational market as provincial governments sign supply agreements with Licenced Producers.

Estimates are that BC craft cannabis employs over 14,000 full time people, primarily based in smaller communities and is BC's largest cash crop. If it is wiped out by Ontario- or US- based corporations, the impacts on smaller BC communities will be significant.

Our coalition of expert stakeholder groups believes that BC and Canada must change course on the cannabis file, or we risk losing a large component of our cultural and economic fabric. Our groups have come together to share with elected officials our united concern that BC is on the verge of an irreversible mistake.

First, we are concerned that by insisting on physical warehousing as a mechanism for provincial distribution, the government is adding an enormous cost burden to BC's distribution system. This move, made against all evidence and expert advice during stakeholder input sessions, is causing BC's Distribution Branch to propose initial supplier agreements with prices in the region of \$3 to \$4 per gram for wholesale cannabis, while other provinces offer \$5 to \$8 per gram and international markets offer \$10+ per gram. At those prices, BC will be uncompetitive with other provinces, resulting in significant supply challenges and probable grey-market proliferation.

Physical warehousing of cannabis is also problematic in that it poses a number of operational challenges. For example, long-term storage of cannabis, while possible, requires significant investment in climate control and inventory management systems. If BC's wholesale cannabis supply is not stored correctly, the material loss in value will be significant. The value of cured cannabis can decrease significantly if it is improperly stored; even if stored adequately, it has a shelf life of weeks, possibly months, before the flavour profile (and value) of the product begins to change.

- **Recommendation:** We call on the Province of BC to drop their misguided plan to physically warehouse cannabis and to look at virtual distribution in the form of advanced seed-to-sale tracking systems that are already in use in jurisdictions like Colorado and Washington. By moving to virtual tracking, the Government can maximize tax revenues and compliance, minimize cost, and avoid the pitfalls of physical storage.

Beyond the distribution system, the craft cannabis growers of BC are concerned about recent calls by some municipalities to restrict growing cannabis on Agricultural Land Reserve (ALR) land. We believe the right of craft growers to grow cannabis on ALR land is in line with the purpose of the ALR, and that any such move would be discriminatory towards cannabis producers and counter-productive from a land use perspective.

Cannabis production is a safe, agricultural business activity that belongs on ALR land. Local land-use NIMBYism and misplaced fear of cannabis cultivation already prevents many craft growers and Licensed Producers alike from operating in commercial and industrial zones; cannabis growers of all sizes need the zoning certainty provided by the ALR.

Given that a significant proportion of ALR land is not being used for agricultural purpose, cannabis will not impact food security by displacing food growing. We believe it is entirely appropriate for the ALR to continue to allow cannabis production projects.

- **Recommendation:** We ask that the Province of BC reaffirm that, as cannabis production will be a legal agricultural activity, it is in-line with Agricultural Land Reserve usage and that cannabis projects will continue to be permitted on ALR-zoned land.

Finally, our members are disheartened that the province continues to move towards banning so-called “tied house” sales, i.e. craft cannabis retailers selling their product in their own stores.

We believe this prohibition is out of line with similar regulations for craft alcohol producers in BC. Having regulated “farm-gate” type sales would be a very small concession from a regulatory standpoint, given the existence of a parallel system currently in place for alcohol. This would do much to alleviate concerns that small craft cannabis producers will struggle in the highly centralized distribution environment envisioned by governments across Canada.

In addition to the small-business-friendly opportunities this would provide for cannabis farmers themselves, such a system would help to drive cannabis-related tourism by encouraging patrons to visit famous BC cannabis growing regions like the Cowichan Valley, just as today they travel to the Okanagan for wine tours.

While we applaud the government’s intent to keep large companies from monopolizing the market, the government has overreached by forbidding sales of cannabis products in retail environments owned by micro-producers. This blanket prohibition prevents craft cannabis producers from partnering with any capital investors or existing cannabis businesses who have any exposure to retail in their portfolio and prevents small businesses from vertically integrating their businesses.

At a time when alcohol producers are being encouraged to invest in gastro-pubs and wineries are building restaurants—both with provincial blessing—we believe it is unreasonably restrictive to prevent a craft cannabis producer from owning a minority stake in an affiliated retailer, or vice versa.

- **Recommendation:** We call on the province to craft more reasonable regulations for so-called “tied house” and “farm-gate sale” provisions. These provisions would allow for regulated sale of cannabis product in an on-farm retail environment, as well as allowing the sale of cannabis products in a retailer which has a relationship to the micro-producer in question.

Beyond our concerns with BC’s own decisions on the cannabis file, we are even more alarmed about the state of micro-production regulations at the federal level. We believe the Government of BC and federal MPs in BC **must** begin advocating for craft producers in BC. The time when government could brush off the significant economic contribution of cannabis in British Columbia is long past and cannabis has an important economic role to play in BC, just as oil and gas do in Alberta, or wheat growing in Saskatchewan.

By failing to stand up for the interests of BC’s existing craft growers, we risk losing tens of thousands of jobs across the province. No other province has nearly as much at stake, and BC’s government and our federal representatives must take a more prominent role in this discussion.

We call on the Province of BC to advocate for—and the Canadian government to implement—the following changes to the proposed Cannabis Act regulations involving micro-cultivation and micro-processing:

- Micro-producers and -processors should be allowed to immediately begin registering with Health Canada as producers, to begin the process of preparing for legalization. At present, craft producers are unable to sign supply agreements with Licensed Producers or provincial distribution bodies, or register their corporations for the numerous ancillary services they will legally require. This massively disadvantages craft producers versus Licensed Producers, who are unfairly leveraging their medical licenses to prepare for recreational sales.

We ask that the province push Health Canada for an accelerated timetable for micro-licensing, to protect BC’s craft cannabis producers and ensure they are properly regulated in time to participate in the legal cannabis economy.

- BC must push back against proposals from Health Canada that micro-cultivators be capped at 200 square meters. This regulation is particularly onerous because it includes the cannabis clones and non-budding cannabis plants that are part of cannabis’ natural agricultural cycle, meaning 200 square meters is effectively far less than that.

In public consultations with industry experts, numbers in the range of 500 – 1000 square meters were suggested, and we believe this number is a far more accurate reflection of a reasonable micro-production facility to ensure the economic viability of the craft cannabis industry.

The federal government is also ignoring the more sustainable option of outdoor micro-cultivators. Health Canada should allow outdoor micro-cultivators up to one acre.

We call on the Government of BC and federal MPs in BC to advocate for craft growers at the federal level and request a larger footprint for craft producers.

- Finally, the near-blanket ban on advertising of any kind and the highly restrictive packaging regulations for cannabis products will unfairly disadvantage craft producers. The proposed regulations for packaging do not allow micro-producers to distinguish their product from cheaper, mass-produced cannabis. Producers will be unable to highlight unique and attractive qualities of their products, such as organic certification, sustainable practices or local origin if they are only given a small postage-stamp-sized corner of the packaging to work with.

We call on Health Canada to work with producers on alternative packaging guidelines that are evidence-based and more in line with international norms, and to work collaboratively with the BC craft cannabis community on those guidelines.

In conclusion, we wish to remind elected officials of just how many of your constituents work in the craft cannabis industry and how many more depend on the cannabis economy for their own livelihoods. Cannabis production and export represents a large component of our provincial GDP and we are about to embark on a very radical transformation of that economy.

Our members are looking to you for leadership and for solid, evidence-based policy that will encourage the creation of fair opportunities and sustainable jobs. Without a Made-in-BC approach to our own legalization of cannabis, we risk losing tens of thousands of jobs, and billions of dollars in exports.

We ask that you act to ensure that the craft cannabis producers of BC have an opportunity to compete in the global cannabis economy that is just beginning to open up.

Signed:

Cannabis Trade Alliance of Canada, Craft Cannabis Association of BC, Cannabis Commerce Association of Canada, Ethical Cannabis Producers Alliance, Canadian Association of Medical Cannabis Dispensaries.