



**Cannabis Council
of Canada**

**Conseil du
cannabis canadien**

May 22, 2020

Standing Committee on Industry, Science and Technology (INDU)
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

RE: The Impact of COVID-19 on the Cannabis Sector

Dear INDU Committee Members,

Thank you for providing the Cannabis Council of Canada (C3) with the opportunity to make this important presentation to your Committee, which has been tasked to review the Government of Canada's response to COVID-19.

C3 is a national organization of Canada's Licensed Producers of cannabis. Our mission is to promote industry standards; support development, growth and integrity of the regulated cannabis industry; and, serve as a resource on issues related to responsible use of cannabis for medical and non-medical purposes. To date, close to 400 licenses have been granted under the *Cannabis Act*.¹ A sample of just 20 member companies counted 13,000 direct well-paying jobs rooted in every region of Canada. Moreover, Statistics Canada recently affirmed that the legal cannabis sector's contribution to Canadian GDP has risen 215 % since legalization while the contribution from the legacy market has declined, but not nearly enough. Statistics Canada estimates the contribution to our GDP from cannabis at more than \$8.26 billion.²

Prior to the legalization of adult use cannabis our sector was rooted in service to medicinal patients and we currently serve nearly 400,000 across Canada, including seniors and veterans. Cannabis was designated as an essential service by Public Safety Canada and several Provinces have made similar recognition during the COVID-19 pandemic.

The breadth of presentations received by your Committee to date speaks to the extreme hardship that so many sectors of the Canadian society are facing. The cannabis sector, consisting largely of new enterprises (75% with less than 2 years in business), finds itself in the company of businesses with 100-year histories, each looking to the Government of Canada to provide targeted support in response to the crisis.

The cannabis sector has shown commitment to local communities through donating PPE, manufacturing hand sanitizer, and offering facilities for clinical, food supply and lab testing purposes to name only some. As with those other industries our operations have been significantly impacted with additional costs incurred across organizations in order to ensure the safe keeping of all employees.

Drawn to announcements about government support programs and most cannabis companies find themselves facing “viability” criteria that favours more established businesses at the expense of pre – profitable start up companies. Cannabis companies are also experiencing challenges similar to those of other start up growth sectors such as high-tech start ups because the criteria for the wage subsidy program uses business decline criteria more relevant for long term stable businesses.

To be sure, for the companies that weather this perfect storm of challenges, the future is bright as there is significant market growth ahead. Our objective with this submission is to trigger policies that will ensure that all those communities, especially small rural ones, where our companies are already deeply invested have the chance to realize their part in the economic development of Canada.

IMPACT OF COVID-19 ON CANNABIS INDUSTRY

Even before COVID-19, many Canadian cannabis companies were pre-profitable and facing serious financial challenges. We are a creature of strict licensing and regulatory processes. Those costs, combined with high tech infrastructure, have made profitability elusive in the early going, and led to an estimated 2,700 staff reductions over the past year.³

In the simplest terms, companies need to generate cash flow as expenses to operate safely climb with COVID-19 pay increases for facility staff, additional paid sick leave and many other impacts like the rising costs of PPE.

The liquidity challenges that many companies were already facing are fast becoming an outright crisis during this first wave of COVID-19. Momentum in market growth has been stymied as retail access has diminished at least temporarily.

IMPACT OF INITIATIVES TO DATE

We recognize the Government of Canada for actions that have been taken to date to protect the Canadian economy from the trauma of COVID-19. However, the measures announced largely depend upon characteristics that are not inherently evident in the start-up cannabis sector, namely early profitability and deep relationships with traditional banks.

With respect to profitability, given that most cannabis businesses are less than 2 years old and have experienced significant capital investment costs before generating revenue it’s very difficult to meet the viability test of cash positive quarters that’s a requirement to access government programs.

Few cannabis companies have enjoyed support from traditional banks further limiting access to government programs where banks serve as program gatekeepers. The Business Development Bank of Canada (BDC) openly prohibited support for the cannabis sector until recently and Farm Credit Canada (FCC) lending criteria generally excludes pre - profitable companies.

Moreover, many cannabis companies will not meet the criteria for the Canada Emergency Wage Subsidy (CEWS), as their growth patterns create qualification problems also noted with others such as tech start ups.

IMMEDIATE CANNABIS INDUSTRY PROPOSAL TO AID LIQUIDITY

We are proposing strategies to the Government of Canada to offer liquidity support to the Cannabis sector by extending the deferral of tax remittances. This strategy was a feature of the government's very first response to the COVID-19 pandemic with respect to other taxes.

There are two different taxes from which Licensed Producers are seeking deferral:

1. **Regulatory Fees:** The cannabis sector pays Health Canada an annualized 2.3% of revenues aimed primarily at cost recovery for the legalization of adult use cannabis. The reality is that Health Canada has diverted many internal resources to address COVID-19 related priorities. We recognize the need to divert staff but feel that a deferral of fees would be appropriate considering that service standards have deteriorated from low levels even while quarterly fees collected from cannabis companies have increased. Deferring these fees would have an immediate broad – based impact and could be implemented with relative ease and would be transparent and accountable to Parliament.
2. **Excise Taxes:** While the Government of Canada has offered flexibility on the remittance of corporate taxes and HST, we would request the same flexibility with Excise Tax Remittance as it will allow companies to conserve cash and would be a real boost with positive implications all across Canada. We know that this is a viable approach because we have seen various Provinces make similar gestures for other products generating Excise taxes. As a matter of principle, we do not believe that Governments should be taxing cannabis medicine.

We view this approach as a hand up rather than a hand out. Rather than asking for a direct cash grant to offset our operating costs as some industries have, ours has proposed to defer tax remittances in order to broadly impact the sector's liquidity while we regain jobs and consumer growth momentum.

We repeat that our fledgling sector needs liquidity assistance as do most who will come before your committee. We are requesting a deferral in the remittance of taxes that will not cost the government anything but offers dividends of jobs and even more tax revenue in the future.

CANNABIS INDUSTRY JOBS GROWTH AGENDA ITEMS

Despite the challenges we have put before the Committee our sector is optimistic about the future and we believe that, with a modest amount of temporary support, we can help power Canada forward with jobs and growing tax revenue.

The global cannabis market has nearly unlimited potential and Canada has global first mover advantage. We propose a partnership between the cannabis sector and the Government of Canada to embrace the full potential of the social and economic development that the whole cannabis plant offers.

Several initiatives could produce important results for Canada quickly.

These include:

1. **Export Development:** As countries around the world expand access to medical cannabis, Canadian cannabis companies have a first-mover advantage. Some producers are already exporting medical cannabis through GMP-compliant facilities. C3 wants to work with the federal

government to ensure an efficient export permitting process is developed and that Canada offers greater trade support.

2. **Cannabis Natural Health Products:** C3 looks forward to working with Health Canada and the Science Advisory Committee for Health Products Containing Cannabis. Updating Canada's regulatory approach to cannabis health products is an overdue step in improving access to beneficial products and supporting innovation in the sector. Many jurisdictions are creating regulatory models that favour the development of their domestic industries. Our advantage is being eaten up by delays.

CONCLUSION

The federal government took bold steps to legalize cannabis, building on Canada's medicinal framework and the result has been billions in investment and thousands of jobs in most corners of Canada. With this leadership, our government has ensured that products are tested for safety and distributed with the utmost of caution to prevent youth consumption. Those are solid results we want to build upon.

Even though the liquidity for many Licensed Producers is dire, we feel optimistic about our prospects overall. The Cannabis sector can be a leading contributor to Canada's economic rebirth. Few other sectors offer the prospect of greater job growth than Canada's cannabis sector. Ask around and you will find that in some parts of rural Canada, cannabis has been the only legitimate new job prospect. We believe that with supportive policies now, the number of jobs in cannabis production could increase to 50,000 in all regions across Canada.

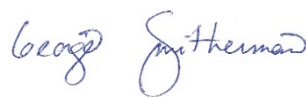
Legal adult recreational cannabis sales of around \$2.5 billion annually only represent an estimated 1/3 of the total Canadian consumer market. **The cannabis sector needs the support of the federal government at this pivotal time to help protect the progress that we have made together.** Otherwise so much promise and herculean effort will go to waste as companies wither, employment ceases, and our many rural communities and municipalities are left with a gaping hole in their economic prospects. Only the unregulated legacy players win in this scenario. We endeavor to persuade you to support and I dare say to champion our sector along the path whereby we grow through COVID-19, and come out as a stronger source of job growth and tax revenue for governments at all levels.

Thank you for the opportunity to provide this submission. We welcome every opportunity to discuss these issues and a pathway forward with the INDU committee or individual Members of Parliament.

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¹ Health Canada. "Licensed cultivators, processors and sellers of cannabis under the *Cannabis Act*."
<https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensed-cultivators-processors-sellers.html>

² BNN Bloomberg. "Cannabis Canada: Pot industry adds \$8.26B to Canada's GDP." October 1, 2019.
<https://www.bnnbloomberg.ca/cannabis-canada-pot-industry-adds-8-26b-to-canada-s-gdp-1.1324939>

³ Marijuana Business Daily. "Talent database launched after Canada's cannabis sector sheds 30% of workforce."
https://mjbizdaily.com/talent-database-launched-after-canadas-cannabis-sector-sheds-30-of-workforce/?utm_medium=email&utm_source=newsletter&utm_campaign=INTL_20200513_NEWS_Daily