

Prepared by the CGC

Summary:

The Cannabis Growers of Canada (CGC) are a cannabis-specific trade association representing dozens of small and medium-sized businesses who wish to participate in the legal cannabis market. We represent growers, dispensaries, value-added producers, and other cannabis-related professionals. We work with local governments on how to integrate the cannabis industry into the local economy.

We believe the following points present viable solutions to many of the issues the provincial government faces with cannabis legalization. In summary, the Cannabis Growers of Canada believe:

1. Incorporating the federal licenses should include vertical integration to the degree that licensed cultivators, processors, and retailers are not kept separate. We believe there is a lot of regulatory cross-over with existing agricultural and distillery practices;
2. Concentrates and edibles should be included from Day One since they are at least 40% of the market and one of the healthier methods of ingesting cannabis. With the continued criminalization of edibles, the government runs the risk of empowering organized crime;
3. We argue that consumption sites should not be barred in the government's plans;
4. We argue that cosmetics should not be barred in the government's plans;
5. Nobody should suffer from a past cannabis conviction on their record;
6. Security rules and regulations need not be as harsh as the current requirements for licensed producers;
7. A cannabis-centric, government-regulated blockchain is the cheapest and most efficient way to provincially track cannabis;

Finally, we outline why we believe:

- patients should be exempt from excise taxes on any retail-level cannabis
- plain-packaging and prohibitory advertising restrictions won't contribute to the government's goal of eradicating the black market or even the definition of the word 'legalization'.

Incorporating the Federal Licenses:

With the federal licenses constituting three major categories: cultivation, process, and sale to public, we can learn from existing agriculture rules and regulations.

Federal and provincial licenses should include vertical integration to the degree that licensed cultivators, processors, and retailers should not be kept separate. Licensed growers of cannabis should not be barred from also holding licenses for starting materials, processing materials, consumption sites and retail.

In some cases, multiple licenses permitting vertical integration are necessary for the business to function. A farmer with a standard or micro-cultivation license may wish to harvest their plants as soon as they are cut- this is known as fresh trimming, and its a quality demanded by seasoned patients and connoisseurs.

Hand-trimming freshly-cut cannabis offers a quality that dry trimming can't, and to keep the cannabis fresh while moving from cultivator to processor requires unnecessary energy costs to keep the cannabis from drying out- not only in transpiration (the natural process in which plants lose water) but cooling units. Processing cannabis at the same property it is cultivated is an efficient and low-carbon alternative to keeping these licenses separate- especially for public safety reasons.- which can be dubious at best.

Similarly, it makes little sense for licenses specialized in research and development of plant genetics to be barred from micro or standard cultivation licenses, starting materials and nursery licenses, or even retail level regulations. The cannabis industry needs to know what works and what does not in a smooth and transparent fashion. Farmers forfeiting tacit knowledge of market conditions to a processor or another third-party license encourages unfair arbitrage opportunities by offering gains to one group at the expense of another. For example, a particular strain of "Hindu Kush" may be popular among consumers, but this information could be withheld or interfered with if R&D licenses are kept separate from the growers. A R&D license holder can even sell this information for a profit. Similarly, retailers can profit at the expense of farmers if farmers are prevented from on-site retail or from owning an off-site vendor licenses. The price range of a particular strain will be a clearing-price set by a cartel of retail license holders that farmers can't penetrate.

Barring one or more of the same individuals from holding multiple licenses is neither beneficial to consumers nor license holders, and has virtually no impact on public health and safety.

Keeping research and development practices separate from growers and processors encourages manipulation of the market for plant genetics. This is an unnecessary regulation that would rob consumers and patients of choice in an open, free economy. Since limiting consumer choice incentivizes the black market, we feel production and processing licenses should work to serve consumers. In the same way, the BC government should not impose restrictions on particular

genetics or THC potency, lest it provide incentives for the black market and create criminals out of consumers.

On Defining Micro and Standard Cultivation Licenses:

We feel when defining micro and standard grow licenses, the emphasis should be less on square footage and physical size of the farm. A better way of defining micro and standard is by way of private and public. A micro license would ensure cultivators are privately owned, whether as a sole-proprietorship, partnership, or corporation. They may begin with a small number of plants, but expand and grow organically to hundreds, even thousands of plants, on larger acreages of property, under the micro license.

A standard cultivation license would be for publicly-trading companies only. This means, Canada's current licensed producers who aren't public would be reassessed through this regulation and deemed “micro” cultivators.

Similarly, we believe a micro-producer should not be barred by a minimum land-use requirements. Many current BC growers are operating on less than 5 acres and in some cases, just half an acre. We feel land-use restrictions inhibit reality-based growth projections and artificially lock out the marginal producers of cannabis. To promote small business and ensure otherwise-law-abiding cannabis producers aren't unfairly criminalized, we ask the provincial government discourage minimum land requirements for micro-cultivation.

Similarly, the province should persuade the municipalities to craft liberal bylaws on cannabis. A tax-incentive scheme could be drafted that rewards cannabis-friendly municipalities with cannabis tax revenue while neglecting the municipalities who unfairly and arbitrarily restrict cannabis.

On Borrowing from Agriculture & Distillery Regulations:

Cannabis is an agricultural product and the labour involved with its production directly employs over 40,000 Canadians, particularly in British Columbia. Therefore, policy-makers run the risk of contributing to the loss of tens of thousands of jobs, and in some cases, the economic “staple” of entire communities.

We believe cannabis requires an objective approach that mimics agricultural and distillery regulations, rather than the strict interpretations of tobacco and standard liquor models. In order to successfully shift the black market to a legal and regulated market, we believe British Columbia's craft distillery regulations best exemplify how cannabis can and should be regulated.

As is similar with distilleries, we believe products produced by cannabis cultivators must be processed at the licensed processing site using 100% BC agricultural inputs. We support pesticide-use guidelines since this cannabis is ultimately an agricultural crop, and just like any crop, cannabis requires inputs at every stage of production. Many of the requirements needed for the cannabis economy already exist in our current laws and regulations of commerce.

The Cannabis Growers of Canada recommend that:

- All flower products must be produced using traditional drying and trimming techniques;
- All concentrate products must be produced using CGC-approved extraction techniques
- All edible products must be produced following standard municipal, provincial, and federal food preparation rules and regulations.

Distilleries have an annual production volume of fewer than 50,000 litres of finished product. A similar approach to cannabis may put a micro-producer at no more 18 kg of finished flower and X kg of concentrates. (On legalization of the concentration market, see discussion below.)

Cultivators and processors should be permitted to sell direct to licensees and private stores. There should be a markup exempt benefit to ensure larger players don't overcrowd the market. This markup should be phased-out between 18 kg and 45 kg. Once production exceeds 45 kg there is no markup benefit and the licensee is restricted from certain direct sales.

All micro and standard producers may sell direct to consumers from their on-site and online store. These online sales must be national, as BC supplies much of Canada with its cannabis.

Concentrates Market & Organized Crime:

Concentrates and edibles should be included from Day One since they are at least 40% of the market and one of the healthier methods of ingesting cannabis.

Concentrates leave no trace of smell or smoke, unlike flower, which often has a strong, pungent smell- even without combustion. Edibles and concentrates keep the cannabis smell and smoke out of the public, out of apartments and condos, and away from unsuspecting children. Since cannabis has a potent smell, which is very annoying to some people, edibles and concentrates are the solutions to this dilemma.

Concentrates are the preferred way to consume for many consumers and patients. If edibles and concentrates are not decriminalized, the black market won't be eradicated, and otherwise

peaceful people selling said products will still be going through the legal system- the very issue cannabis legalization was supposed to correct.

Furthermore, gangs and organized criminals will have an incentive to enter the market, since their niche is profiting from breaking the law.

The current infrastructure for concentrates and edibles exists in a safe and consumer-regulated way. Since these concentrate makers would simply have processor licenses, we see no reason not to include them. An outright ban on concentrates and edibles, backed by continued criminalization, will not achieve the government's goals of legalization, let alone the actual definition of the word.

Since processing licenses will be issued, we see no reason why the British Columbia government would contribute to the elimination thousands of existing jobs by banning concentrates and edibles. If all concentrate products are produced using CGC-approved extraction techniques, and all edible products are produced following BC's food preparation rules and regulations, we feel there is no issue.

Legitimizing and integrating existing cannabis entrepreneurs minimizes disruptions to local communities and ensures a peaceful transition to legal markets while undermining criminal elements.

On Consumption Sites:

Cannabis retail and on-site consumption sites should be located in areas that have been approved by the local community through municipal representatives, and provincial powers should remain limited to the greatest extent possible.

On-site consumption sites can be regulated by insurance agencies and local municipal bylaws to ensure air filtration standards are in place so that consumers and non-consumers are protected. On-site consumption sites give Canadian adults a safe space to consume their legal cannabis products.

On Cosmetics:

We believe cosmetics should include cannabis plant ingredients. There is no scientific basis to exclude them, especially in products such as cosmetics.

Whether it's homemade lip balm sold at a farmers' market or herbal cosmetics governed by natural health regulations — it is arbitrary to exclude cosmetics from cannabis legalization, particularly if said product has zero psychoactive effect. Non-psychoactive components like CBD have natural health properties that should fall under standard natural health regulations.

Cannabis is a safe herbal product in almost every circumstance and in every variety. Cannabis is not like the toxic effects of alcohol on the body and the brain. With over 400 components, an endless variety of strains, and R&D licenses slated for registration, there is little reason to ban all plant ingredients from other uses, such as cosmetics, aerosols, and herbal remedies- especially when the products have zero psychoactive effects.

On Cannabis Pardons:

People with cannabis records should be pardoned.

Canadian legal history has been dominated by two major theories of law: natural and positive. The latter implies obedience to state authority in order to maintain the complex rule of law and thus keep Canadian society civil and free. Natural law, on the other hand, holds a set of principles to be true and deduces from there. Even state authority, comprised of ordinary men and women, is subordinate to natural law.

While the Canadian legal system successfully incorporates both theories of law, injustices have slipped through the cracks: internment of Japanese Canadians, criminalization of homosexuals, near extermination of the Aboriginals and prolonged discrimination, including child indoctrination.

While governments apologize retroactively, new mistakes are made daily by the unjust prohibition of cannabis. After legalization, correcting this injustice should be paramount. This means expunging all cannabis records, pardoning all charges past and present, and apologizing to the cannabis community for prohibition.

The CGC believes that it is only by allowing existing producers to join the regulated legal system that the government will succeed in its pledge to curtail the black market and create a safe and regulated market that adheres to public health and safety standards.

By not pardoning cannabis convictions, governments are unjustly limiting the marketability of some of the industry's greatest growers and experts. With further prohibitions on the industry based on these past convictions, the problem grows worse. These policies will not aid the

disruption to the black market and therefore produce consequences counter to the government's intended aims.

On Security:

The CGC believes security rules and regulations need not be as harsh as the current requirements for licensed producers. We believe provincial codes and municipal bylaws already demonstrate a consistent approach to ensuring commercial buildings stay safe and structurally secure. In addition, the security fortress imposed on licensed producers is entirely unnecessary for smaller producers. We believe in a security apparatus that grows organically with the business. Details, like number of security cameras or responsible persons on site, can be correlated with size and number of plants. We feel it's backwards and counterproductive to build a prison-like complex around a greenhouse and then fill it with plants. A better method doesn't impose costly capital requirements on micro and standard producers, but demands common-sense precautions that are in line with the growth, location, and size of the business.

Furthermore, because insurance companies make money by discounting loss ratios over time, we feel that whatever insurance companies demand of micro and standard producers should be adequate security. For the insurance company is assuming the risk and wouldn't bother insuring something that is a threat to public health and safety.

On Plain-packaging and Advertising:

Product testing and subsequent labeling on cannabis packaging is a necessity, but branding should also be included. Following tobacco packaging requirements is an unjust restriction. Unnecessary, costly, and ineffective, we believe tobacco-style restrictions would be akin to plain-packaging rules on craft alcohol products.

The CGC believes this harms consumers and patients who rely on packaged cannabis products to differentiate between their preferred growers, strains, and other interests like terpene, flavour, or, most importantly, the strength of the psychoactive component.

Ultimately, plain-packaging encourages counterfeit products that not only make the goal of eliminating the black market improbable but continues criminalization of current cannabis entrepreneurs who do market their brand. We feel this runs counter to the very definition of legalization and intended goals of eliminating organized crime.

On Taxes for Medical Patients:

When prescribed by a doctor, patients should be exempt from paying taxes on their cannabis. Reasonable access to medical cannabis is a protected right in Canada. And as rights require responsibilities, we understand that medical cannabis is a responsibility of patients, designated growers, licensed producers, and government.

The CGC believes all cannabis is in some way medicinal and therapeutic, but we recognize the life-and-death situations many people face and so should not be charged a “sin” or excise tax on what is essentially giving them a higher quality of life.

This tax-exempt status would be at the retail level and would work similar to other tax exemption schemes designed for patients.

On Alcohol and Double Standards in Cannabis:

British Columbia has been on the forefront of alcohol liberalization for many years now. 3 years ago, the provincial government finalized a deal with Saskatchewan so consumers could order wines and craft spirits directly from producers and have them delivered to their door. Private liquor stores (Licensed Retail Stores [LRS]) can apply for endorsements allowing them to temporarily sell their goods off-site, such as at festivals and tastings. Given the negative health care costs of alcohol versus cannabis, we wish to avoid imposing a double standard on the cannabis industry.

BC's Licensed Retail Stores (LRS) and wine stores can accept online orders from customers and deliver them. Licensees may even share an online store with other licensees. Each store manages its own sales. Manufacturers also have on-site stores. A manufacturer with an online store may sell its products to the public and deliver them. A manufacturer licensee may share a website with other licensees.

The CGC believes alcohol liberalization is consistent with a free and fair society, and so we wish to see cannabis legalized in the same manner. A farm-to-table model is consistent with the current cannabis industry in BC and in no way harms the public or threatens law enforcement.

Given an evidence-based approach, it is clear cannabis is a safer alternative to alcohol. Therefore, we wish to see a lift of regulatory burdens on cannabis akin to the relief the alcohol industry receives.

On the Liquor Control Branch:

Introduction

We don't agree with retailing cannabis and alcohol together, nor can we support the wholesale option of central distribution. While the Liquor Control Branch offers guides and an already-

established administrative framework, there are enough differences to warrant an independent model.

Insomuch that the Liquor Control Branch does oversee cannabis sales, our desire is not to limit their authority as such but their regulatory burden. If an independent cannabis wholesale model can be established that:

- Is effective for cannabis license holders and retailers
- Satisfies law enforcement
- Ensures public health and safety
- Tracks everything aboveboard while decreasing the burden to taxpayers

We believe that model can and should be implemented.

Much of Canada's regulations originates from the existing laws and precedents. For adequate police enforcement (including impaired driving from illegal cannabis), we turn to these. But other "civil" aspects- such as liability and insurance- require brokers, lawyers, and other third-party professionals in the free market.

We believe good government policy keeps incentives and economic calculation in mind. Good incentives take BC's \$6 billion otherwise-law-abiding cannabis industry out of the shadows and into the legally regulated markets. Good economic calculation requires nothing more than one would already have for tomatoes, save for the concern for public health and safety. Therefore, given cannabis' unique properties- its similarities in production and processing to tobacco, without the harmful effects of tobacco or alcohol, and a strong cultural element attached- we understand the difficulties the government must face.

An Effective Blockchain Model

Given the complexities of legalization, we feel a virtual tracking system would benefit everyone. As IBM Canada suggested, a blockchain suffices as a secure peer-to-peer accounting ledger, private and public where it counts. This could be controlled by the Liquor Distribution Branch, as the public demands it, but the CGC can create and maintain the blockchain, working as a private contractor to the government.

Tracking the movement of cannabis and its derivatives throughout the economy is a momentous task. A system with built-in redundancy, which increases system reliability, can be maintained by the public sector, but at large cost to taxpayers. A system without redundancy and without the ability to successfully track cannabis leads to problems for law enforcement and public health and safety.

We believe a third solution rests in having a central body house the servers that maintain a blockchain and assign various digitally unique tokens for each license and production process. The blockchain would have individualized tokens for all the seeds, plants, waste, labour, processing, and nearly every step of the process all the way to the individual sales of the retail products. The CGC believes a complete supply-tracking system must be on a private blockchain, both secure and anonymous (except to government regulators), tracking each individual step from seed to market, if legalization is going to achieve its stated goals without costing taxpayers needlessly.

We belabour this cost to the taxpayers due to the mere magnitude a provincial regulatory system for cannabis entails. It's little wonder provincial governments consider the federal timeline for July 1st unrealistic.

The unique properties of cannabis, making it unlike alcohol or tobacco, basically asks for government assistance. Maturing to civil, regulated markets is further complicated by the fact that there already exists a non-violent but technically illegal "BC Bud" market.

Creating an entirely new central regulatory body, complete with cannabis-specific storage facilities and central warehousing locations, is both unnecessary and costly. The carbon footprint alone is enough to raise suspicion to its true, long-term effectiveness, while the existing network of BC farmers, processors and retailers has already solved this problem.

The move to an aboveground market, governed by a private blockchain, necessitates only minute administration tasks and recurring and random inspections, rather than the brand new infrastructure- leaving more time and energy that could be allocated for better uses.

We believe, without significant cost to taxpayers and environmental sustainability, the existing Liquor Control Board is wholly inadequate at tracking cannabis sales and ensuring the made-in-BC, seed-to-farm-to-retail model works.

Reinventing the Wheel with the LDB

Relying on the Liquor Distribution Branch systems to distribute cannabis, if necessary, should be in name only. Within the Branch, a department oversees the independent blockchain server and a couple health and safety inspectors. Ensuring that all cannabis is accounted for and reaching said destination, administrators of the process go on random fact-checking missions to ensure the blockchain barcodes are registered to the product they are inspecting.

Because cannabis is like fresh produce, as a retailed dried herb, optimal shelf life is a little over a month. Long-term storage requirements must take into account lighting and humidity controlled environments, much like cigar shops and warehouses with large, industrial size humidors. As well, cannabis concentrates require industrial refrigeration and have a shorter shelf-life than dried flower.

In both cases, the physical infrastructure of provincial liquor stores and distribution and warehousing are inadequate and would need to be retrofitted to accommodate cannabis. Our model trusts working technology and ensures higher scrutiny without the cost of human capacity and potential of human error.

Conclusion

Cannabis regulations should be written with reasonable objectives in mind — like a regulated market where businesses of any size can create value. Where local communities of any size, even neighbourhoods inside of cities, are empowered to regulate cannabis to their liking.

This vision requires cannabis regulations crafted through evidence-based policy and understandings of the realities of the existing cannabis market. The CGC remains committed to being a constructive partner for all levels of government as we overcome the challenges of legalization. We encourage dialogue and wish to see a form of cannabis legalization that benefits everyone.