

# Provinces to be the “greatest winners” from cannabis legalization, says CIBC

*B.C.’s take: about \$400 million annually*

A report published in early May by economists at CIBC World Markets states that once cannabis production, possession and consumption becomes legal in Canada, the country’s provincial governments can expect to receive windfall revenues totaling billions of dollars.

Released on May 7, the 46-page research paper – entitled ‘Cannabis: Almost Showtime’ – is chock-a-block with numbers and analysis.

For example, the study calculates that by 2020 the legal market for adult-use cannabis “will approach \$6.5 billion in retail sales.”

That’s comparable to the value of

consumption each year in Canada of various categories of alcohol – beer tops the list at \$9.2 billion, followed by wine at \$7.0 billion, and spirits at \$5.1 billion.

And just as the sale and taxation of alcohol – along with taxes on tobacco – already generate enormous revenues for the provinces, it similarly is expected that legalized cannabis will provide significant government income.

“The bulk of the value generated from this industry,” declared the CIBC World Markets’ number-crunchers, “will accrue to Canada’s provinces.”

So, while many Canadians may be

celebrating once cannabis officially is legalized – which is expected to occur by the fall – “it is the provinces who will be laughing all the way to the bank.”

Specifically, “we estimate that provinces will generate over \$3 billion of income, either in the form of earned profits or taxation revenues”

Given that British Columbia is home to 13.1 per cent of all Canadians – 4.8 million out of 36.7 million – it is reasonable to assume that the B.C. government might expect to receive about \$400 million annually in cannabis-related revenues.

The CIBC economists looked closely for their calculations at U.S. states which earlier had legalized the production and sale of cannabis, notably Colorado and Washington.

Over the last four years, cannabis sales in Colorado have climbed from \$683 million in 2014, to slightly more than \$1.5 billion in 2017, and in Washington from \$49 million to just under \$1.5 billion.

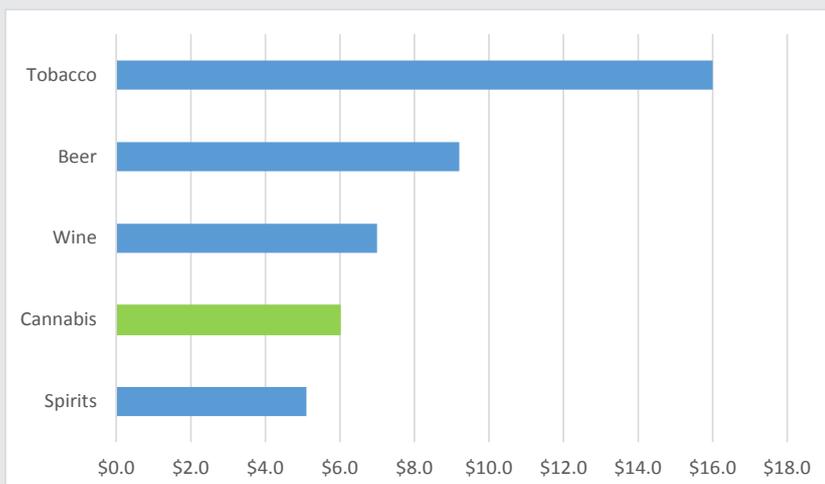
State government revenues over the same four-year span, according to CIBC, grew from \$16 million to \$340 million in Colorado, and from \$2 million to \$319 million in Washington.

Clearly, sales and government revenues in each state both are on an upward trajectory.

Meanwhile, state licensing and enforcement costs are minuscule by comparison – according to the CIBC the total was a mere \$42 million in Washington in 2017.

*continued on page 2*

## Annual cannabis sales in Canada comparable to spirits and wine (\$billions)



SOURCES - CIBC World Markets, ‘Cannabis: Almost Showtime.’

Continued from page 1

When compared to total cannabis income of \$319 million – which outpaced total alcohol receipts of \$209 million – it becomes evident that the state government enjoyed a net cannabis profit of about \$273 million.

And, as was noted by the CIBC economists, the State of Washington “does not control distribution, unlike in Canada.”

In other words, in British Columbia – where the provincial government will control both the wholesale and distribution (through the Liquor Distribution Branch) aspects of legalization – the provincial government may expect to see considerably higher cannabis revenues, comparable licensing and enforcement costs, and significant windfall income.

Of course, British Columbia, with a population of 4.8 million, is slightly smaller in comparison to both Colorado and Washington.

The former state’s population in 2017 was calculated at 5.6 million, and in the same year in the latter, 7.4 million.

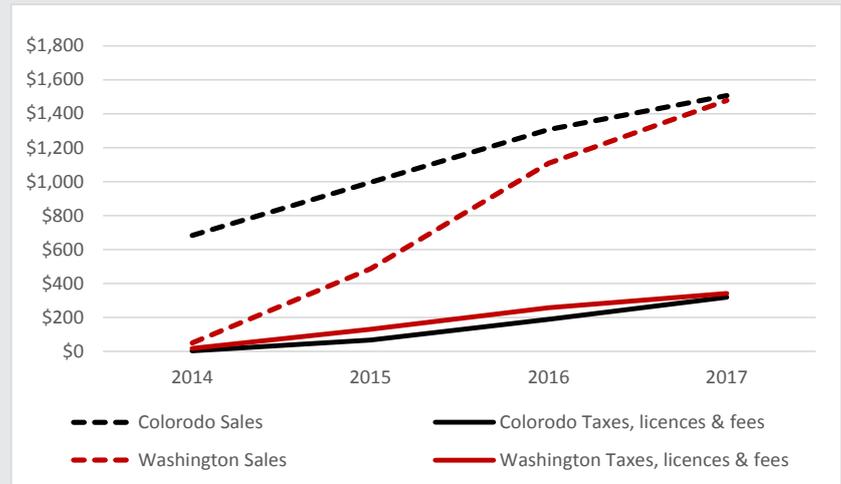
Colorado legalized the sale and possession of cannabis for non-medical use in November 2012, and Washington made cannabis legal for recreational use one month later.

A total of nine U.S. states in recent years have made legal the recreational use of cannabis, including the nearby or neighbouring states of Oregon – pop. 4.1 million – and Alaska – pop. 740,000.

It’s not clear if the CIBC World Market’s report includes in its estimates of newfound provincial revenues transfers from Ottawa for the provinces’ share of federal excise taxes on cannabis. That could have the effect of boosting even higher the expected windfall for B.C. and other provincial governments.

In February, Finance minister Carole James’ first full-year Budget and Fiscal Plan forecast that federal cannabis transfers would be \$50 million in the current fiscal period, 2018/19, followed by another \$75 million in each of 2019/20 and 2020/21.

## Sales and government revenues from legalized cannabis in Colorado and Washington (\$millions)



SOURCE - CIBC World Markets, Colorado Department of Revenue, and Washington State Liquor and Cannabis Board.

The Liquor Distribution Branch, meanwhile, has studiously refused to project future revenues, expenditures and profits from their new cannabis retail operations.

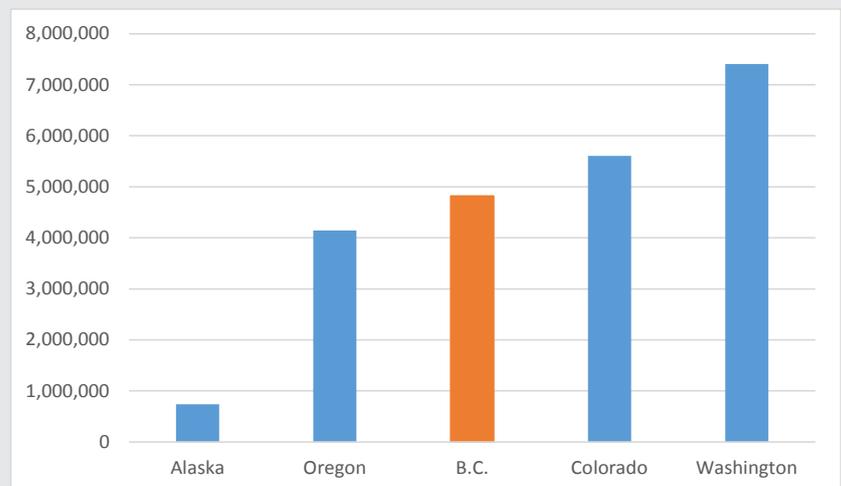
So, we’re left with the CIBC’s calculations, which put B.C.’s windfall cannabis receipts at about \$400 million.

While that number pales in comparison to the province’s total annual revenues under GAAP (generally accepted accounting principles) – of about \$54.9 billion, it nonetheless represents a significant source of

additional income.

Indeed, Victoria’s cannabis income would offset the combined expenditures for a number of government ministries, including Jobs, Trade and Technology (\$105 million in 2018/19), Indigenous Relations and Reconciliation (\$100 million), Agriculture (\$93 million), Energy, Mines and Petroleum Resources (\$60 million), Labour (\$13 million) and the newly-created Mental Health and Addictions (\$10 million), with enough left over to pay for the budget of the Office of the Premier (\$11 million). 🇨🇦

## B.C.’s population compared to U.S. states with legalized cannabis (estimates for 2017)



SOURCE - Statistics Canada, U.S. Department of Commerce.