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McLeod Law Cannabis Update: Too much demand, not enough supply

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Many cannabis retailers are struggling with excessive demand for cannabis-infused edibles, and insufficient supply. The same problem was experienced following the October 2018 legalization of marijuana, where there was a six-month halt on the approval of new cannabis retailers by the Alberta Gaming, Liquor and Cannabis Commission (AGLC).

There are currently many difficulties affecting retailers, of which the following have had the greatest effect:

1. Availability. The regularity at which licensed producers are making edible products available has been inconsistent- and the popular items such as chewable candies sell out rapidly; and
2. Regulatory Approvals. The approval of edibles processors by Health Canada has been slow, and the large number of stores in Alberta has created an atmosphere of lack.

Analysts had projected $4.34 billion in sales for the first year after legalization, and Statistics Canada data has shown that recreational cannabis has resulted in only $908 million in sales between October 2018 and September 2019.

In addition, the recent COVID-19 (Coronavirus) outbreak has significantly affected the Cannabis market, most notably the postponement of many international conferences such as *Natural Products Expo West*, in Anaheim, California, and *CannaTech* a prestigious event focused on medical cannabis innovation which was scheduled to begin March 30 in Tel Aviv, Israel.

While the Coronavirus has negatively impacted markets and has sent shockwaves through the global economy, impacting public gatherings, such as the Cannabis conferences noted above, experts do not anticipate the spread of Coronavirus will impact Cannabis supply. Particularly in the US where each state (rather, if the state allows Cannabis to be sold legally) grows, supplies and controls its own product, the concern over the virus impacting supply is negligible for the time being. This however, remains an evolving issue, and the result on the market may be different in a few months' time.

Positive changes in the Alberta market

Despite a rocky start to the legalization in Canada, there has been some good news. The Chief Corporate Officer for Alberta-based Aurora Cannabis stated that much of the growth was made possible by improved capital flow. He remarked that three years ago Aurora had a very difficult time acquiring capital, but that with favorable conditions this year they have excellent access and on very good terms.

Proof of this is Aurora's recent $250 million loan negotiated with the Bank of Montreal as the world's largest cannabis-related traditional debt instrument so far.

Notwithstanding Aurora's success, smaller cannabis companies have had difficulties raising capital since the market correction or downturn that started in the fall of 2019, and especially since the budget was tabled in February 2020, by the province's United Conservative Party government. Alberta is expected to lose $26 million in the sector in the current fiscal year, and remain 'in the red' for the next three years as a result of initial investments in retail systems, administration and inventory outpace revenue. There will be some relief to come, as a 20 per cent tax will be applied to vaping products, including cannabis liquids, and this tax is projected to raise another $4 million by 2020-21 and will increase drastically from there. By 2022-23, the total cannabis tax revenue for the province is projected to be $84 million.

Overall, in the past few months especially, the Alberta and wider Canadian market have seen some ups and downs, but Alberta businesses are resilient, and we still have many clients making great strides forward in the cannabis space.

Should you have any questions or for further information, please reach out to one of our lawyers in our Cannabis group — we're here to assist you.