

# Intelligence MEMOS



Federal budgets are an annual rite of spring in Ottawa, as is the deluge of advice to the Department of Finance. But budget-making is a yearlong process, and the work is now in progress. Accordingly, the C.D. Howe Institute is presenting a series of Intelligence Memos in the next few weeks, outlining recommendations that we hope will help inform the policy decisions that are being made now.

From: Rosalie Wyonch and Farah Omran

To: The Honourable Bill Morneau, Minister of Finance

Date: December 21, 2018

Re: **BUDGET 2019: REGULATION OF EDIBLES AND CONCENTRATED MARIJUANA PRODUCTS**

**M**arijuana became legal for recreational consumption in Canada in October, but work remains to ensure the legal market displaces the black market. Currently, dried marijuana, seeds and particular forms of cannabis oil are the only cannabis products that are legal to produce. Regulation of edible and concentrated cannabis products remains a major gap. Your 2019 budget should allocate appropriate funds to Health Canada to regulate these products. The initial cost of regulating these products will be offset by tax revenues and cost-recovery fees to result in a net fiscal gain after the first year.

Edible marijuana products and concentrated derivatives that contain large quantities of psychoactive ingredients [are legal to consume, but not to sell](#). These products are popular; [survey results](#) indicate that 28 percent of cannabis users consume edibles, and 30 percent consume other varieties of concentrated products. [These marijuana products come in many forms](#) with online advertisements showing Rice Krispy treats, brownies, gummy and sour candies, lollipops, jelly beans, oral sprays, cotton candy, dried apricots, olive/coconut oil, chocolate bars and even cannabis infused beverages (tea and lemonade). Easy access to such a wide range of products via the black market poses a threat to public health, as there is no guarantee that their contents are accurately described. Products may contain more or less than the advertised psychoactive ingredients or may contain harmful contaminants used in the production process. Edible marijuana products available on the black market lack standardization of potency, servings per package, and products available which will likely lead to significant consumer uncertainty.

Regulating the production and retail of these products would help mitigate some consumer uncertainty and the risk of accidental overdose. Not doing so simply leaves a significant recreational demand to be filled by black market suppliers. Though not legal for retail, [marijuana edibles are widely available in major Canadian cities and can be ordered online via the black market](#).

To create suitable regulations, Health Canada can borrow from some of the US states where such products are regulated. Colorado, for example, limits recreational edibles to 100 milligrams per package and requires a listing of the number of 10-mg servings per package. In addition, edibles cannot be shaped like humans, animals, fruit, or cartoons and cannot be called “candy”. These rules were put in place after the states experienced issues with overconsumption, accidental ingestion, pesticide residues and amounts of psychoactive ingredients not matching labels.

The federal government has already allocated \$118 million in 2019/20 to Health Canada, the RCMP, the Canada Border Services Agency and Public Safety Canada to continue developing regulations for recreational marijuana and the capacity to enforce them. Additional funds for the regulation of edibles and concentrated marijuana products should consider Health Canada’s [Cannabis Fees](#) which are [projected to recover all of the fiscal costs of regulating the market](#). Similar cost recovery for regulation could apply to edibles and concentrated cannabis products, but is unlikely necessary to realize a net fiscal gain.

Edible, infused and concentrated marijuana products accounted [for a third of cannabis sold in Colorado in 2017](#). If the market in Canada is similar, regulating these products would cost about \$40 million annually. Sales and excise tax applied to these products could generate about \$120 million in federal revenues after the first year. Income taxes and regulatory fees paid by producers would also generate revenues.

Delaying the development of regulations for the edible and concentrated marijuana products market sustains demand for these products via the black market. Regulations would provide confidence to Canadians consuming legal cannabis that the product they are receiving is free from contaminants and as advertised. Additionally, bringing edible and concentrated cannabis products under the regulatory tent will subject these to taxes and boost government cannabis revenues.

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