# Regulation and its discontents: The case of the Canadian recreational cannabis industry

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# Introduction: Our core interest

- Why the Canadian cannabis industry?
  - Research Focus: How decisions governments make about regulatory frameworks (And government policy overall) Impact industry development, particularly in emerging industries
  - Conceptual Frame: Coevolution of business and government strategies
  - Empirical Frame: Natural field experiment of Canadian legalization: 13 provinces & territories developed simultaneous frameworks for recreational cannabis
  - Overall, the case provides fertile ground for research about how regulations and new industries coevolve
  - In my case, the research has shifted to how regulations can shape nascent industries or markets in emerging economies, specifically the Balkans

# Why legalization?

- Medical cannabis has been legal at the federal level in Canada since 2001
  - The 2001 regulations created a producer licensing process robust seed-to-sale tracking system
- In 2016, the Trudeau government convened a series of public hearings about legalizing adult-use recreational cannabis. This led to the Cannabis Act of 2018.
  - The legislative mandate for the Cannabis Act focused on two main prongs:
    - Public health and safety, particularly the safety of minors
    - Converting the market from illegal sales to a legal market of licensed retailers

# Canadian Recreational Cannabis Regulatory Time Frame: Federal

**April – Nov 2017**
Bill debated and studied by House of Commons

**Nov 2017 – June 2018**
Bill debated and studied by Senate

**JUNE 30, 2016**
Task Force on Cannabis Legalization & Regulation Launched

**DECEMBER 13, 2016**
Task Force Report Published

**APRIL 13, 2017**
Proposed Cannabis Act introduced in House of Commons

**NOV 27, 2017**
Proposed Cannabis Act passed by House, referred to Senate

**JUNE 20, 2018**
The proposed Cannabis Act was passed by Senate

**JUNE 21, 2018**
Royal Assent was granted. Effective date was announced

Regulations for edibles and concentrates effective in October 2019

2016

2017

**2018**

**2019**

**March – May 2017**
Canadian Cannabis Survey (results published in December 2017)

**Nov. 2017 – Jan. 2018**
Regulatory Consultations

Transition period for PTs and industry to prepare for the new regime. Publication of regulations in CGII – July 2018

**October 17, 2018**
*Cannabis Act* and *Cannabis Regulations* become effective.

*Licensed Producer applications can be submitted using the Cannabis Tracking and Licensing System.*

*P/T online stores will open with limited physical stores.*

# Canada’s Three Level Regulatory Framework

- Federal: Control over: medical cannabis; export regulation; producer licenses; maintaining seed-to sale database; advertising and promotion regulation
- Provincial: Control over: age of legal consumption; Wholesale distribution framework (public, private, or hybrid); Retail distribution framework (P, P, H); Delivery and Transport regulations; License regulations and process
- Municipal: Control over: zoning, land use, local business licenses (and, in Ontario, opt-out/opt-in)

# Supply Chain Taxonomy

- Licensed Producers
- Wholesale Suppliers and Distributors
- Brick and Mortar Retail Operations
- Ancillary/Related Businesses and Services

# Regulatory Framework for Recreational Cannabis by Province

| | Wholesale | Brick & Mortar Retail | Online Retail | Minimum Age | Grow Your Own |
|---|---|---|---|---|---|
| British Columbia | Government | Hybrid (Government and Private) | Government | 19 | 4 plants |
| Alberta | Government | Private | Government | 18 | 4 plants |
| Saskatchewan | Private | Private | Private | 19 | 4 plants |
| Manitoba | Government | Private | Private | 19 | Not Permitted |
| Ontario | Government | Private | Government | 19 | 4 Plants |
| Quebec | Government | Government | Government | 18 | Not permitted |
| New Brunswick | Government | Government | Government | 19 | 4 plants |
| Nova Scotia | Government | Government | Government | 19 | 4 plants |
| P.E.I. | Government | Government | Government | 19 | 4 plants |
| Newfoundland & Labrador | Government | Private | Government | 19 | 4 plants |
| Yukon | Government | Hybrid (Government and Private) | Government | 19 | 4 plants |
| NWT | Government | Government | Government | 19 | 4 plants |
| Nunavut | Government | Hybrid (Government and Private) | Hybrid (Government and Private) | 19 | No restriction |

## First Phase of Market Operations: Population, Number of Retail Outlets, Sales Data, and Percentage of Market Share by Province as of Q4 2019

| | Population (Q3 2019 est.) | Number of Brick & Mortar Retail Outlets (Dec 2019) | Population per Retail Outlets | Provincial Percentage of National Population | Provincial Percentage of Retail Outlets |
|---|---|---|---|---|---|
| British Columbia | 5,071,336 | 91 | 88,971 | 13.5% | 17% |
| Alberta | 4,371,316 | 255 | 24,837 | 11.6% | 47.7% |
| Saskatchewan | 1,174,462 | 37 | 33,556 | 3.1% | 6.9% |
| Manitoba | 1,369,465 | 27 | 59,542 | 3.6% | 5% |
| Ontario | 14,566,547 | 18 | 606,939 | 38.8% | 3.4% |
| Quebec | 8,484,965 | 34 | 471,387 | 22.6% | 6.4% |
| New Brunswick | 776,827 | 21 | 36,992 | 2.1% | 3.9% |
| Nova Scotia | 971,395 | 13 | 74,723 | 2.6% | 2.4% |
| P.E.I. | 156,947 | 5 | 39,237 | 0.4% | .9% |
| Newfoundland & Labrador | 521,542 | 25 | 20,059 | 1.4% | 4.7% |
| Yukon | 40,854 | 3 | 10,214 | 0.1% | .6% |
| NWT | 44,826 | 6 | 7,471 | 0.1% | 1.1% |
| Nunavut | 38,780 | -- | | 0.1% | 0% |
| Total/Average | 37,589,262 | 535 | 92,357 | 100% | 100% |

Source: Statistics Canada

# First Phase of Market Operations: Number of Retail Outlets by Population, Sales Data, and Percentage of Market Share by Province

| | Population (Q3 2019 est.) | Number of Brick & Mortar Retail (Dec 2019) | B&M Sales ($) (Oct 2018-Sep 2019) | Sales Per Capita ($) | Sales Per Retail Outlet ($) | Provincial Percentage of Market Share |
|---|---|---|---|---|---|---|
| British Columbia | 5,071,336 | 91 | 49,659,000 | 10 | 545,703 | 5.5% |
| Alberta | 4,371,316 | 255 | 195,740,000 | 45 | 767,608 | 21.6% |
| Saskatchewan | 1,174,462 | 37 | 38,165,000 | 32 | 1,031,486 | 4.2% |
| Manitoba | 1,369,465 | 27 | 56,103,000 | 41 | 2,077,889 | 6.2% |
| Ontario | 14,566,547 | 18 | 216,807,000 | 15 | 12,044,833 | 23.9% |
| Quebec | 8,484,965 | 34 | 194,865,000 | 23 | 5,731,324 | 21.5% |
| New Brunswick | 776,827 | 21 | 37,905,000 | 49 | 1,805,000 | 4.2% |
| Nova Scotia | 971,395 | 13 | 65,805,000 | 68 | 5,061,923 | 7.2% |
| P.E.I. | 156,947 | 5 | 15,216,000 | 97 | 3,043,200 | 1.7% |
| Newfoundland & Labrador | 521,542 | 25 | 30,615,000 | 59 | 1,224,600 | 3.4% |
| Yukon | 40,854 | 3 | 4,216,000 | 103 | 1,405,533 | 0.5% |
| NWT | 44,826 | 6 | 2,737,000 | 61 | 456,167 | 0.3% |
| Nunavut | 38,780 | -- | -- | | -- | -- |
| Total/Average | 37,589,262 | 535 | 907,833,000 | 24 | 1,696,884 | 100% |

Source: Statistics Canada

# First Phase of Market Operations: Growth in Retail Store Ecosystem: December 2019 – April 2020

| | Population (Q3 2019 est.) | Number of Brick & Mortar Retail (Dec 2019) | Provincial Percentage of B&M Market Share (December 2019) | Number of Brick & Mortar Retail (April 2020) | Provincial Percentage of B&M Market Share (April 2020) |
|---|---|---|---|---|---|
| British Columbia | 5,071,336 | 91 | 17% | 177 | 20.8% |
| Alberta | 4,371,316 | 255 | 47.7% | 436 | 51.4% |
| Saskatchewan | 1,174,462 | 37 | 6.9% | 42 | 4.9% |
| Manitoba | 1,369,465 | 27 | 5.1% | 30 | 3.5% |
| Ontario | 14,566,547 | 18 | 3.4% | 52 | 6.1% |
| Quebec | 8,484,965 | 34 | 6.4% | 41 | 4.8% |
| New Brunswick | 776,827 | 21 | 3.9% | 20 | 2.4% |
| Nova Scotia | 971,395 | 13 | 2.4% | 12 | 1.4% |
| P.E.I. | 156,947 | 5 | 0.9% | 4 | 0.5% |
| Newfoundland & Labrador | 521,542 | 25 | 4.7% | 25 | 2.9% |
| Yukon | 40,854 | 3 | 0.6% | 5 | 0.6% |
| NWT | 44,826 | 6 | 1.1% | 5 | 0.6% |
| Nunavut | 38,780 | -- | -- | -- | -- |
| Total/Average | 37,589,262 | 535 | 100% | 849 | 100% |

Source: Statistics Canada

# Quarterly data Canadian household recreational cannabis final consumption expenditure, in $ millions

| | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Legal Cannabis | $175 | $301 | $365 | $408 | $456 | $537 | $626 | **$821** | **$919** | **$935** | **$1,170** |
| Illicit Cannabis | $1,190 | $1,033 | $978 | $935 | $890 | $851 | $816 | **$784** | **$761** | **$749** | **$660** |
| Total | $1,365 | $1,334 | $1,343 | $1,343 | $1,346 | $1,388 | $1,442 | **$1,605** | **$1,680** | **$1,684** | **$1,830** |
| Percent Legal | 12.82% | 22.56% | 27.18% | 30.38% | 33.88% | 38.69% | 43.41% | **51.15%** | **54.70%** | **55.52%** | **63.93%** |
| Percent Illicit | 87.18% | 77.44% | 72.82% | 69.62% | 66.12% | 61.31% | 56.59% | **48.85%** | **45.30%** | **44.48%** | **36.07%** |

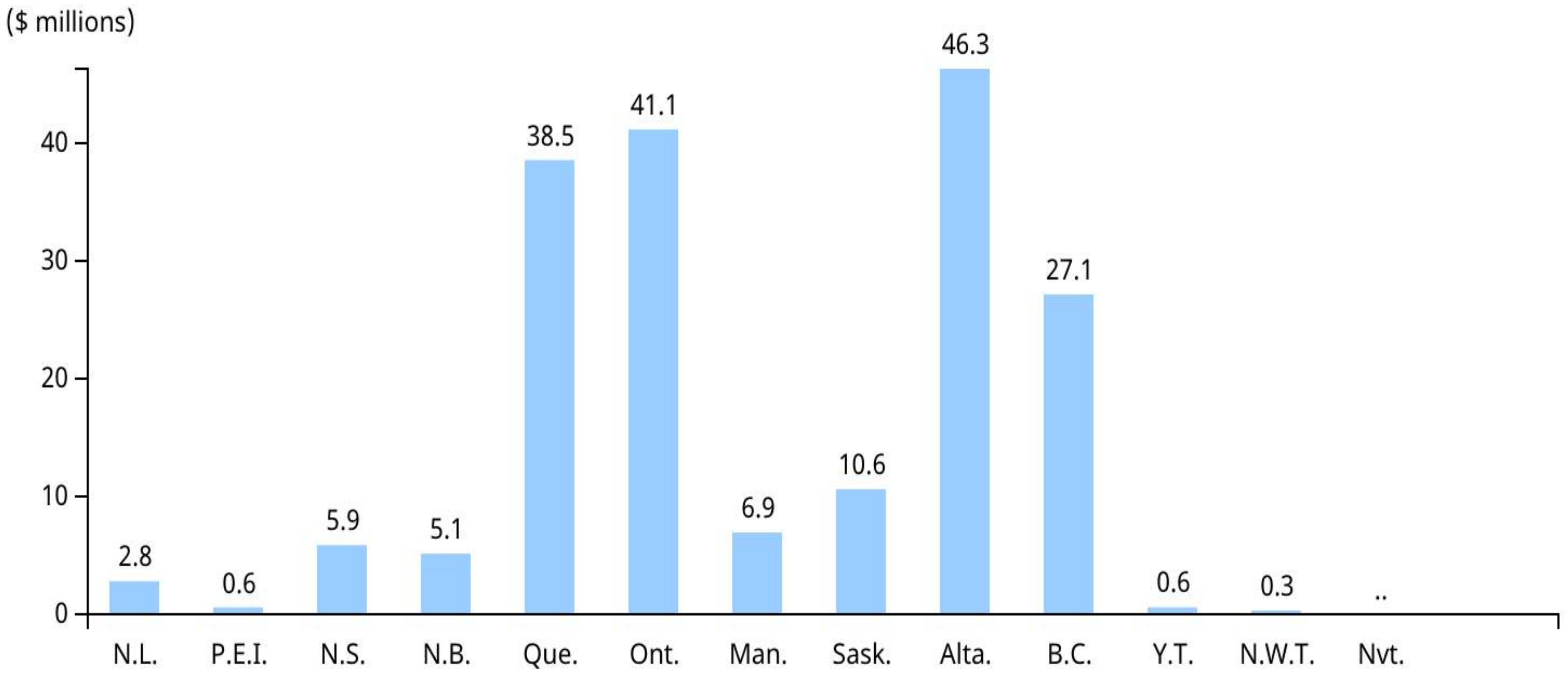
Source: Statistics Canada, Table 36-10-0124-01, Updated November 29, 2022

**Sales from cannabis stores**

May 2020

**Canada**

**$185.9 million**



# Sales from Cannabis Stores & Covid-19

Sales from cannabis stores, by province
May 2020

| | January 2020 | February 2020 | March 2020 | April 2020 | May 2020 |
|---|---|---|---|---|---|
| | | thousands of dollars | | | |
| **Canada** | **154,077** | **151,930** | **181,180** | **178,429** | **185,897** |
| Newfoundland and Labrador | 3,034 | 2,859 | 3,039 | 2,522 | 2,796 |
| Prince Edward Island | 1,405 | 1,254 | 1,198 | 435 | 575 |
| Nova Scotia | 6,379 | 5,746 | 6,453 | 5,597 | 5,861 |
| New Brunswick | 4,350 | 4,200 | 5,019 | 5,497 | 5,140 |
| Quebec | 31,998 | 29,182 | 37,665 | 41,045 | 38,532 |
| Ontario | 37,061 | 39,235 | 47,304 | 40,256 | 41,134 |
| Manitoba | 6,598 | 6,392 | 6,849 | 6,269 | 6,936 |
| Saskatchewan | 9,410 | 7,995 | 8,811 | 9,807 | 10,608 |
| Alberta | 33,323 | 33,410 | 40,310 | 42,305 | 46,280 |
| British Columbia | 19,782 | 21,009 | 23,699 | 23,850 | 27,136 |
| Yukon | 537 | 435 | 532 | 521 | 581 |
| Northwest Territories | 199 | 214 | 301 | 325 | 318 |
| Nunavut | .. | .. | .. | .. | .. |

# Discussion

- Severe bottlenecks in retail license approvals & opening retail operations
  - Market size developed slowly – far below projections
  - Investments by licensed producers were affected by slow growth of the market (Ontario and BC effect)
  - Access was affected by onerous investments required and other direct and indirect limitations
- Black market sales did not dry up
  - Provincial failure to support legal channels delayed realization of the policy goal (Quebec, BC)
- Many provinces struggled with operationalizing wholesale distribution
  - Some provinces switched to hybrid or privatized operations
  - Change is limited, however, because of a long tradition of government wholesale of alcohol, where structural design impedes innovation
- Changes in one are informed by and mirrored in the other (coevolution)
  - New in an established industry, there are formal and informal networks of professionals and practitioners that help regulations and strategies coevolve
  - In nascent industries, those networks don't exist. That has significant impacts of regulatory development and evolution

# Paper One: Five Regional Portraits of How Regulation Has Impacted the Industry

- The paper considers how different regulatory frameworks impact the industry
- B.C., Prairies, Ontario, Quebec, and the Maritimes
- “Implementing Regulation in an Emerging Industry: A Multi-Province Perspective” *Journal of Canadian Studies 55*(2), Summer 2021

# Paper Two: Four Perspectives From the Supply Chain

- The paper considers how regulatory frameworks impact businesses that fall within four district components of the industry supply chain
  - Licensed Producer: Boaz Pharmaceuticals
  - Wholesaler: Alberta Gaming, Liquor, and Cannabis
  - Retailer: New Leaf
  - Ancillary/Related Business: Pineapple Express Delivery
- Article currently under review

# Paper Three: How Regulatory Frameworks Impeded the Shift from Illegal to Legal Markets

- The paper considers how the structure and implementation of regulations impeded the stated policy goals of the Cannabis Act
- We offer some insights into the nature of coevolution, and the importance of understanding the entrepreneurial strategies of firms entering into newly regulated markets
- Article forthcoming in fall 2023