

Approach to Cost Recovery
Submission

Proposed Approach to Cost Recovery for the Regulation of Cannabis

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for the Craft Cannabis Association of British Columbia

Executive Summary

We are the Craft Cannabis Association of BC, a non-profit society founded by a diverse group of cannabis advocates, consumers, producers and interested businesses with years of experience in the industry. We support a cost recovery program that supports small-scale, independent cannabis producers.

We think the proposed cost recovery approach is fair for both license holders and the government. We appreciate that the government recognizes the importance of balancing the goal of complete cost recovery with the policy goals of ensuring a diverse market that includes small-scale businesses, and also that those with medical needs continue to have access to cannabis for medical purposes.

However, small farmers still face many obstacles and these fees as proposed could affect our ability to compete in the Canadian cannabis market. We outline some of these obstacles in our submission and make recommendations regarding the Cost Recovery Proposal.

We make the following recommendations:

- 1) Increase the Annual Regulatory Fee proposed tier amount from \$1 million to \$1.5 million**
- 2) Waive the Annual Regulatory Fee for the first fiscal year for small-scale businesses**
- 3) Base the Annual Regulatory Fee on prior year actual revenue**
- 4) Allow small-scale craft businesses to supply both the medical and recreational cannabis markets without added penalty**
- 5) Transparent and clear communication in regards to confiscated processing fees**
- 6) Implement targets, service standards and published processing times**

SUBMISSION

We are the Craft Cannabis Association of BC, a non-profit society founded by a diverse group of cannabis advocates, consumers, producers and interested businesses with years of experience in the industry. We support a cost recovery program that supports small-scale, independent cannabis businesses.

Overall, we think the proposed cost recovery approach is fair for both license holders and the government. We appreciate that the government recognizes the importance of balancing the goal of complete cost recovery with the policy goals of ensuring a diverse market that includes small-scale businesses, and also that those with medical needs continue to have access to cannabis for medical purposes.

Small farmers still face many obstacles, however, and these fees as proposed could affect our ability to compete in the Canadian cannabis market. Some of the obstacles not addressed by this cost recovery submission include:

- Difficulty obtaining municipal approval
- Testing requirements that do not allow for the realities of outdoor production (natural, safe contaminants)
- Preparing for the regulatory requirements
- Limited distribution agreements
- Low priced imports
- Dealing with the Excise Tax
- Unknown timeframe to enter the market

It is encouraging to see consideration given to reduce the burden of cost recovery attributed to micro-licensees and micro-nurseries. We believe that small-scale standard licensees are being overlooked by being grouped together amongst medium (\$10 million) and large-scale (\$50 million) businesses. We encourage the development of a small category of licensing to provide much needed support to small-scale businesses.

We make six recommendations regarding: Annual Regulatory Fees; Transition Phase; Fee Structure and Review; Sale of Medical and Recreational Cannabis; and the Confiscation of Screening Fees.

We also recommend the inclusion of Targets, Service Standards and Published Processing

Times. We anticipate there will be thousands of micro and small business applicants and we are concerned that the government expects to only process 200 micro-licenses per year.¹ This number is not encouraging to potential new and transitioning small-scale license hopefuls, and if there are indeed hundreds more applications than expected, it may take years to work through. This outcome would not help to achieve the mandate of eliminating the black market.

We conclude with some important rationale for supporting small-scale businesses in our communities.

Our Recommendations

ANNUAL REGULATORY FEES

Increase the proposed tier amount from \$1 million to \$1.5 million

To yield gross revenues of \$1.5 million, fixed costs of production for micro-licensees are approximately identical to the fixed costs of production that are required to yield gross revenues of \$1 million.

Profit margins for micro-licensees are narrow, such that the proposed additional fee of 2.3% applicable to gross revenues between \$1 million and \$1.5 million, is going to result in a nil profit or a net loss for a significant number of micro-license operations. A proposed tier amount of \$1 million is too low, and it is going to have a significant adverse economic impact on many of the micro-licensees. We recommend increasing the proposed tier amount from \$1 million to \$1.5 million.

Micro-licensees need to be nurtured as a means to encourage innovation in the Canadian cannabis industry, for example the creation of new cannabis strains. Practically speaking, the micro-cultivation operations are, in effect, privatized “research and development” operations that may deliver new and diverse Canadian cannabis product into larger ‘agro-farming’ operations. The capacity to deliver new and diverse Canadian cannabis product is in the public interest, and improves global competitiveness for our Canadian product. Micro-cultivation operations serve a long-term industry need.

Increasing the proposed tier amount from \$1 million to \$1.5 million is recommended.

1. Source: [Government of Canada. 2018. Proposed Approach to Cost Recovery For the Regulation of Cannabis. Retrieved from: <https://www.canada.ca/en/health-canada/programs/consultation-proposed-approach-cost-recovery-cannabis/document.html>].

TRANSITION PHASE

Waive the Annual Regulatory Fee for small businesses in the first fiscal year

Micro-licensed operations will have annual fixed investments and costs, and consequently will tend to strategically and financially plan their costing on a year-to-year basis. Time is needed to financially plan for, and make decisions regarding, the introduction of a significant new cost.

We recommend waiving the Annual Regulatory Fee for the first fiscal year to provide support to small businesses, allowing one 'clear' year to make the necessary financial adjustments.

FEE STRUCTURE AND REVIEW

Base the Annual Regulatory Fee on prior year actual revenue

We recommend basing the Annual Regulatory Fee on prior year actual revenue as opposed to current year projected revenue for the simple reason that it is more accurate and less adjustments will need to be made.

We think that Health Canada could review its fee structure in three years since the minimum is obtained in year one, year two is based on the previous year's actual revenue, and year three, also based on the previous year's revenue, will be starting to fall in line with the realities of the market.

MEDICAL AND RECREATIONAL CANNABIS

Charge a 2.3% Annual Regulatory Fee on the sale of recreational cannabis only

We are supportive of the incentives for those producing medical cannabis.

Some micro-licensees will be producing both medical and recreational cannabis products. Under the proposed rules, these small-scale businesses will need to provide a 2.3% Annual Regulatory Fee solely on the basis that they are producing both medical and recreational cannabis, even if the amount of recreational cannabis is minimal and the result of overages.

We recommend the 2.3% Annual Regulatory Fee only applies to the amount of recreationally sold cannabis, not overall revenue.

CONFISCATION OF SCREENING FEES

Transparency and clear communication in regards to confiscated screening fees

Specifically, we seek a precise, clear, enumerated list of items that will be required from an applicant.

We also recommend that it be a requirement to provide a provision of notice to an applicant regarding a deficiency in the application prior to confiscation of the screening fees, so that an applicant can provide, within a 60-day period, any missing information or document.

TARGETS, SERVICE STANDARDS AND PUBLISHED PROCESSING TIMES

Implement targets, service standards and published processing times

At the present time, our understanding is that current resource allocation will limit the number of applications to be processed during a fiscal period to 200 applications.² As we anticipate potentially thousands of micro-license applications in BC alone, we recommend increasing the target and streamlining the process as quickly as possible.

1. We recommend increasing the cost recovery processing fees to resource additional processing capacity to process at minimum 1,000 applications per fiscal period to be reviewed annually.
2. We recommend the introduction of published annual processing targets. Specifically, we recommend providing a target range for the total number of licenses to be issued in Canada, by Province. In the event the Provinces cannot agree between themselves regarding the distribution of these licenses, the federal government may assign provincial targets.
3. We recommend the introduction of published historic and prospective non-binding processing time standards required to process 80% of routine applications.
4. We recommend the publishing on a monthly basis the number of new applications received.
5. We recommend the introduction of two processing streams: one stream for large-scale licensees and one for small-scale licensees. Reliable prospective processing times would provide stakeholders the ability to make reasonable production decisions.

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The number of licenses to be issued in Canada as currently proposed, 200 in a year, would result in thousands of license hopefuls who would be asked to wait years before initiating their legalized cannabis products. We believe this is not in keeping with the spirit and intent of the law, nor with the promises and commitments that have been repeatedly made by the Government of Canada regarding the legalization of cannabis in Canada. In practice and effect, the small number of licenses proposed per year is a new prohibition of cannabis, but with significantly higher penalties for producing cannabis without a government license.



It is imperative that small, independent businesses are nurtured and supported through this transition. Craft Cannabis producers and processors are integral to their communities. They directly support and benefit their local economies. Small-scale craft cannabis is sustainable. Best of all, local and small-scale craft cannabis production means consumers are directly connected with the producers of each and every product, ensuring high quality practices, broader choice and unique medicinal solutions.

We look forward to a bright future for craft cannabis in Canada.

