

SURREY'S CANNABIS INDUSTRY NEEDS

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SURREY BOARD OF TRADE

WHO WE ARE

The Surrey Board of Trade is a city-building business organization that supports, promotes, and advocates for commercial and industrial interests for Surrey businesses — the city’s economic drivers. With Surrey’s rapidly growing significance in the Lower Mainland, the role of the Surrey Board of Trade has never been more important than now to champion a strong, vibrant business community for needed economic and infrastructure assets.

OUR MEMBERSHIP

The Surrey Board of Trade is a powerful link between business, government, and community with a membership representing over 6,000 member contacts and 60,000 employees.

WHAT WE DO

The Surrey Board of Trade provides businesses and organizations with:

- Economic opportunities
- Business Centre support from start-up to scale up
- Workplace development and education
- International trade
- Government advocacy
- Business connections
- Labour market intelligence

ADVOCACY

As a city-building business organization, the Surrey Board of Trade is an independent voice of business that develops positions on relevant economic topics of concern to our members and the business community at large.

INTRODUCTION

The legal recreational cannabis market opened many aspects of the supply chain to the private sector to fill the need for the responsible production and sale of cannabis products in Canada.

It is estimated that 2022 sales of cannabis are exceeded \$4.5 billion.¹ Early market projections for the recreational cannabis market continue to fall short due to a variety of reasons such as:

- Regulatory barriers at the provincial and municipal level
- A complex supply chain
- The cost of legal cannabis relative to the illicit market
- Under-resourced enforcement agencies for the illicit market
- Packaging restrictions

The legalization of recreational cannabis in Canada presented an opportunity for the private sector to displace a long-hidden, but flourishing, illicit market with ties to organized crime. Although not a primary consideration for the government, in order to achieve its stated policy objectives, the private sector must be able to operate in the recreational cannabis market in a sustainable manner.

¹ <https://www.cannabisbenchmarks.com/canada-reports/canada-cannabis-spot-index-january-20-2023/>

LOCAL, PROVINCIAL AND FEDERAL REGULATORY ISSUES

Several BC municipalities have made it nearly impossible for legal cannabis businesses to establish in their communities. Some local governments have simply refused to entertain legal cannabis applications and have not established zoning policies or bylaws to allow these businesses. Some other governments allow cannabis businesses, but their zoning is so restrictive as to only allow government-run BC Cannabis Stores to operate, or they create such strict location restrictions that they de facto prohibit these operations.

To ensure these legal businesses can operate in communities across BC, the Provincial Government should create province-wide allowable zoning rules for cannabis retail which should be implemented in those communities which have failed to enact their own policies. In those communities with cannabis zoning policies, the Provincial Government should instead require that these policies permit private cannabis retail, subject to reasonable guidelines and requirements.

In all cases, rules applying to legal cannabis distribution must include First Nations and Indigenous participation.

The current requirement for a provincial/territorial specific stamp increases the cost and complexity of the manufacturing process (adding cost to the final product that is passed on to consumers) and restricts producers' abilities to respond to rapidly changing supply and demand conditions in a nascent industry.

FEDERAL BARRIERS AND TAXES

The manufacturing, distribution, and sale of inhalable cannabis products is already highly regulated to ensure public safety and keep products out of the hands of youth. Our view is that the tax was implemented as a response to nicotine vaping products that have increased in popularity amongst youth, which has an entirely different manufacturing process and supply chain in Canada. The imposed tax on cannabis vape products is counter to the policy objective - encouraging sales from the illicit market by making legal products significantly more expensive in Canada.

The excise duty rates on vaping products are outlined in Schedule 8 of the Excise Act, 2001 and are as follows:

For vaping liquids:

- \$1 per 2 millilitres (mL), or fraction thereof, for the first 10mL of vaping substance in the vaping device or immediate container
- \$1 per 10mL, or fraction thereof, for amounts over the first 10mL

For vaping solids:

- \$1 per 2 grams (g), or fraction thereof, for the first 10g of vaping substance in the vaping device or immediate container
- \$1 per 10g, or fraction thereof, for amounts over the first 10g

For every vaping product packaged in Canada and intended for the duty paid market, the vaping product licensee who packaged the vaping product must calculate the vaping duty to determine the amount payable to the Canada Revenue Agency (CRA) on their monthly vaping duty and information return.

Taken together, these policies, bylaws and regulations greatly increase the costs of operating a regulated cannabis business in BC. The corporate infrastructure required to support a chain of legal cannabis retail stores will likely exceed the profits that will be generated. The findings of the Cannabis Act legislative review are expected to address this issue with stakeholder input recommendations, creating a more robust bottom line for legal operators.

Cannabis producers are required to remit significant excise taxes to the CRA as part of the legal cannabis regime. Currently, the excise tax is \$1 per gram of dried cannabis flower. During the lead up to legalization, a common projection was that cannabis would retail for \$10/gram, and the \$1/gram tax was communicated in this context. However, the post-legalization market realities are quite different. As of February 8, 2023, the Canada Cannabis Spot Price Index pegged the market price at \$5.03/gram, just over half of the commonly projected \$10/gram price. Therefore, the excise tax represents nearly 20% of the market price, instead of the 10% it was originally presented as. This presents a financial challenge for cannabis producers, and further erodes the competitiveness of the legal market vis a vis the illicit market.

The issues noted above present an important observation – some regulatory decisions potentially run counter to the overall objectives of eliminating the illicit market and keeping

cannabis out of the hands of youth. While the legal market continues to establish itself, a high percentage of Canadian consumers purchase unregulated cannabis products. Furthermore, the patchwork of regulation across all provinces and municipalities, along with the increased cost (due to taxation framework, licensing delays, and supply chain considerations) further erode the policy objectives. Aligning the interests of the private sector along with the policy objectives and public safety is critical to the long-term success of the initiative to legalize recreational cannabis in Canada.

FINANCIAL SERVICES

Despite cannabis businesses and products being legalized for years now, many private operators have reported being excluded from key financial services and products because of their chosen industry. These businesses can experience refusal of service by financial institutions where they are unable to open bank accounts or access key services such as credit cards or investment vehicles. If this industry is legal, the financial services sector should be required to service and support it like any other legal industry.

Provincial and federal governments and regulators should work with the financial sector to identify and overcome challenges with serving this industry to allow these businesses fair access to financial services.

OUR ASK TO ALL ORDERS OF GOVERNMENT

The Provincial and Federal Governments allowed legalization to ensure the protection of children from accessing then-illicit substances, ensuring the illicit market reduces, which would result in other societal benefits such as reduced drug and gang activity, and criminality. The current cost of doing business is preventing the Federal and Provincial Governments from achieving their intended goals.

The inability for legal cannabis businesses to establish in their communities, the difficulty of navigating the provincial and federal regulatory processes, the taxes that must be paid on all products along the supply chain, and the inability for cannabis businesses to receive fair access to financial services have resulted in ineffective policy outcomes.

SURREY OPPORTUNITY

The City of Surrey needs to allow cannabis retailers to exist in Surrey. Cannabis retailers can do the following:

1. Share profits annually to community initiatives.
2. Prohibit sales to minors.
3. Be a part of the community in activities such as community clean ups.
4. Partner with MADD to support their activities.
5. Utilize Crime Prevention Through Environmental Design (CPTED) to reduce crime in the community.
6. Adhere to regulations.
7. Provide access to safe Health Canada regulated products.
8. Generate tax revenue and employment.
9. Divert revenue from underground/illicit markets.

We need to keep telling the economic story of the cannabis industry. The industry has led to the creation of thousands of new jobs, hundreds of millions in infrastructure investment, reinvigorated retail areas and spurred new innovative technologies, processes and products. The economic footprint of cannabis in Canada is continuing increase and the industry must find new ways of sharing this good news.

ASK TO THE CITY OF SURREY

1. Create a structured, strategic and responsible policy to allow cannabis operators to exist in Surrey.
2. Create an efficient cannabis regulatory framework, including amendments to the zoning bylaw, business licence bylaw, bylaw notice enforcement bylaw, and municipal ticket information bylaw. This type of framework will provide regulations on the locations and operations of cannabis production and processing facilities and retail stores for Surrey.

3. Create a smooth process for the establishment of a cannabis retail stores during the application intake period, review process, and evaluation criteria.
4. Revisit Cannabis Industry in Surrey document².

ASK TO BC AND FEDERAL GOVERNMENTS

1. Focus resources and attention for policing and prosecution of illicit and illegal cannabis production and sales, including dispensaries operating outside of the established legal regime.
2. Introduce province-wide retail operator licensing, allowing companies to be screened once, with subsequent applications focused on location specific criteria.
3. Create province-wide allowable zoning for cannabis retail for municipalities which lack their own policies and ensure existing municipal cannabis zoning policies permit private cannabis retail locations under reasonable guidelines and requirements.
4. Increase the cap on the number of allowed retail locations per operator to help meet consumer demand for legal cannabis and eliminate regional supply gaps.
5. Allow for different ordering and delivery days for in-demand products or eliminate additional delivery fees to private retailers.
6. Exempt medical cannabis from PST and GST.
7. Create a single national excise stamp.
8. Remove the 20% tax on cannabis vape products.
9. Reduce the current \$1 per gram excise tax to better reflect the current market price for cannabis and to help prevent legal product from being undersold through the illicit market.
10. Work with banks and federally regulated credit unions to ensure legal cannabis operators can access and receive business banking products and services like any other legal business and require that they are not unduly excluded or restricted from service.
11. Invest in labour market training to increase a skilled cannabis industry workforce.

² <https://www.surrey.ca/sites/default/files/media/documents/CannabisLegalizationFrameworkReport.pdf>

12. Work with governments to continue to tackle the online illegal market. There are hundreds of illegal websites, from which Canadians continue to purchase untested products. Continued collaboration with governments, law enforcement, financial institutions and other stakeholders is going to be required to eliminate these sites as an unsafe alternative to licensed retailers.
13. Look for more opportunities in a growing global market. Canada is a global leader in medical cannabis exports. There is a huge opportunity for Canadian companies to apply their products, services and knowledge to support Canada's leadership in the development of international cannabis trade, rules, and regulations.

As a rapidly growing industry that contributes over \$17 billion to the Canadian economy annually, the legal cannabis industry creates thousands of direct jobs, with tens of thousands of ancillary jobs linked to its success. Yet, the economic competitiveness lens is often missing when it comes to the industry's regulation and even allowing them to operate.

While the health and safety of Canadians must remain the top priority, we have learned a great deal since cannabis was legalized three years ago. Improvements can still be made to support an industry that benefits the economy without compromising safety. We need to keep investing energy in educating governments and advocating for sensible policy changes. In a new, highly regulated, and stigmatized sector, all orders of government have been cautious and reluctant in their approach to cannabis policies. Issues such as retail restrictions, marketing and branding limits, licencing challenges and all kinds of red tape have frustrated cannabis entrepreneurs.

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