

Legal Cannabis Retail in British Columbia: Policy Recommendations for a Developing Market Segment



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1. Introduction

The *Association of Canadian Cannabis Retailers (ACCRES)* is a non-profit advocacy group for provincially licensed, private Canadian cannabis retailers. *ACCRES BC* has 34 members representing BC Recreational Cannabis Retail Licensees and several ancillary services to the cannabis sector.

As we enter the second year of recreational cannabis sales in BC, *ACCRES* wishes to address some of the pain points that have contributed to the slower than expected roll-out of legal recreational cannabis in BC and the impact these pain points have on cannabis retailers, consumers and the public at large.

2. Consultation with the Industry

ACCRES' mandate is derived from direct feedback from our membership and other private retailers. In the last quarter of 2019, *ACCRES* conducted two online surveys of retail license holders in BC, and hosted an in-person policy workshop in Metro Vancouver.

The first survey was sent in advance of the policy workshop hosted by *ACCRES* on November 20, 2019. This survey was designed to identify the top challenges retailers are currently facing.

After the November 20th policy workshop, *ACCRES* created a follow up survey to determine where license holders want *ACCRES* as an organisation to focus our advocacy efforts. The survey indicated the following three priorities:

- Recommend the BC provincial government move to a **virtual distribution model** in BC, similar in nature to the systems in Saskatchewan, Ontario and New Brunswick.
- Recommend the BC provincial government to streamline licensing application and **security clearance** process.
- Recommend the BC provincial government support the **economic development** of the sector.

These results establish the mandate for the following policy recommendations.

3. Policy Recommendations

a. Cannabis Distribution

The implementation of a single central buyer has created the following challenges for BC's cannabis retailers:

- Desirable products are often refused by the *British Columbia Liquor Distribution Branch (LDB)*,
- Desirable products from new BC Licensed Producers are often available in other provinces before they are available in BC,
- Internal allocations favorable to the *BC Cannabis Store* inventory.
- Private retailers are given one order date and one delivery date per week, while provincially owned stores have 3 delivery dates per week.
- Shipping costs for private retailers double on orders placed outside of the designated date
- The ordering system forces retailers to purchase outside of their designated order date if they want to procure desirable products before they sell out.

Central warehousing creates the following challenges:

- Central warehousing is not appropriate for cannabis flowers: quality degrades significantly when stored without climate control, giving advantage to fresher products in the unregulated market.
- Edible products are special consideration as high temperatures in the warehouse facilities, especially in the summer months, could impact the quality and appearance of some of these products

- Increased costs from additional handling, storage, security and insurance impact affordability and the ability of retailers to displace the unregulated market.
- The “carbon footprint” of these products are exacerbated by central shipping. For example, products from Q’West in Creston must be shipped to the Lower Mainland before being shipped back to retailers in the Kootenays, consuming more fossil fuels.

Recommendation: Virtual Distribution

Under a virtual distribution system, the central buyer (the *BC Liquor and Cannabis Distribution Branch*) would continue to negotiate pricing on volume purchases, manage allocation of product and collect applicable tax, but would alleviate the logistical burden of warehousing the products.

Robust inventory tracking and reporting is possible without central warehousing, as demonstrated by the Saskatchewan model and the California *METRCS* system. By moving away from central warehousing, the province could remove a significant cost centre that is compromising quality and limiting the industry’s growth.

ACCRES recommends that:

- The province of BC move to a system of virtual distribution directly from Licensed Producers to private retailers.
- Products are held in the producers’ warehouse instead of shipped to a central location.
- Orders continue to be placed via a central ordering system and products are shipped directly to licenced retailers from the producer.
- The system should allow private retailers to develop direct relationships with their suppliers in the same manner as the current BC liquor distribution model. This will allow speciality products in smaller quantities to be integrated into BC’s legal market.

This change would shorten supply chains and result in fresher product reaching consumers, improving consumer buy-in to the regulated supply chain, while also reducing costs for all parties. Also, this will enhance and enrich the cannabis retail industry in BC by reinforcing quality and diversity in the legal market.

We encourage policy makers in British Columbia to adopt a virtual distribution model.

b. Licensing Process Improvements

The current licensing application process has created the following challenges:

- Processing times for cannabis retail licensing applications remain the primary bottleneck for both new retail applicants and for businesses looking to expand.
- Prospective operators are required to hold commercial real estate and incur significant carrying costs while their initial and subsequent applications are vetted
- Approved licensees seeking to open new locations must resubmit complete applications and repeat security and financial integrity reviews as if they are unknown parties to the *LCRB*.
- Once licensed, the security background checks required of all retail cannabis employees has resulted in staffing issues for small businesses.
- Licensed retail operators in BC seeking a new location are required to submit their application to the province and undergo the full vetting process as if they had not completed this already. In contrast, Ontario operators are able to apply for and receive a Retail Operator License (ROL), which allows the applicant to gain several Retail Store Authorizations (RSA) under the initial approval.

Recommendation: Updated Security Clearance Process

ACCRES recommends:

- The security clearance structure be aligned with liquor, thereby limiting high level clearance to owners, directors and store managers. This would alleviate the current security check bottleneck that is being experienced for retail level employees.
- Background checks with the vulnerable sector be conducted by local police, reducing the administrative burden on the *Cannabis Licensing Branch* and expediting the turnaround time of retail staff.
- Adopt a system similar to Ontario’s “Retail Operator Licensee” (ROL) and “Retail Store Authorization” (RSA).
- Like the Ontario system, do not require applicants to hold real estate while the application is being processed, and allow multiple RSA’s for each ROL.

These changes would reduce administrative repetition, reduce the financial burden on applicants, expedite opening new locations in BC and accelerate access to legal cannabis.

c. Pivot to Economic Development

A viable and sustainable regulated cannabis industry is crucial to achieving the objectives of the *Cannabis Act*. While the Solicitor General is suited for certain aspects of non-medical cannabis regulation, ACCRES believes it is not the ideal ministry to steer the cannabis industry to economic viability in the future. Other ministries, with economic development and job creation mandates, would allow for the focus to shift to the potential job creation the legal cannabis sector can offer to British Columbians.

Recommendation: Transfer Cannabis File to a New Ministry

ACCRES believes that the most direct and effective way to improve the economic development of the cannabis retail industry in BC is to transfer the file from the Solicitor General’s mandate to a department that can prioritize growth and viability in the sector, such as the Ministry of Jobs, Trade and Technology. As the transitional phase of cannabis legalization closes and we find ourselves with a stable sector that has the opportunity to generate jobs and tax revenue, it seems a natural focus to shift from a well developed framework focused strictly on public safety towards a path that recognizes and supports the economic potential of the legal cannabis industry.

4. Conclusion

ACCRES believes that, while many of these issues represent threats to the viability of private recreational cannabis sales in BC, drawing from well-honed policies that have been developed over 20-plus years of liquor privatization and craft liquor development could serve as a solid point of departure for reforms.

ACCRES wishes to reinforce that our policy requests represent the considerations of existing best practices. By drawing from the experiences in liquor regulations and the lessons learned in other jurisdictions, where sensible policy changes have led to significant increases in economic activity. We believe regulators can quickly enact reasonable and measured changes that will make a significant difference to the speed of adoption for legalized cannabis.