ALLIANCE OF BEVERAGE LICENSEES
FOR A RESPONSIBLE LIQUOR INDUSTRY

September 14, 2023

A/Director Communications and External Relations
Liquor and Cannabis Regulation Branch
P.O. Box 9292
Victoria B.C. V8W 9J8

VIA EMAIL:

LCRB.Outreach@gov.bc.ca

RE: Review of Section 6, *Cannabis Licensing Regulation* in respect of Section 26(2)(f) of the *Cannabis Control and Licensing Act*.

Dear Monika Laube,

On behalf of British Columbia's Alliance of Beverage Licensees, we are pleased to provide the following feedback on the Liquor and Cannabis Regulation Branch's (LCRB) review of the eight-store cap.

Section 6 of the *Cannabis Licensing Regulation* restricts anyone or any company from holding more than eight Cannabis Retail Store Licences. This restriction, commonly referred to as the "eight-store cap," has been a provision in the *Cannabis Licensing Regulation* since non-medical cannabis was legalized in 2018. As we understand it, the eight-store cap was designed to mitigate the risk of a small number of dominant retailers holding effective control over the market.

The eight-store cap has been successful in this objective. As of August 28, 2023, there are 477 Cannabis Retail Store licences issued, therefore no retailer can control more than 1.6 per cent of the provincial market. As a result, there is wide diversity of retailers within British Columbia and the large-scale discount cannabis stores seen in other provinces are absent from our province.

Cannabis retailers in British Columbia, and across Canada, are struggling to grow revenue and maintain viability. Restricted access to product, high taxation rates, rising labour costs, municipal zoning laws, high licensing fees, and a resilient illicit market are among the factors putting downward pressure on retailers. Several operators in this province have entered bankruptcy and either closed their stores or sold them to new owners in a fire sale. Currently, there are many stores with dormant licences, and many more are shuttered or are openly being marketed for sale. There are however some retail groups which are looking to expand.

Any review of the eight-store cap must consider and maintain the diversity of the provincial cannabis retail market. In our view, protecting the investments of smaller retailers must be balanced with the ability for larger retail brands to continue to grow.

1. How does the licence cap impact your members?

The response from our members to this question is largely influenced by how many stores they currently have and their plans for future expansion. Smaller operators are not directly impacted by the cap in the sense that they can continue to expand within the current framework. However, they have commented to us that a retention of the limit of eight stores is essential to maintain the diversity of BC's retail industry as it stands today. The concern frequently expressed is that if the licence cap is lifted, larger operators will implement a low-margin, high-volume model that will capture market share from smaller retailers. This would not be good for the long-term financial health of the industry and must be prevented.

Our members with a higher store count report frustration that the eight-store cap is preventing them from expanding through organic growth or acquiring existing licensed retailers. They share the concern about creating a regulatory landscape that encourages extra-provincial discount retailers from entering BC. However, for the retailers generating sufficient revenue to reinvest the eight-store cap is an artificial barrier to growth.

2. Should the licence cap be changed? Why or why not? If yes, what should the cap be changed to?

On balance, ABLE supports a small increase of the eight-store cap to 12. This will provide room for current retailers to expand while continuing to prevent market domination by a small group of retailers. Based upon the 477 currently issued licences, expanding the cap to 12 would ensure no retailer represents more than 2.5 per cent of the market. We further recommend this matter be reviewed again in five years to consider possible incremental increases as needed.

It is essential that the current diversity of BC retailers is maintained. To that end, we further recommend the following additional regulatory changes are implemented contemporaneously with any revised cap to safeguard the viability of all retailers:

I. The Tied House rules should be reviewed and updated to enable closer collaboration between BC's licensed producers and retailers, such as by permitting "white label" products. This will allow all retailers to distinguish themselves by building brand awareness and customer loyalty. This will provide licensed retailers with greater ability to compete with the illicit market.

II. An expedited licence transfer process when the applicant is an existing Cannabis Retail Store Licence holder should be implemented. This would stimulate expansion by acquisition, mitigate the risk of over-saturation, and provide potential market value for shuttered or dormant stores.

III. A provincial distance criteria analogous to the “1km rule” applicable to liquor stores should be implemented for all new private and government-owned cannabis retail stores. If new licences can only be issued to stores located more than 1km from existing stores, then all future stores will be opened in new markets. This will improve British Columbians’ access to legal non-medical cannabis. As can be seen from research issued by the Rand Corporation in April 2023, proximity to legal cannabis stores can increase the likelihood of purchasing from legal stores. The implementation of a provincial distance criteria has widespread support from cannabis retailers.

On behalf of British Columbia’s Alliance of Beverage Licensees’ (ABLE) cannabis members, thank you for the opportunity to submit comments to the above regulatory review. Please do not hesitate to contact me at jeff@ablebc.ca should you have any questions.

Sincerely,

Jeff Guignard
Executive Director
ABLE BC