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Cannabis in the Cowichan Valley



Prepared by Craft Cannabis Association of BC
for Cowichan Valley Regional District

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Introduction

Cannabis has played a significant role in the Cowichan Valley for many decades, helping to shape the community into what it is today. While legalization has brought with it many opportunities, the challenges are great. If the Cowichan Valley Regional District (CVRD) wishes to support the incubation and growth of the local cannabis sector, then it will be important to recognize and mitigate negative impacts and foster positive ones.

Economic Development Cowichan partnered with Craft Cannabis Association of BC and MNP in June 2021 to gather data from cannabis industry operators in Cowichan. The purpose was to gain a baseline understanding of the state of the cannabis industry in the Cowichan Valley, three years after non-medical cannabis was legalized and regulated in Canada in October 2018. The audience is intended to be local government and stakeholders.

The cannabis industry is emerging and changing at a rapid rate, and important government policy is being developed now that will impact the sector for years to come. This baseline data will highlight trends in licensing, employment, business activities, financing, future plans, and provincial government programs, so that stakeholders can make informed decisions.

About Craft Cannabis Association of BC

The Craft Cannabis Association of BC (CCABC) is a non-profit industry association whose mandate is to support small-scale independent cannabis businesses; provide a forum for information, education, discussion and guidance for the industry; provide extension-related services for small-scale cannabis producers; and support the development of standards, regulations and policies.

Executive Summary

The Craft Cannabis Association of BC (CCABC) has compiled this report on behalf of Economic Development Cowichan, which presents a snapshot of the cannabis industry in the Cowichan Valley as of fall 2021, three years after legalization. Data was collected through a survey of licensed cannabis operators in the region. The report provides a number of recommendations that could help support the emerging local cannabis industry during this crucial period of development.

As of November 28, 2021, it is estimated that there were 27 licensed cannabis businesses based in Cowichan, which is typical for a region of this size. However, the region is lacking in processing facilities. As the retail landscape evolves, it will be important to monitor the number of cannabis retailers to ensure over-saturation does not occur. These businesses operate from commercial and industrial zones, as well as on ALR land. Zoning regulations for cannabis producers remain relatively restrictive. Several respondents commented that processing times for local government applications are lengthy.

Cowichan's cannabis businesses are typically small businesses with a mix of full-time, part-time, temporary and seasonal employees. Retailers are generally paying their staff just under the regional living wage, while most producers pay well over the living wage. Women, Indigenous and persons with a disability are very well represented amongst the cannabis workforce and leadership in Cowichan.

Local cannabis businesses are struggling to make ends meet. At the time of the survey, only 1 producer and 1 lab were making a profit, less than half of respondents were breaking even, and the majority were making a loss. Cannabis businesses tend to have high start-up costs and operating expenses, which is especially challenging because most traditional lenders will not do business with the industry.

Despite the challenges, most cannabis operators in Cowichan are planning to expand by opening more stores, expanding production, or selling on-site through the Province of BC's new farm-gate program. All were supportive of a provincially recognized Craft Cannabis designation for small-scale producers.

Comments from respondents showed a desire to create a world-class cannabis tourism destination in Cowichan, similar to what has been done for wine. Cannabis operators also hope to be able to deliver products to clients through third party services.

Background

Canada was one of the first countries in the world to legalize and regulate non-medical cannabis on October 17, 2018. The goal was to create a taxable industry that would generate economic growth, create new jobs, restrict access to youth, and keep profits out of the legacy market, all while protecting health and safety. Four years after legalization, it seems many of the widespread fears over cannabis legalization were unfounded¹ and that legalization is rolling out as expected.

Nationally, the industry has reached \$11 billion in sales and \$29 billion in capital expenditures since legalization, and contributed \$43.5 billion to Canada's gross domestic product (GDP). It has provided 151,000 jobs across Canada and generated \$15.1 billion in government taxes.² In BC, the cannabis sector already contributes over \$2 billion to local economies each year and is expected to grow and benefit both provincial and national economies.³ This growth occurred despite a global pandemic, through which the cannabis industry has proven to be resilient to the many challenges facing other sectors. It is a growing industry, poised to support important sectors like agriculture and tourism.

Despite the growth, cannabis is still an emerging industry, and one that needs nurturing and support. There are many challenges, including high taxation, perceived over-regulation, an undeveloped supply chain, promotional restrictions, jurisdictional issues between federal, provincial, and local governments, zoning restrictions, and access to financing. Proactive and timely support for small businesses is required to maintain and grow this key sector of our local economy.

Regulation and Policy Development

The Cannabis Act and its Regulations provide a framework for accessing legal cannabis and regulating its production, distribution and sale. Oversight of the supply chain is a shared responsibility by federal, provincial and territorial governments, municipalities, industries and other stakeholders.

The **Federal Government** through Health Canada provides licensing and oversight for the legal production of cannabis. They also set the rules around possession limits,

¹ "Analysis: Marijuana Legalization Opponents' Fears Have Not Come to Fruition in Canada," NORML, August 17 2021, <https://norml.org/blog/2021/08/17/analysis-marijuana-legalization-opponents-fears-have-not-come-to-fruition-in-canada/>

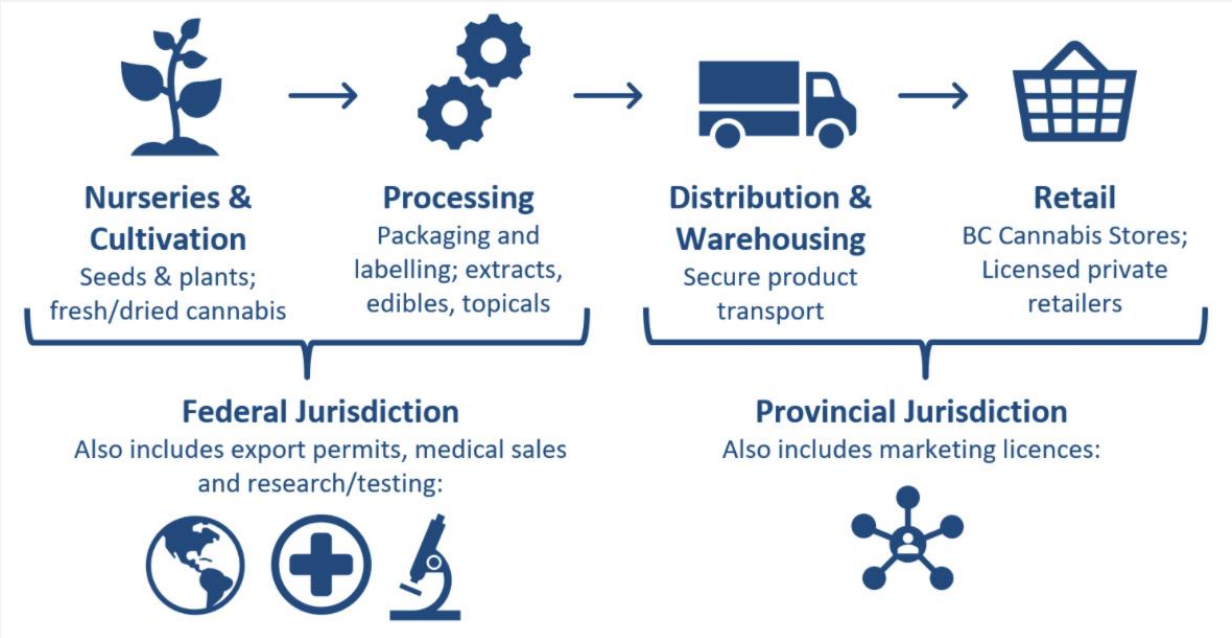
² "2021 Cannabis Annual Report," Deloitte, https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/consumer-business/ca_cannabis_annual_report-en-aoda.pdf

³ "Learn about B.C.'s Cannabis Sector," Government of BC, <https://www2.gov.bc.ca/gov/content/employment-business/economic-development/support-business-community/sector/cannabis>

trafficking, advertising, and personal cultivation, and provide oversight of the medical cannabis program. As expected, they took a precautionary approach to cannabis legalization at the start, and a review of the Cannabis Act is currently underway. The review is expected to enact changes so the industry can better compete with the legacy market, create additional jobs, maintain Canada’s lead in global markets, and continue to achieve health and safety objectives.⁴

Provinces and territories govern the sale and distribution of cannabis, including who is allowed to sell, how cannabis can be sold, where stores may be located and how stores must be operated. They also have the flexibility to set additional restrictions such as reduced possession limits, increased minimum age, restricted public use and added requirements on personal cultivation.

Each province has taken a unique approach to the sale and distribution of recreational cannabis, often mimicking how alcohol is handled. In BC, all cannabis sales are made at licensed private retail stores or government retail stores, and retailers purchase cannabis from the BC Liquor Distribution Branch (BCLDB), a government-owned centralized distribution center.



⁴ “Canadian Chamber of Commerce National Cannabis Working Group announces industry-led review of the Cannabis Act,” Canadian Chamber of Commerce, October 19 2020, <https://chamber.ca/news/canadian-chamber-of-commerce-national-cannabis-working-group-announces-industry-led-review-of-the-cannabis-act/>

⁵ “Learn about B.C.’s Cannabis Sector,” Government of BC, <https://www2.gov.bc.ca/gov/content/employment-business/economic-development/support-business-community/sector/cannabis>

Like the Federal Government, the BC Government also took a precautionary approach at the start and changes have been ongoing. Two key programs were introduced in 2022 to support their commitment to the development of a robust, diverse and sustainable legal cannabis economy in BC.⁶

The **direct delivery** program was created for small-scale producers and began in August 2022. It enables producers to ship their products directly to retailers, bypassing the central distribution warehouse and encouraging a buy local model.⁷ The objectives of the program are to support:

- small-scale producers to enter the legal market,
- legal market competitiveness for small-scale producers, and
- elimination of the legacy market.

The **farm-gate** program began on November 30, 2022 and allows eligible federally licensed cannabis producers to sell non-medical cannabis products from stores located at their cultivation site.⁸ This activity was not possible under previous provincial regulations, and many municipalities and regional districts (the CVRD included) may need to update their bylaws in order to allow this type of sale.

In February 2019, the **Agricultural Land Commission (ALC)**, responsible for the Agricultural Land Reserve (ALR) in BC, declared that all forms of cannabis production are considered farm uses.⁹ They do, however, leave room for local governments to prohibit certain types of cannabis production on ALR land. The use of ALR land to produce cannabis lawfully may not be prohibited if the cannabis is grown outdoors in a field, or inside a structure that has a base made entirely of soil. Cannabis production in a structure on ALR land may also not be prohibited if the building was constructed for growing crops prior to July 13, 2018. In response, some local governments have adopted a policy to restrict cannabis production in the ALR except for in the cases noted above that cannot be prohibited; some have created policy for cannabis grown in the ALR that is dependent on the size and type of cannabis license; and some have no restrictions on cannabis production on ALR land.

Local governments regulate land use, business licensing and public consumption. The approach taken varies from region to region across the province.

⁶ “New sales programs to benefit cannabis producers, Indigenous businesses,” Public Safety and Solicitor General, BC Gov News, September 20 2020, <https://news.gov.bc.ca/releases/2020PSSG0054-001830>

⁷ “LDB’s Direct Delivery Program,” BC Liquor Distribution Branch, <https://www.bcldbcannabisupdates.com/LDBDirectDeliveryProgram>

⁸ “B.C. enables farm-to-gate sales of cannabis products,” Public Safety and Solicitor General, BC Gov News, October 4 2022, <https://news.gov.bc.ca/releases/2022PSSG0061-001490>

⁹ “Cannabis Production in the ALR,” Agricultural Land Commission, May 8 2019, https://www.alc.gov.bc.ca/assets/alc/assets/legislation-and-regulation/information-bulletins/information_bulletin_04_cannabis_production_in_the_alr.pdf

Initially, Cowichan’s regional and municipal governments took a precautionary approach to cannabis legalization. Sales and production were restricted to a few zones or parcels, or prohibited without a zoning amendment or Temporary Use Permit. In general, cannabis production on ALR land is limited to the situations noted above that cannot be prohibited, although the Municipality of North Cowichan will consider zoning amendments to allow non-soil cannabis production on ALR land.

In the ensuing years, relaxation of regulations has occurred in some jurisdictions. The current zoning regulations for cannabis retail and production are summarized below.

Jurisdiction	Retail	Production
CVRD	Requires zoning amendment and Cannabis Retail License	Varies by electoral area, but generally permitted in industrial zones
North Cowichan	Requires zoning amendment, policy states that it must be in a commercial zone	Micro-production permitted in Commercial Service Zone; Standard production permitted in industrial zones; Requires zoning amendment to allow non-soil based cannabis production on ALR land
Duncan	Requires a Temporary Use Permit	Not permitted
Ladysmith	Permitted in select areas of downtown, Coronation Square, and along Rocky Creek Road, and on ALR land	Permitted in some industrial-zoned areas, and on ALR land
Lake Cowichan	Requires Temporary Use Permit	Permitted where agriculture is a permitted use, including CD-1 Comprehensive Development Zone in southeast portion of Town

Also worth noting, the CVRD now distinguishes between “micro” and “standard” production and processing in electoral areas, with different building size and setback regulations for each.

Cannabis in Community

Although cannabis has supported local economies in almost every region of the province, there are certain regions where it has had a major impact. Other than Cowichan, regions to note are all over Vancouver Island and the Sunshine Coast, the Fraser Valley, the Kootenays, and the Okanagan. The Regional District of Central Kootenay (RDCK) in particular had seen a similar economic impact from the legacy market, although their geography is very different from the Cowichan Region. RDCK

has been pursuing a cannabis-positive stance from the start of legalization to ensure their community survives the transition to a legal cannabis economy, and to best position themselves to take advantage of this once in a lifetime opportunity to lead an emerging industry and benefit from its economic potential.¹⁰

Cowichan is home to award winning breeders, growers and processors, many of them women. In fact, cannabis has been grown in the Cowichan Valley for decades, both outdoors and indoors. It has been a significant contributor to the local economy. The **legacy market**, aka the unregulated market or grey market, is made up of operators who worked in the cannabis space pre-legalization. Although it is very difficult to gauge the total number of legacy operators given the prohibited nature of the industry, it is estimated to be significant. Cannabis has been a major economic driver in Cowichan for decades, providing good paying jobs and cash flow in the local economy. After four years of legalization, it is becoming apparent that many of these industry experts are not going to manage the transition. It is difficult to tell at this stage what effect this will have on the regional economy.

BC has a long history of producing some of the best cannabis in the world. 75% of Canadians believe BC produces the highest quality cannabis in Canada,¹¹ and good quantity of that “BC Bud” is grown right here in the Cowichan Valley. The economic development potential for incubating a suitable cannabis industry in this region is extremely promising. Policy is being set across the country to support the development of this industry in much the same way as the wine industry. The next few years will be key to the long-term success of this nascent industry.

The Industry Dissected¹²

Producers – Those who cultivate and/or process cannabis are considered cannabis producers.

- a) Cultivation - a cultivation license from Health Canada is required to grow cannabis. There are three categories:
 - **Micro-Cultivator** – limited to grow space of 200m²
 - **Standard Cultivator** – no limit to space requirements
 - **Nursery** – limited to growing vegetative plants only, the phase of plant growth that occurs after germination and before flowering, with up to 50m² space for flowering plants

¹⁰ “Cannabis,” Regional District of Central Kootenay, July 12 2019, <https://www.rdck.ca/EN/main/services/cannabis.html>

¹¹ “2020 Homegrown Cannabis Survey Report,” Pure Sunfarms, October 2020, <https://puresunfarms.com/app/uploads/2020/10/2020-Pure-Sunfarms-Homegrown-Survey-Report.pdf>

¹² “Supply chain for the commercial production and sale of cannabis – federal licences,” Health Canada, October 26 2018, <https://www.canada.ca/content/dam/hc-sc/documents/services/health/campaigns/marijuana-cannabis/supply-chain-commercial-production-sale-cannabis/supply-chain-commercial-production-sale-cannabis-eng.pdf>

Note: see Appendix A for an illustration of the space limits

- b) Processing – a separate processing license is required to package cannabis for consumption, or to manufacture cannabis products such as topicals, edibles or concentrates and package them for consumption. There are two categories:
- **Micro-Processor** – limited to processing 600kg dried flower per year
 - **Standard Processor** – no limit on quantities produced

A sales license must be granted by Health Canada before businesses can begin selling to provincial distributors (or directly to retailers in the case of Saskatchewan). Currently, only processors qualify for a sales license. Cultivators must partner with processors to bring their products to market, except in the case of plants and seeds which they can sell directly. It is possible to hold both a Cultivation and Processing license.

Laboratories – Authorized by Health Canada to conduct analytical testing activities with cannabis. They are a necessary part of the recreational cannabis supply chain as all cannabis that is to be consumed in the legal market must be tested before sale.

BC Liquor Distribution Branch – The BCLDB is the sole distributor of cannabis in BC. Currently, only processors can sell cannabis to the BCLDB or to retailers directly under the new direct delivery program.

Retailers – The approach to recreational cannabis sales across the country varies from province to province. BC has taken a mixed public and private approach:

- a) **Independent Retailers** – licensed by the Liquor and Cannabis Regulation Branch to sell cannabis in a brick-and-mortar store. Online sales with third party delivery are not currently permitted.
- b) **BC Cannabis Stores** – the retail outlet of the BCLDB. BC Cannabis Stores are the only stores able to conduct online sales with third party delivery.

Legacy Business Owners – Owners of cannabis businesses, such as cultivation, processing or retail, in the unregulated market.

Skilled Workers and Laborers – People with experience working with cannabis in the regulated and/or unregulated market. They may have experience with cultivation, processing, and/or retail.

Ancillary Product and Service Providers – there is a wide range of local businesses and services connected to the cannabis sector including:

- Heat, Ventilation and Air Conditioning
- Shipping
- Soil and Soil Amendments
- Cleaning
- Security
- Electrical
- Packaging
- Commercial scale sellers and service providers
- Sales and Marketing
- Banking
- Human Resources
- Accounting
- Bookkeeping
- Pest Management
- Water Analysis
- Soil Analysis
- Tourism
- Transportation
- Government Relations
- Various non-profit organizations
- Regulatory compliance
- Quality Control
- Event Management

Scope and Approach

This report is a snapshot of the cannabis industry in the Cowichan Valley three years after legalization. The information gathered will help to understand the social and economic impacts of the transition to the legal cannabis market.

In fall 2021, Craft Cannabis Association of BC (CCABC) conducted a survey of the licensed cannabis businesses in Cowichan, and where possible, looked to other local, provincial or federal data to compare and provide context to the results. Unless otherwise noted, “Cowichan” includes both the CVRD and its member municipalities (City of Duncan, Town of Lake Cowichan, Town of Ladysmith, and Municipality of North Cowichan).

A series of questions was developed in order to provide a set of baseline data that can be used to measure the health of the industry now and moving forward. CCABC surveyed retailers, producers and the one and only laboratory in the region. Respondents used a fillable form rather than an anonymous survey so that the data could be monitored to ensure its accuracy and relevancy.

About the Data

Much of the data is presented as an amalgamation of all license types for this initial report, presenting the industry as a whole and honoring 36% of respondents who wished to remain anonymous. Where possible, data is grouped by license type to help the understanding of the situation.

As of November 28, 2021, it is estimated that there were 27 licensed cannabis businesses in Cowichan and approximately 20 appeared to be in operation. CCABC approached these 20 active businesses and asked them to complete the survey.

11 responses out of a possible 20 (55% response rate)

- 6 responses from 8 producers (75% response rate)
- 4 responses from 11 retailers (36% response rate)
- 1 response from 1 laboratory (100% response rate)

Survey Results

Business Profile

Number, License Type and Location

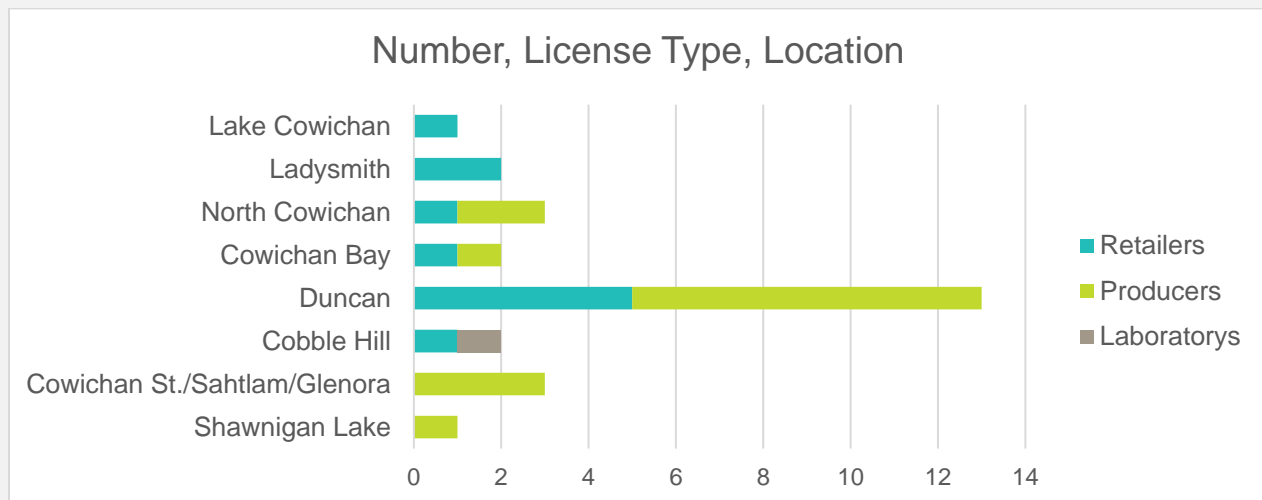
Where is your cannabis business located in Cowichan? What type of business(s) do you own/operate?

As of November 28, 2021, cannabis operators in Cowichan comprised of 15 licensed cannabis producers, 11 cannabis retailers, and 1 licensed laboratory.

Producers: Of the 15 licensed producers, roughly 8 operate in the immediate Duncan area and 7 elsewhere in Cowichan. Approximately 5 are micro cultivators, 1 holds a nursery license, 2 hold a standard cultivation and processing license, and the remaining 7 are likely standard cultivation license holders. It is worth noting that, while not included in this study, there were approximately 6 additional producers in the surrounding region including on Salt Spring Island and Nanaimo Regional District. Although outside of Cowichan, it is felt that these producers would be captured within a localized economy.¹³

Retailers: There were 11 private retailers in Cowichan, including 2 that Cowichan Tribes is a partner in.¹⁴

Laboratory: There was 1 licensed laboratory in Cobble Hill.



¹³ Rajiv Dasanjh, Emerging Markets Specialist & Agrologist, Ministry of Agriculture, Food, and Fisheries

¹⁴ "Map of Cannabis Retail Stores in B.C.," Liquor and Cannabis Regulation Branch, <https://justice.gov.bc.ca/lcrb/map>

Analysis

Production

In comparison with other regions that are of similar size and local government approach to legal cannabis production in BC, 15 production licensees is a typical amount, and is comparable to the level of licensed production in areas such as the North Okanagan and Central Kootenays.¹⁵

	Population	Producers	Nursery	MC	MP	Micro C&P	SC	SP	Standard C&P
Cowichan	89,013	15	1	5			7		2
North Okanagan	91,610	15		5			10		
Central Kootenay	62,509	13	1	5	1		6		

**MC = Micro Cultivator; MP = Micro Processor; SC = Standard Cultivator; SP = Standard Processor; Standard C&P = Standard Cultivator & Processor*

The industry as a whole, reflected in Cowichan, is lacking in cannabis processing facilities, a key license type in the supply chain. Processing operations have the highest barriers to entry, including being the most costly to operate.

The Regional District of Central Kootenay has partnered with the local Community Futures branch to support over 50 micro cannabis producers to apply for legal production licenses, and 13 have become licensed.¹⁶ We don't know the number of producers in Cowichan who have applied for production licenses or intend to do so.

It is very difficult to quantify the number people operating in the legacy market in Cowichan. It will be important to engage with this community to determine if there are a number of operators who intend to transition to the legal market, what their barriers are, and how they might be supported. Many local legacy market operators are processors of cannabis extracts, edibles and topicals – value added products – and many of these operators are women. The data we have today regarding the legacy market remains largely anecdotal.

¹⁵ Rajiv Dasanjh, Emerging Markets Specialist & Agrologist, Ministry of Agriculture, Food, and Fisheries
¹⁶ Cannabis Businesses”, Community Futures Central Kootenay, <https://futures.bc.ca/grow-your-business/cannabis/>

Retail

When this survey was conducted, there were 11 private retailers operating in Cowichan.

The Association of Canadian Cannabis Retailers (ACCRES) and the Ministry of Agriculture and Food reflect that retailers in certain areas of BC are facing hardships due to high density, in North Okanagan and Vernon in particular. In a recent article, CBC News found that independent retailers were having a difficult time competing with government run BC Cannabis Stores.¹⁷ There are no BC Cannabis stores in Cowichan to date.

In 2017, prior to legalization, there were roughly 12 retail shops in Cowichan, with 1 retailer for every 7,361 people based on 2017 population estimates,¹⁸ and operators felt there was room for growth. According to Census 2021, there is currently one retailer in Cowichan for every 8,092 people.

	Population	Retailers	1 Retailer for every # people
Cowichan	89,013	11	8,092
Comox Valley	72,445	10	7,245
North Okanagan	91,610	22	4,164
Kamloops	97,902	15	6,527
Central Kootenay	62,509	17	3,677

For comparison, there is 1 retailer for every 10,000 people in Colorado and 1 for every 6,000 people in Oregon, two slightly more mature and thriving markets.¹⁹ It is worth noting that the State of Colorado Department of Revenue collected over \$423 million in revenue from cannabis sales in 2021 compared to the previous record of over \$387 million in 2020.²⁰

¹⁷ "B.C. cannabis retailers say they're being pushed out by deeply discounted government stores," Joel Ballard, CBC News, May 11 2022, <https://www.cbc.ca/news/canada/british-columbia/private-cannabis-retailers-pushed-out-1.6449367>

¹⁸ Statistics Canada. Table 17-10-0139-01, Population estimates, July 1, by census division, 2016 boundaries, <https://doi.org/10.25318/1710013901>

¹⁹ "As more and more cannabis stores open, some ask: How many can stay in business?," Patrick Cain, CTV News, February 25 2021, <https://www.ctvnews.ca/business/as-more-and-more-cannabis-stores-open-some-ask-how-many-can-stay-in-business-1.5322576>

²⁰ "Here's how much marijuana tax money Colorado collected in 2021," Alexander Kirk, 9News, January 12 2022, <https://www.9news.com/article/money/marijuana-tax-2021/73-f66791e9-35da-4018-a41d-2a09470707e4>

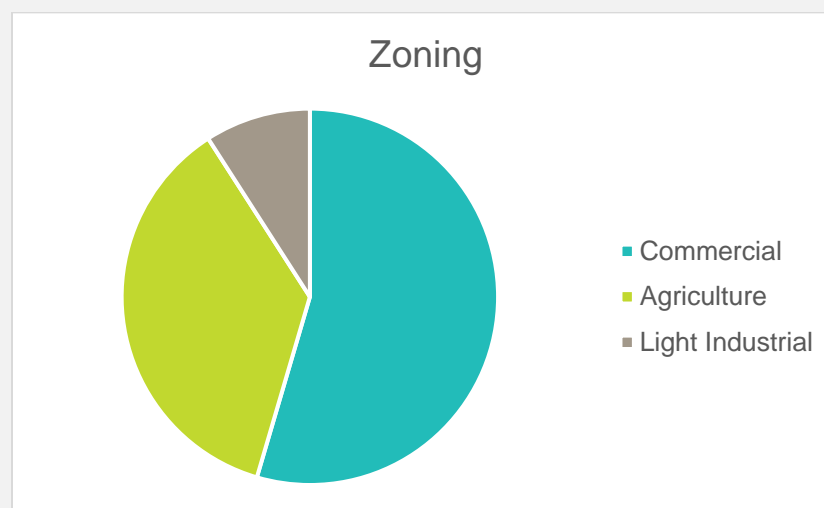
Laboratories

There are 148 licensed cannabis labs in Canada, 32 in BC, and 7 located on Vancouver Island.²¹ As laboratories are key part of the legal supply chain, it is advantageous to have one located in Cowichan.

Zoning

What municipal zoning does your operation reside in?

Of the 11 respondents, 6 are in commercial zones, 4 are in agriculture zones, and 1 is in light industrial.



Of the 6 that are in **commercial zones**, 4 are retailers, 1 is an indoor micro cultivator, and 1 is a licenced lab.

Of the 4 in an **agriculture zone**, all 4 are in the Agriculture Land Reserve. 1 is a standard cultivator and processor with indoor, outdoor and greenhouse production, 1 is a standard outdoor seasonal greenhouse, 1 is an indoor micro cultivator, and 1 is an indoor and outdoor hemp nursery.

There is 1 indoor micro cultivator in a **light industrial zone**.

²¹ "Laboratories authorized to conduct analytical testing under the Cannabis Act," Health Canada, <https://www.canada.ca/en/health-canada/services/list-licensed-dealers.html>

Analysis

The locations of these licensed cannabis businesses are as expected based on zoning regulations.

While regulations were initially quite conservative, some amendments have been made since legalization to open up more areas for cannabis operations. In the CVRD, cannabis retail was initially allowed in only select commercial zones. In 2021, the CVRD updated its regulations to support cannabis retail in all zones which allow for “retail sales”, “retail store”, “convenience store” or “retail” as a principal permitted use.²² Prospective retailers must still seek site-specific rezoning in order to operate. Following a round of public engagement, the Town of Ladysmith opened up select parcels downtown, at Coronation Square, and along Rocky Creek Road for cannabis retail. The City of Duncan, Town of Lake Cowichan, and Municipality of North Cowichan all prohibit cannabis retail in all zones, and require either a Temporary Use Permit or a zoning amendment for this use.

In the CVRD, cannabis has been excluded from the definition of agriculture in order to allow it to be separately regulated. Initially, cannabis production was allowed in select industrial zones within the CVRD (indoors only), Town of Ladysmith, and Municipality of North Cowichan. North Cowichan also allows micro-production in the Commercial Service Zone. The Town of Lake Cowichan permits cannabis production where agriculture is a permitted use, including a large area in the southeast portion of the Town that is zoned CD-1 Comprehensive Development Zone. Cannabis production is not a permitted land use in the City of Duncan.

When the ALC declared cannabis production to be a farm use, ALR land was opened up to cannabis production. The use of ALR land to produce cannabis lawfully may not be prohibited if the cannabis is grown outdoors in a field, inside a structure that has a base made entirely of soil, or in a structure constructed for growing crops prior to July 13, 2018. In general, jurisdictions within Cowichan have not permitted cannabis production on ALR land outside of these circumstances. The Municipality of North Cowichan has adopted a policy framework to consider applications for non-soil based cannabis production facilities in the ALR on a case-by-case basis.

Many governments took this precautionary approach to cannabis production on ALR land at the start of legalization, but just as the federal and provincial governments are now re-evaluating and setting new policy to encourage growth of the industry, it will be important for local governments to do the same. The Regional District of Central Kootenay (RDCK) and several other regions have not set any restrictions on cannabis

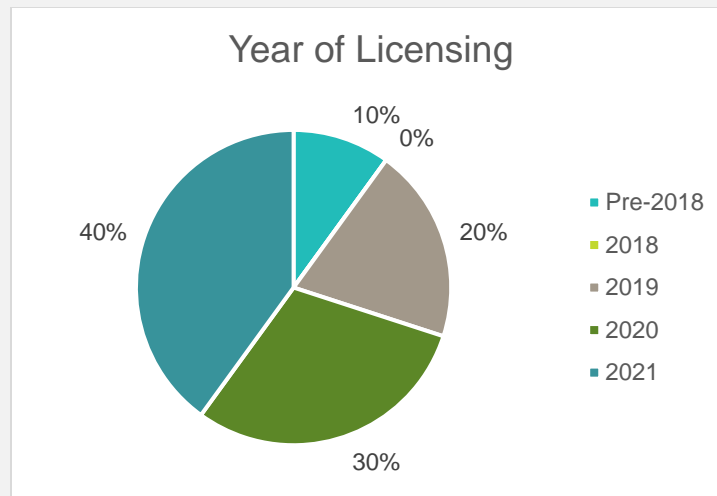
²² “Cannabis Retail Store Application Criteria Policy,” Cowichan Valley Regional District, July 28 2021, <https://www.cvrld.ca/DocumentCenter/View/98617/CANNABIS-RETAIL-STORE-APPLICATION-CRITERIA-POLICY>

production on ALR land. They are treating cannabis like any other agricultural endeavor. It is hard to know at this stage what impact these policies have had.

Years in Operation and Experience

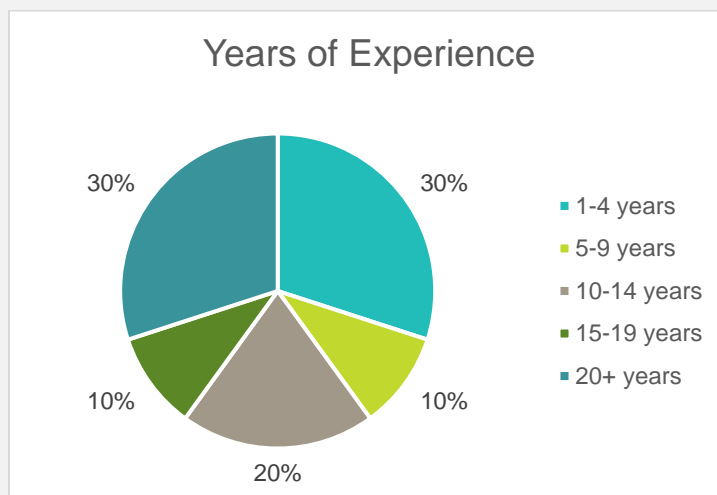
What year did you receive your license under the Cannabis Act?

Most are very new businesses, with 40% becoming licensed in 2021, 30% licensed in 2020, 20% in 2019 and 10% before 2018.



How many years have you been working in the cannabis industry?

60% of respondents have worked in the cannabis industry for more than 10 years, with half of those operators having more than 20 years of experience. Some respondents qualified their selection of 1-4 years as their time in the “legal industry”.



Analysis

The cannabis sector in Cowichan is growing, as expected for a newly established legal market. This data can be used as a baseline to measure industry growth in future years. This is a crucial time for the industry. In general, a new firm “has a 77% likelihood of surviving beyond its first year, a 36% probability of surviving past its fifth year, and a 20% likelihood of completing its first decade.”²³

The survey results highlight several operators with significant experience across license types in Cowichan. While there is no data available measuring the success or failure of experienced operators in this space, it is expected that they are more likely to succeed given their prior experience.

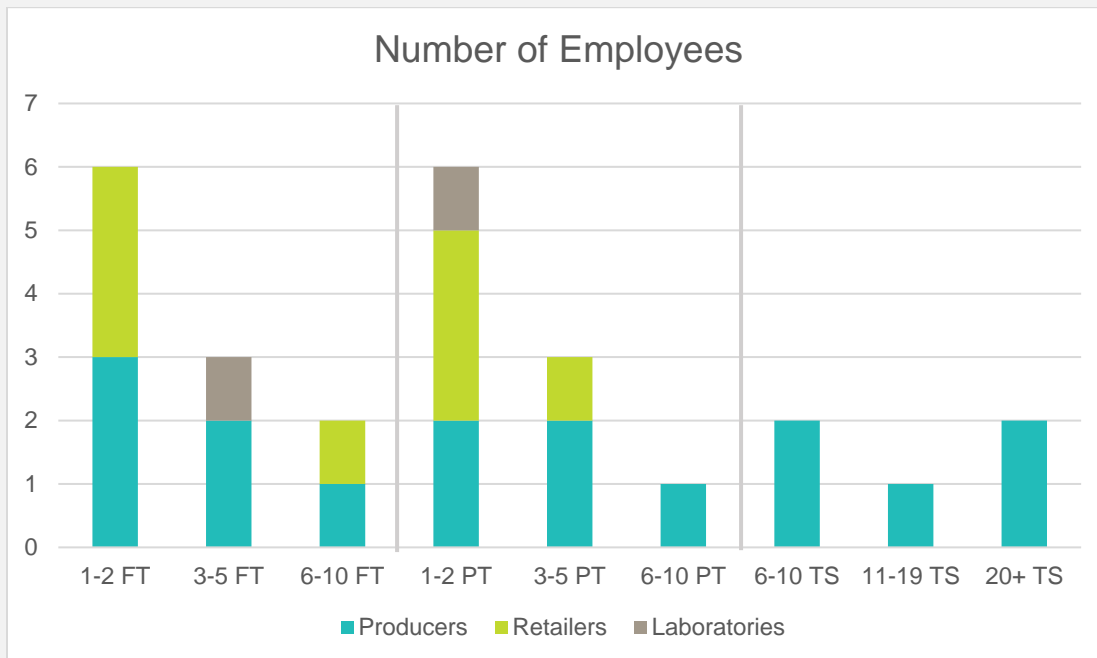
Employment

Number of Employees

How many full-time (FT) employees do you have?

How many part-time (PT) employees do you have?

How many temporary or seasonal employees (TS) do you hire in a year?



²³ “Failure Rates for New Canadian Firms: New Perspectives on Entry and Exit,” John Baldwin, Lin Bian, Richard Dupuy, Guy Gellatly, Statistics Canada, February 2000, <https://www150.statcan.gc.ca/n1/en/pub/61-526-x/61-526-x1999001-eng.pdf?st=fal9M-vN>

Analysis

All respondents are considered small businesses with fewer than 10 employees. With an average of 3.36 full-time positions and 1.9 part-time positions, the industry fits within Cowichan's most common business size of 1-4 employees.²⁴ If we apply this average to the total number of operators in Cowichan, we are looking at roughly 90 full time jobs and 50 part time jobs. This number is expected to increase as companies expand and the number of businesses increases.

There are also a significant number of temporary and/or seasonal positions at licensed producers. This work occurs at the end of the outdoor growing season (September/October) and during indoor harvests that occur 3-5 times per year.

Cannabis is an attractive industry. 16,226 students from 157 Canadian universities, when asked where they would like to work and what attributes make an employer attractive, report being interested in the cannabis industry.²⁵

These results point to the significant number of jobs that licensed cannabis businesses bring to Cowichan, and their ability to attract entrepreneurs, youth and experts alike to the region.

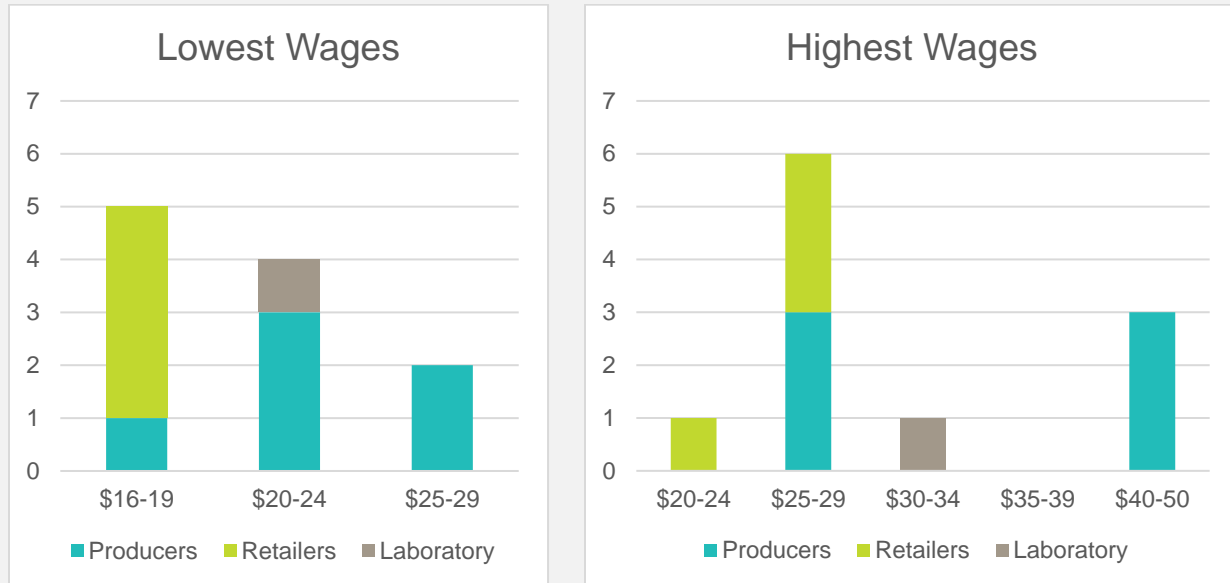
Wages

**What is approximately the highest wage that your employees earn?
What about the lowest wage that employees earn?**

The highest wage paid in the case of 55% of the respondents is \$25-29/hr. 20% pay a wage of \$40-50/hr. 50% of the respondent's lowest wage is between \$16-19/hr. 30% of respondents pay between \$20-24/hr as their lowest wage, and 20% pay their lowest wage earners \$25-29/hr.

²⁴ "Number of Businesses – Business Locations by Employee Size: Location Counts (XLSX)," BC Stats, April 2022, <https://www2.gov.bc.ca/gov/content/data/statistics/business-industry-trade/number-of-businesses-and-employment-by-industry>

²⁵ "Pot industry makes it to the Most Attractive Employers list, seen as a possible career destination for a third of polled Canadian students," Angela Stelmakowich, Regina Leader-Post, October 27 2020, <https://leaderpost.com/cannabis-business/pot-industry-makes-it-to-the-most-attractive-employers-list-seen-as-a-possible-career-destination-for-a-third-of-polled-canadian-students/wcm/84021e17-440d-4a98-82e8-5b51d4f6904f/amp/>



Analysis

Retail jobs, along with many other jobs in service sectors like restaurant and food services, are sometimes considered precarious and can be characterized by low wages, part-time or casual employment, with few job protections and benefits. It has become apparent during the pandemic that many of these precarious jobs are essential in nature, highlighting the need for a living wage.²⁶

While the minimum wage in BC was raised to \$15.20 per hour in 2020, the living wage in Cowichan was reported at \$19.13 per hour in 2021.²⁷ Most Cowichan cannabis retailers were paying employees just under the living wage with comments that they intended to increase pay when their business matures and/or they obtain a second license.

Wages for cannabis production workers were well above the living wage in Cowichan. Jobs of this sort pre-legalization consistently averaged around \$25-30 per hour given the unique skill requirements and the risks of working in an unregulated market. Staff training and development is currently done on the job, although many post-secondary institutions (including Vancouver Island University) have added or are considering adding cannabis specific training modules. Future iterations of this report should consider including survey questions around the education and training needs of the

²⁶ "COVID-19 pandemic highlights the need for a living wage," Bethany Hastie, PolicyNote, January 11 2022, <https://www.policynote.ca/covid-living-wage/>

²⁷ "Living Wage Cowichan 2021," Social Planning Cowichan, https://837ca6f7-25f5-4710-a0b7-534316823682.filesusr.com/ugd/20b695_8697eea6467d4305a0fd8129cbe36d7a.pdf

industry. To attract experienced cannabis employees, the legal market must currently compete with the legacy market in terms of pay.

These results point to the value of cannabis jobs in Cowichan which, in general, provide a living wage or higher to members of the local community.

Under Represented Groups

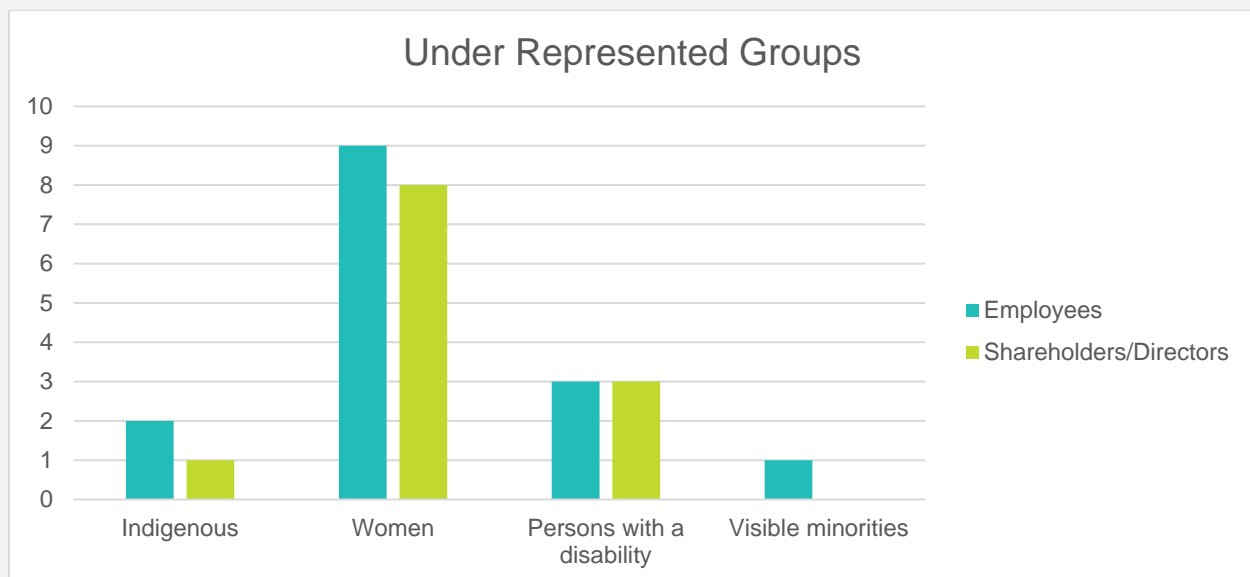
Are any of your employees Indigenous, women, visible minorities, or persons with a disability? Are any of your shareholders or directors Indigenous, women, visible minorities, or persons with a disability?

82% of respondents report that they employ women and 73% of respondents report that women are shareholders or directors of their company.

36% employ persons with a disability and 27% report that they hold shareholder or director positions.

18% report employing Indigenous people and 9% report having Indigenous shareholders or directors.

1% report employing a visible minority with 0 visible minorities holding shareholder or director positions.



Analysis

The Centre on Drug Policy Evaluation in the Sociology Department at the University of Toronto published a report in 2020 looking at the race and gender of executives and directors at 222 cannabis businesses, including 185 licenced producers, in Canada's

legal cannabis industry. “White men (73%) featured most commonly among executives and directors, followed by non-White men (14%), White women (12%), and non-White women (2%).”²⁸ These figures are disappointing when compared to 23.4% of board seats held by women among all TSX-listed companies and 33.2% of board seats held by women among S&P/TSX 60 companies.²⁹

By comparison, women are much better represented at the executive and director levels in cannabis businesses in Cowichan. It is not clear why this is the case and given both the federal government’s mandate to advance gender equality³⁰ and the provincial government’s mandate to eliminate barriers to gender equity, this result warrants further study.

According to the 2017 Statistics Canada Survey on Financing and Growth of Small and Medium Enterprises, 12.2% of SMEs were majority owned by visible minorities, 1.4% by Aboriginal persons and 0.5% by persons with a disability.³¹ By comparison, while visible minorities are not as well represented at small cannabis businesses in Cowichan, Indigenous and persons with a disability are.

Cowichan is part of the traditional, unceded territories of the Quw'utsun (Cowichan), Malahat, Ts'uubaa-asatx, Halalt, Penelakut, Stz'uminus, Lyackson, Pauquachin, Ditidaht & Pacheedaht Peoples. With over 5,000 members, Cowichan Tribes is the single largest First Nation in BC. If cannabis is going to be a large industry here, there should be significant representation from the Nation. Costa Canna and United Greeneries are part owned by Cowichan Tribes and have taken an Indigenous First approach to hiring.

²⁸ “How Diverse is Canada’s Legal Cannabis Industry?,” Centre on Drug Policy Evaluation, https://cdpe.org/wp-content/uploads/dlm_uploads/2020/10/How-Diverse-is-Canada%E2%80%99s-Legal-Cannabis-Industry_CDPE-UofT-Policy-Brief_Final.pdf

²⁹ “Legal Cannabis under review: how Canada can fix the Cannabis Act, drive growth, and ease regulations,” Eric L. Foster, Stuart Ruffolo, Emeleigh Moulton, Kimberly Burns, Lexpert, December 8 2021, <https://www.lexpert.ca/legal-insights/legal-cannabis-under-review-how-canada-can-fix-the-cannabis-act-drive-growth-and-ease-regulations/362344>

³⁰ “Prime Minister announces measures to advance gender equality worldwide,” Government of Canada, June 30 2021, <https://pm.gc.ca/en/news/news-releases/2021/06/30/prime-minister-announces-measures-advance-gender-equality-worldwide>

³¹ “SME Profile: Ownership demographics statistics,” Innovation, Science and Economic Development Canada, January 2020, https://www.ic.gc.ca/eic/site/061.nsf/eng/h_03115.html

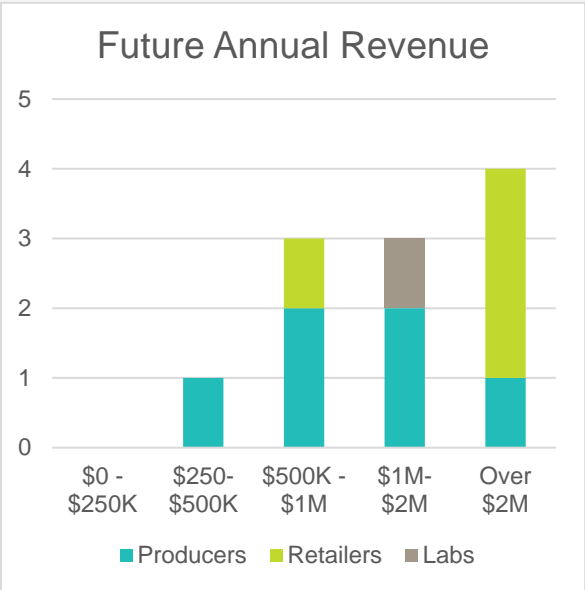
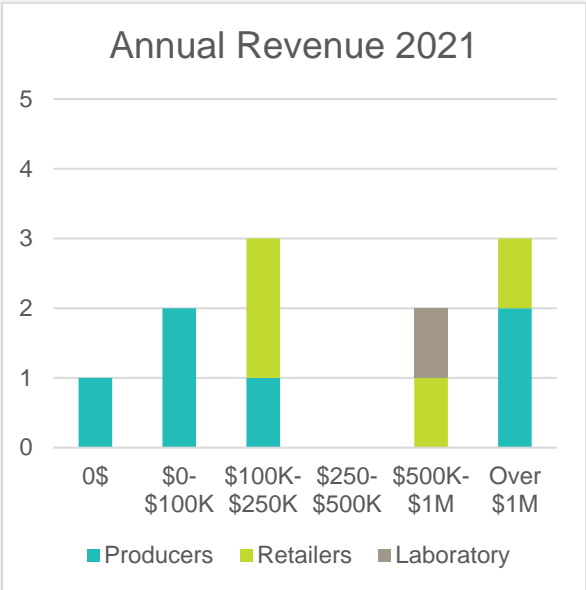
Business Activities

Annual Revenue

What do you think your annual revenue will be this year? What do you think your annual revenue will be once your business is mature?

27% of companies were expecting an annual revenue greater than \$1,000,000, 18% between \$500,000 and \$1,000,000, 27% between \$100,000 and \$250,000, 18% under \$100,000, and 9% were expecting \$0 revenue.

Once their businesses are mature, 36% anticipate their annual revenue to be over \$2,000,000. 27% anticipate between \$1,000,000 and \$2,000,000. Another 27% anticipate annual revenue between \$500,000 and \$1,000,000. 9% anticipate revenues under \$500,000.



Analysis

If 2021 revenues were as expected, then over half of cannabis retailers in Cowichan saw revenues lower than average for comparable industries such as beer, wine and liquor stores.³² Several challenges currently exist, such as differentiating retail stores and cannabis brands under strict promotional restrictions governed by the federal

³² "Financial Performance Data", Innovation, Science and Economic Development Canada, April 29 2021, <https://ised-isde.canada.ca/site/financial-performance-data/en>

government.³³ Future annual revenues were forecasted barring any changes to the Cannabis Act, and while most anticipate increased revenues, 25% are still expecting to perform below average compared to beer, wine and liquor stores.

While a couple of producers were performing well, the remainder were seeing revenues lower than average for comparable industries such as greenhouse, nursery and floriculture producers in Canada.³⁴ Several noted very little to no revenue. While it isn't sustainable, given the emerging market's immature supply chain and competitive nature, it is entirely possible for a cultivator to not have any revenue in their first year of operation. If future revenues are as expected, producers will have revenues of \$250,000 or more, making them comparable to most greenhouse, nursery and floriculture producers.

The one lab in Cowichan is already doing well compared to testing laboratories in Canada, if revenues were as expected.³⁵

It is interesting to note that in 2020, only 2 years after legalization, cannabis was responsible for 8% of the total farm cash receipts in BC. In 2022, cannabis accounted for 14% of the total farm cash receipts in BC.³⁶

Net Profit

What do you think your net profit will be this year? What do you think your annual net profit will be when your business is mature?

18% of companies are expecting a net profit of \$100,000. 30% are hoping to break-even. 30% anticipate a loss of \$100,000. 10% expect a loss of \$250,000, and another 10% expect to report a loss of more than \$250,000.

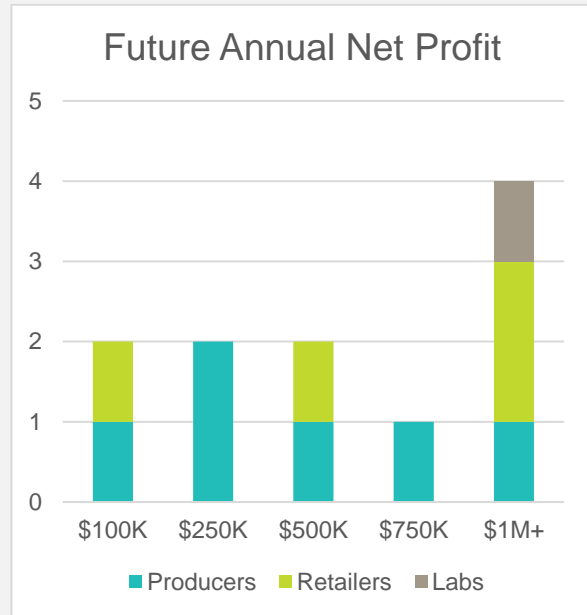
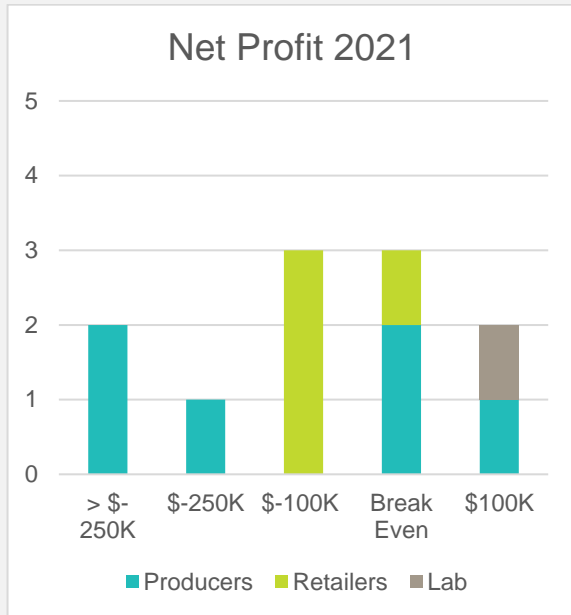
When their businesses are mature, 30% expect to make annual revenues of greater than \$1,000,000. 10% anticipate \$750,000. 20% anticipate \$500,000. Another 20% anticipate net profits of \$250,000. And the final 20% expect net profits of \$100,000.

³³ "Promotion of cannabis: Prohibitions and permissions in the Cannabis Act and Regulations", Health Canada, February 17 2023, <https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/laws-regulations/promotion-prohibitions.html>

³⁴ "Financial Performance Data", Innovation, Science and Economic Development Canada, April 29 2021, <https://ised-isde.canada.ca/site/financial-performance-data/en>

³⁵ "Summary – Canadian Industry Statistics: Testing laboratories", Innovation, Science and Economic Development Canada, July 19 2022, <https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/54138>

³⁶ "Farm cash receipts, annual (x 1,000)", Statistics Canada, February 29 2023, <https://doi.org/10.25318/3210004501-eng>



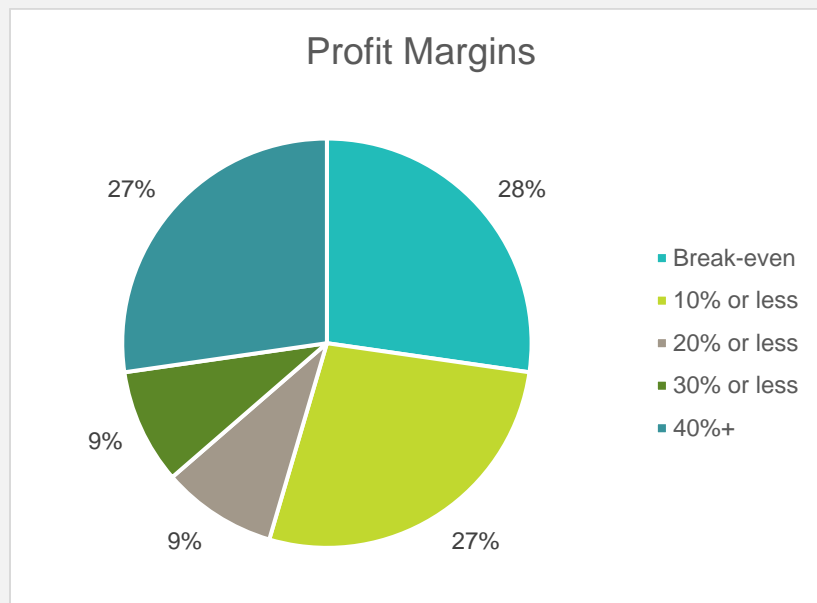
Analysis

This figure is perhaps the most revealing of the current state of the industry. Only 1 producer and 1 lab were making any profit. Less than half were breaking even, and the majority were making a loss, though a shift to break even or higher was expected by November or December 2022.

The cannabis industry is in its infancy. There is a strong policy argument that the viability of existing businesses should be supported until they become mature and stable and are able to become competitive. Without some infant industry supports legal businesses may leave the market, undermining the goals to transition legacy market producers as well as the development of a more diverse tourism sector.

Profit Margins

On your sales-to-date, what is the approximate profit margin?



Retail: 1 = 10% or less; 1 = 30% or less; 2 = more than 40%

Lab: 1 = 20% or less

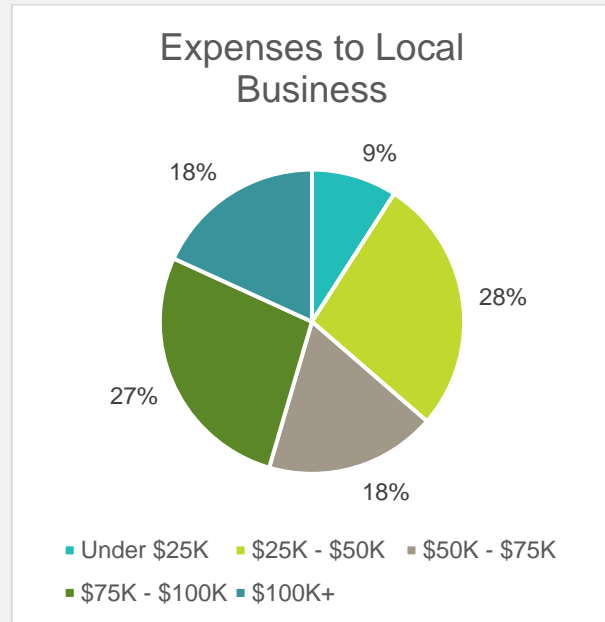
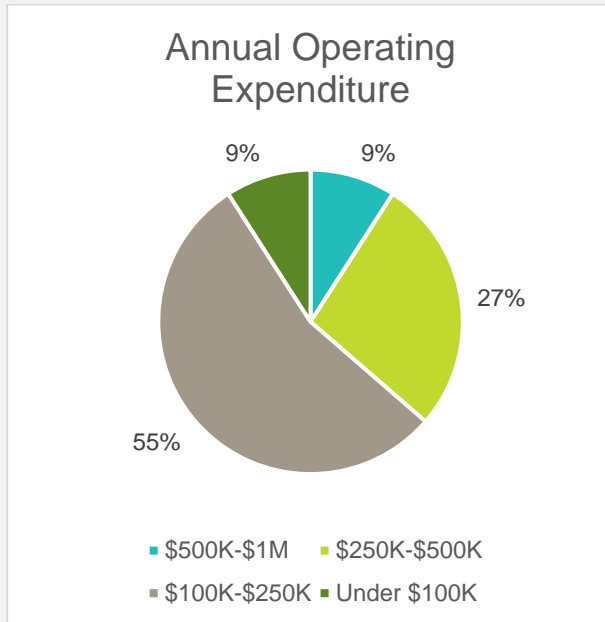
Producers: 3 = break even; 2 = 10% or less; 1 = more than 40%

Analysis

There is a large spread of profit margins even in the same license type, which is indicative of an emerging industry, one where suppliers are trying to find the right price to sell their products and maintain reasonable margins. It will be important to watch this number over the coming years and compare with similar industries.

Operating Expenses

Not including labour, approximately what is your business' annual operating expenditure? Not including labour, approximately how much of your annual expenses are paid to local businesses?



Analysis

Cannabis businesses incur higher than average operating expenses including taxation, insurance, annual regulatory fees, and employees. Cannabis producers in particular incur the highest annual operating expenses.

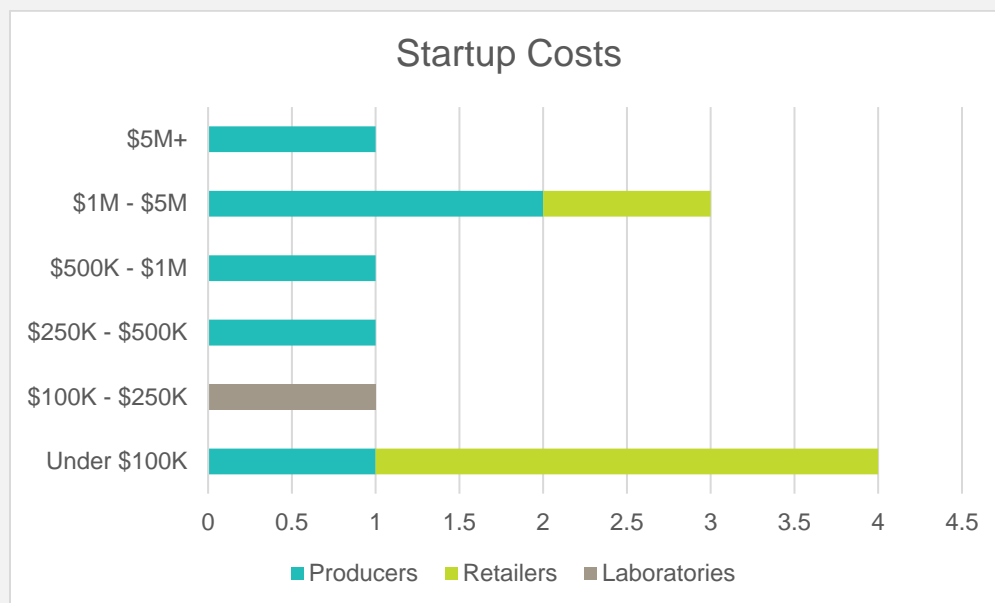
Cannabis businesses contribute a significant amount to local businesses in Cowichan. The direct total for all respondents is over \$500,000 annually to local businesses.

Financing

Startup Costs

What were your approximate start-up costs?

36% of businesses spent less than \$100,000 on start-up costs prior to licensing. 9% spent between \$100,000 and \$250,000. 9% spent between \$250,000 and \$500,000. 9% spent between \$500,000 and \$1,000,000. 27% of businesses spent between \$1,000,000 and \$5,000,000, and 9% spent more than \$5M.



Analysis

An average small business owner in Canada will spend about \$5,000 to \$10,000 to initially start their small business.³⁷ Start-up costs for cannabis businesses are higher than average.

Cannabis start-up costs include higher than normal bank fees, licensing fees, security screening fees, and insurance costs, as well as lease payments while waiting several months to multiple years to become licensed. Equipment costs for cannabis producers can be expensive in order to adhere to required Good Manufacturing Practices (GMP).

³⁷ "Small Business Startup Costs: How much will it cost?", David Loretta, Canada Startups, <https://www.canadastartups.org/small-business-startup-costs-how-much-will-it-cost/>

Primary Source of Income

Is this cannabis business your primary source of income?

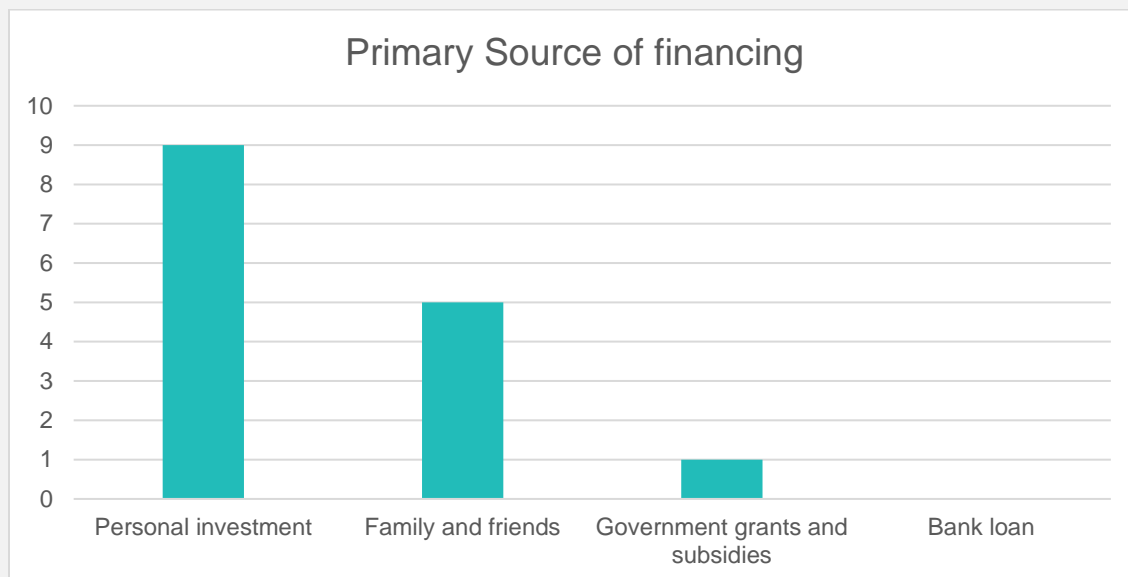
10 out of 11 respondents reported that their cannabis business was their primary source of income. 1 respondent owned a second business that was their primary source of income.

Primary Source of Financing

What was the primary source of financing for your business? If you answered Angel Investor, Venture Capitalist or Family and Friends, which of these options best describes where they reside?

The primary source of funding for 82% of respondents is personal investment. 45% also relied on family and friends, and 9% of respondents were able to obtain government grants and/or subsidies. Not one of the respondents obtained a bank loan to finance their operation.

Of the friends and family that invested, 100% are residents of Vancouver Island, and 60% are residents of Cowichan.



Analysis

Business owners used personal savings, funds put aside for retirement, and personal lines of credit. Many used their own funds out of necessity since traditional lenders, such as banks, are not inclined to deal with cannabis businesses due to its illegal federal status in the United States. Credit unions are more likely, but even then, most

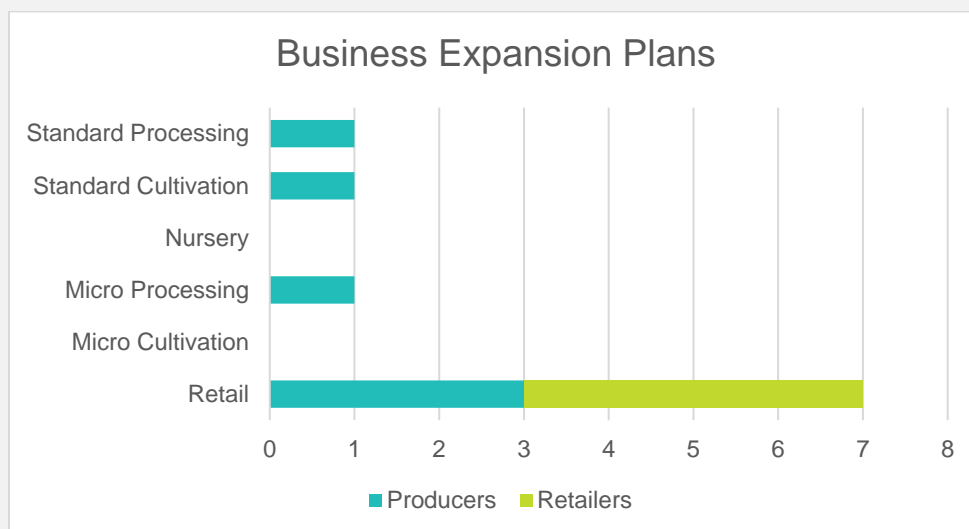
are wary of the emerging industry.³⁸ Also, many cannabis businesses want to maintain control, build sustainable businesses and grow organically.

Future Planning

Expansion Plans

Do you expect to expand your business in the next 5 years? In what direction?

82% of respondents expect to expand their business in the next 5 years. 100% of retailers would like to open additional stores. 50% of producers would like to sell onsite. 17% of producers expect to expand into standard-cultivation. 17% expect to obtain a micro-processing license. 17% expect to expand to obtain a standard processing license.



Analysis

After the large investments of capital and time involved, many operators, especially retailers, will want to consider expanding in order to take advantage of higher profits and reduced costs, increased customer base, more efficient management, and operational and competitive advantages.

³⁸ “Cannabis has been legal almost 3 years, yet retailers say banks are shutting them out”, Joel Ballard, CBC News, October 12 2021, <https://www.cbc.ca/news/canada/british-columbia/cannabis-banks-credit-unions-1.6205932>

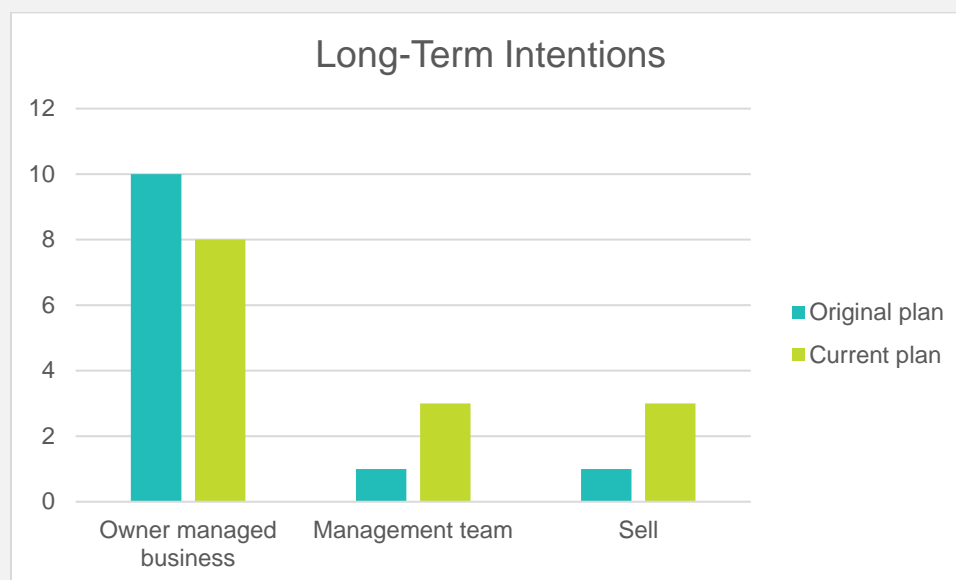
Producers are considering expanding production in the next 5 years, and most want to expand into retail sales, possibly with the new farm-gate program. This should allow them to connect with consumers and increase their profit margins and control.

Long Term Intentions

When you first started your business, what were your long-term intentions? What are your long-term intentions now?

91% of respondents started their business with the long-term intention of operating themselves. 9% intended to retain ownership while a management team runs the business. 9% reported they were open to selling to another business or third party.

73% of owners report their intentions haven't changed and they still want to operate as an owner-managed business. 27% now report they would like to retain ownership while a management team runs the business. 27% are now interested in selling to another business or third party.



Analysis

Although these cannabis businesses have been in operation for just a year or two in most cases, it is clear the challenges of the industry have taken their toll.

While nearly 100% of businesses were planning on remaining owner-managed at the start of their ventures, a shift has occurred. Still, 73% of business owners want to remain as the main owner operator. Locally-managed businesses are good for the local community. They provide self-reliance and cash injections back into the local economy.

Many studies have shown that strengthening locally-owned businesses can generate as much economic return as attracting a large-scale major employer.³⁹

Provincial Programs

Farm-Gate Program

Do you intend to participate in the farm-gate program coming in 2022?

100% of respondent producers who may have the option to participate in the farm-gate program said they would. 4 of these producers are located in the ALR, 1 in Light Industrial, 1 in Commercial.

Analysis

The provincial government has launched the farm-gate program for producers as of November 30, 2022. The program has created a Producer Retail Store licence, which allows federally-licensed cannabis producers in British Columbia to sell cannabis products and accessories at a store located at their cultivation site.

In response to this new program, the CVRD is updating its Cannabis Uses bylaw for electoral areas to allow farm-gate sales to occur at production facilities within the ALR.⁴⁰ The 2021 CVRD Cannabis Production Facility Land Use Application Policy⁴¹ prohibited a production facility from being located on the same lot as a retail store, effectively preventing producers from participating in the new program. However, the new CVRD Bylaw No. 4349 - Cannabis Uses, 2021 states: “Farm gate sales of cannabis produced on the parcel where the farm gate sales are occurring is a permitted farm use of all parcels in the Agricultural Land Reserve, subject to provincial retail sales licensing requirements.”⁴² This would allow production facilities on ALR land to participate in the farm-gate program.

³⁹ “The Economic Impact of Locally Owned Businesses vs. Chains - A Case Study in Midcoast Maine”, Institute for Local Self-Reliance, September 2003, <https://ilsr.org/wp-content/uploads/files/midcoaststudy.pdf>

⁴⁰ “CVRD Bylaw No. 4349 – Cannabis Uses, 2021”, Cowichan Valley Regional District, March 8 2023, <https://cvrld.primegov.com/meeting/attachment/15033.pdf?name=4349%20Zoning%20Cannabis%20Bylaw%202nd%20Reading%20As%20Amended%20Oct%2012-22>

⁴¹ “Cannabis Production Facility Land Use Application Policy,” Cowichan Valley Regional District, July 28 2021, <https://www.cvrld.ca/DocumentCenter/View/97430/Cannabis-Production-Facility-Land-Use-Application-Policy>

⁴² “CVRD Bylaw No. 4349 – Cannabis Uses, 2021”, Cowichan Valley Regional District, March 8 2023, <https://cvrld.primegov.com/meeting/attachment/15033.pdf?name=4349%20Zoning%20Cannabis%20Bylaw%202nd%20Reading%20As%20Amended%20Oct%2012-22>

The region's municipalities do not have any regulations specifically prohibiting farm-gate sales, so this land use would be permitted within the ALR so long as it conforms to ALC and local regulations. The one exception is the Municipality of North Cowichan, where farm-gate cannabis sales are specifically prohibited. In contrast, the Town of Ladysmith permits farm-gate sales on ALR land, as well as on certain light industrial parcels along Rocky Creek Road.

The goal of agritourism is to encourage agriculture, connect farmers and consumers and help farmers generate income through on farm activities such as farm visits, farm-stays, and on-farm retail to name a few. Given the complexity of this emerging industry, and the downward pressure on cannabis producers in particular, cannabis farmers are looking for ways to increase their economic viability through farm retail sales and agritourism.

The Cowichan Valley has become an agritourism destination of choice due to its location, climate and independent character. Cannabis farms can fit into this landscape well. A few respondents are producing award-winning top shelf products from standout farms in the Cowichan Valley that are ideal for emerging cannabis tourism opportunities. These farms provide the Cowichan Valley with a distinct competitive advantage when it comes to tourism. And there is already an established cannabis tourism industry around the globe.

It is difficult to find useful data regarding the cannabis tourism industry in Canada, so we look to places like Colorado that have legalized cannabis and have a population similar to the population in British Columbia. The Colorado State Government estimated that 6.5 million cannabis tourists visited their state in 2016, and they expected a 6% increase in 2017.⁴³ A 2020 report revealed that 29% of all active leisure travelers (and 18% of all Americans) are interested in cannabis-related activities on vacation. In fact, 25% have already traveled to a destination for a cannabis experience, including 44% of Millennials and members of Generation Z.⁴⁴

Government policy helped to incubate the wine industry in the Cowichan Valley. The Ministry of Agriculture funded an initiative called The Duncan Project to discover if a particular cultivar could be grown commercially in this region. Indeed, some say there would not be a wine industry here at all if the Province hadn't stepped in. The Liquor Distribution Branch allowed for winery lounges, and the Ministry of Transportation

⁴³ "Market size and demand for marijuana in Colorado – 2017 market update", Marijuana Policy Group, August 2018, <https://spl.cde.state.co.us/artemis/revmonos/rev132si92018internet/Market%20Size%20and%20Demand%20for%20Marijuana%20in%20Colorado%202017%20Market%20Update.pdf>

⁴⁴ "Stats: 29% of Leisure Travelers Interested in Cannabis-Related Tourism", Matt Turner, Travel Agent Centre, July 10 2020, <https://www.travelagentcentral.com/your-business/stats-29-leisure-travelers-interested-cannabis-related-tourism>

agreed to post wine route signs along Highway 1.⁴⁵ Of course the introduction of farm-gate sales was key to the development of small-scale wineries in the 1990s. Although there were many local clients, most of their customers were tourists that kept them going.⁴⁶ Since 2020, Cowichan wine has gained the sub-geographical indication (sub-GI), is an official and protected term in B.C. used to help people identify local wine origins. The industry is featured as a major and unique tourist attractor for the region by Tourism Cowichan.

There is potential for cannabis to play a significant role as part of tourism sector development on Vancouver Island, which is worthy of further exploration. The potential for cannabis tourism includes:

- Agritourism at production sites and development of a cannabis trail, similar to the BC Ale Trail and Cowichan Wine Tours,
- Attracting cannabis tourists who are also interested in local food, wine, nature and adventure,
- Conferences, festivals, competitions, and
- Cannabis consumption sites.

Consumption has been identified by the Province as an important activity associated with agritourism, similar to wine tastings on farm, though legislation to allow on-site consumption of cannabis is still in development.

Facing pressures like climate change, increasing food prices, pandemics, and the ever-increasing need for housing and development, it is becoming more and more important to protect the farmland in Cowichan. Cannabis can be grown sustainably in Cowichan, and there is future potential for cannabis to be added on farm to diversify production and help support farm viability.

Craft Cannabis Designation

Would you support a Craft Cannabis designation for small-scale producers?

100% of respondents say they would support a Craft Cannabis designation for small-scale producers. When asked why, or why not:

“Yes. Too many large producers are claiming “craft” status.”

⁴⁵ “Creating a Taste of Place: Cowichan Valley Wineries”, Brent A Hammer, University of Alberta, 2016, https://era.library.ualberta.ca/items/1f4aba1f-496c-4c06-9a1e-698f59f798b9/view/58805b38-8206-467b-8750-626d97b1c87a/Hammer_Brent_A_201609_PhD.pdf

⁴⁶ “History of FarmGate Wineries BC”, Robert A Ball, Wines of Canada, 2016, <https://www.winesofcanada.com/farmgatewineries.html>

“Yes. Because we need meaningful, consistent criteria that a customer can refer to as indicating a product grown with more love, care and attention. Our customers want it.”

“Yes. It’s all about quality not quantity.”

“Yes. Because we are craft and would help with sales.”

Analysis

Designations are used to help consumers quickly identify a certain type of product, and are used across the province in a variety of industries for different purposes.

The Craft Cannabis Association of BC defines Craft Cannabis as high quality, artisanal cannabis produced by small scale, independent producers. The majority of responding producers in Cowichan, the ones with many years of experience, are considered ‘craft’.

There is a current trend in the industry towards craft products. The rise of small batch production is coming after large companies spent years and billions of dollars cultivating cannabis, the vast majority of which was ultimately unsaleable.⁴⁷

There is also a continuing trend towards ethical consumerism and a demand for locally produced craft products, but it is difficult for both retailers and consumers to identify the origin of cannabis products due to the current complex and undeveloped cannabis supply chain as well as promotional restrictions.

The Province has been building programs to support small-scale producers: “We’ve heard clearly how important these kinds of sales are for smaller cannabis producers trying to get a foothold in a market currently dominated by larger players,” said Mike Farnworth, Minister of Public Safety and Solicitor General. “Now more than ever, our government is committed to supporting B.C. businesses and encouraging people to buy local, and that includes creating conditions for cannabis businesses of all sizes to succeed.”⁴⁸

⁴⁷ “How large Canadian cannabis producers are leveraging small-batch craft cultivation”, Matt Lamers, MJ Biz Daily, September 1 2021, <https://mjbizdaily.com/how-large-canadian-cannabis-producers-are-leveraging-small-batch-craft-cultivation/>

⁴⁸ “New sales programs to benefit cannabis producers, Indigenous businesses”, Public Health and Solicitor General, BC Gov News, September 20 2020, <https://news.gov.bc.ca/releases/2020PSSG0054-001830>

Home Delivery for Retailers

As of July 15, 2021, licenced cannabis retailers were allowed to sell their products online for local delivery. The products are only able to be delivered by employees of the cannabis retailer – no third-party delivery services are allowed.⁴⁹

If you're a retailer, do you currently or do you plan to deliver products to customers?

Of the 4 retailers who responded, all are undecided whether they will be delivering products to consumers.

Analysis

The BC Liquor Distribution Branch holds a monopoly over online sales. Delivery for retailers does not entail shipping to a customer's home. The customer can shop online and pick up orders or the retailer can choose to deliver to the customer themselves. Most are unsure they want to participate due to limited resources.

Community Perspectives

How can CVRD best support your business?

"More a federal and provincial matter, but for a micro to increase profit, we need to be able to sell directly to the public."

"Lower the property taxes. We are \$100,000 in the hole between taxes and licensing fees to start the year. Right now that is all we make."

"Adopt reasonable regulations for farm-gate, onsite consumption and direct to consumer sales. As small scale operators, we need the extra margin and support."

"Ensure that bylaws and policy are prepared to appropriately deal with upcoming farm-gate and direct-to-retail programs. In particular, ensure that Area bylaws accommodate current and future cultivators in building a thriving cultivation/farm-gate/tourism economy much like our Valley already does with local food, wine, cider, beer and spirits."

"Allowing farmgate store on ALR property. -Advocate for consumption license types and reduction of licensing restrictions."

⁴⁹ "Home delivery: another reason to choose legal cannabis", Public Safety and Solicitor General, BC Gov News, June 17 2021, <https://news.gov.bc.ca/releases/2021PSSG0051-001120>

“Implement restrictions on the number of (retail) licenses in a community. The cost of start-up is huge, paying into a lease for over a year plus so many application fees... it will be devastating if too many shops open for our small population centres and put us out of business. Support micro-producers and increase canna tourism by allowing for farm-gate sales at micro-production locations. Also, streamline the retail cannabis application process. It's currently estimated at about 1 year to get through the municipal process. Then we continue to pay while we wait for the province. This is unreasonable.”

“Finish the cannabis retail zoning changes.”

“Easing restrictions on where a Federally Licensed cannabis testing laboratory can be located.”

Vision for cannabis industry in the Cowichan Valley

“I'd like to see small farmers thrive and have the Cowichan Valley set up for international eyes once other countries start legalizing. It would be great if the Cowichan Valley could position itself as a "Napa Valley" of cannabis.”

“To be more like the wine industry (who get breaks on their property taxes), selling fresh produce quickly to local consumers. Cannabis has a limited shelf life and deteriorates quickly. In this manner it is not like alcohol.”

“We need to combat the illegal market, therefore we need more support for local producers.”

“To lead the transition from industrial cannabis to farm-gate, small batch, craft. Bring quality back, meet the farmer. We are authentic.”

“That we bring the existing and vibrant legacy marketplace out of the shadows to further strengthen this area's reputation as one of the premier cannabis cultivation locations in the country. We'd love to see the Valley known as the premier destination for cannabis tourism in BC and across Canada.”

“The Cowichan Valley is primed to highly leverage the cannabis industry and tourism, similar to Humboldt California. We want to have a cannabis 'vineyard' with events, education, accommodations, tours, etc.”

“I would love to see a vibrant industry composed of micro-farm gate and direct-to-retail, and even consumption spaces. Our retail customers value locally produced products. Fostering that relationship will be beneficial to all of us - increasing support of our local producers and developing a tourism niche. Tourists need safe legal spaces to consume their cannabis.”

“I'm hoping to see local shops stock local products as much as possible.”

“Producers should be able to sell direct to retailers with no provincial government distribution.”

What is your key message to local government?

“We need less paperwork and fewer barriers to entry. It is difficult to get a bank account, difficult to get insurance and difficult to get a business license.”

“We grow cannabis because we love it, not for the money. There is a lot of potential for this industry in the future. For now it seems as though we are all barely hanging on or dying slowly. For decades the Cowichan Valley has produced some of the best cannabis in the world. Let's not lose that.”

“The cannabis industry on the Island is perfect to support agritourism and to set precedent for farm-gate experiences. People want the opportunity to connect with the farmer, see where and how the plants are grown and to consume on site with good people. The economic benefits of this will be comparable to the wine model as per the Okanagan.”

“Let's please embrace cannabis growers in the same way we do the excellent local wine, beer and spirit makers of this region.”

“In order to support the industry and these fledgling businesses, local government must support us by pushing for reduction of taxes and regulations, as at present, there are hardly enough margins to keep the lights on, and to make this a viable industry. Less taxes and fees will allow businesses to prosper and invest in their operations to grow their business, increase revenues and therefore taxes, and benefit our local economy.”

“Starting a retail cannabis shop requires an incredible amount of investment, patience, and tolerance for risk. You can help support local entrepreneurs by clearly defining appropriate locations for retail stores, streamlining the application process, and most importantly put a limit on the number of stores in your community based on population. If a retailer does survive the application process, it will take many years of successful operations to pay down the debt of start-up. This is a business unlike any other. Until the province imposes restrictions like they do with liquor, municipalities need to step up and maintain some order. If the provincial and federal governments change the way we are regulated – so that we can distinguish ourselves in a meaningful way from our competitors – I would be entirely on board with no limits on license density. But as it stands, we all sell exactly the same widgets with no ability to market ourselves or our products.”

“The CVRD should have been better prepared for cannabis legalization. It's taken three years for stores to begin operations in the area, primarily because of CVRD delays.

That being said, everything went much smoother once a planner was finally hired for the cannabis retail file.”

Is there anything you would like to add that we have not asked?

“Thank you for standing up for the cannabis farmers, the people who have put their blood, sweat and tears into this industry.”

“Regarding cannabis delivery, it isn't feasible under the current regulations. I am hoping for a third party delivery service to be allowed to operate, at which point I will be in.”

Recommendations

The cannabis industry is in its infancy, and though there are many barriers to success and many local licensed businesses are struggling, future opportunities for cannabis in Cowichan are significant. Following here are recommendations to take advantage of this once in a lifetime opportunity.

Sector Development Opportunities

The following actions serve to support the success and maturation of the local legal cannabis business ecosystem.

1. Consider the formation of a Cowichan Cannabis Working Group led by Craft Cannabis Association of BC (CCABC) to champion the implementation of these recommendations. The Group could include CVRD staff from Economic Development, Electoral Area and municipal planning staff, representatives from local cannabis businesses, Tourism Cowichan, wine and agricultural industries, higher levels of government, and others.
2. Repeat the survey of local cannabis businesses every 3 to 5 years to track progress in implementing these recommendations, and identify additional trends, opportunities and challenges that may require adjustments to policy and/or programs. CCABC & EDC
3. Investigate options for engaging with the legacy market to understand barriers to entry into the legal market and what is needed to support legacy owners to make the transition. CCABC
4. Encourage industry collaboration and networking that seeks to incorporate lessons learned from the wine and tourism industry to inform the development of a complimentary cannabis tourism industry and branding. Investigate how other jurisdictions are encouraging the growth of cannabis tourism. Tourism Cowichan & CCABC
5. CCABC to work with local credit unions and Community Futures Cowichan to develop financing options for cannabis entrepreneurs and businesses with reasonable fees. CCABC, CFC, credit unions

Local Government Policy

As cannabis is an emerging industry, the local government policy landscape should continue to evolve to respond to developing needs. Periodic check-ins with local cannabis businesses and subsequent reviews of relevant bylaws and policies will be needed to reduce barriers to entry and ensure the industry thrives in Cowichan.

6. Consider investigating relaxed restrictions around cannabis production on ALR land,⁵⁰ as well as cannabis sales at production sites outside the ALR.
7. Amend bylaws and policies to accommodate new and upcoming Provincial programs, such as the farm-gate and direct delivery programs, as well as the potential future on-site consumption program.
8. To ensure a healthy and diverse cannabis retail market in Cowichan, the following factors may be considered when reviewing cannabis retail licenses:
 - a. The number of licensees versus population size, which speaks to market saturation.
 - b. Limiting the number of retail licenses held by a single owner.
9. Consider streamlining the cannabis retail and production license application processes as part of the Electoral Areas Development Services Modernization Project, and similar municipal projects.

Advocacy to Higher Levels of Government

Many aspects of the cannabis industry are under the jurisdiction of the Provincial and Federal governments and outside the control of local government. However, advocacy may be conducted to encourage change over time.

10. In recognition of BC's reputation for producing some of the best cannabis worldwide, advocate to the Provincial Government for the creation of a BC Craft Cannabis Designation, or inclusion of cannabis in the existing Buy BC program, to help consumers identify BC-grown products.
11. Lobby the Provincial Government to allow independent retailers to make use of online sales and third-party warehousing, shipping, and delivery services.

Conclusion

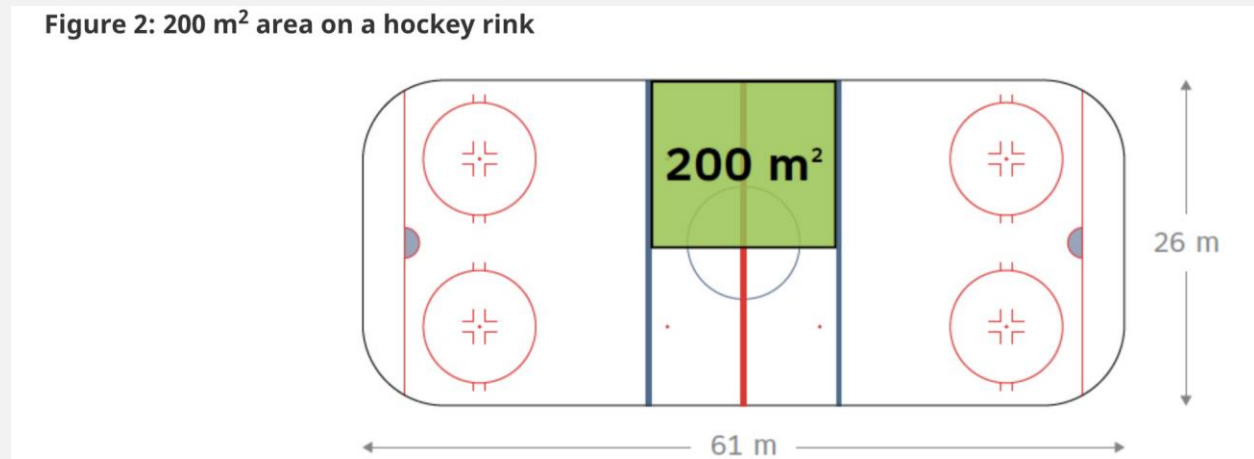
The cannabis industry is in its infancy. It is important to support the viability of existing businesses or they will leave the market with implications for the legacy market transition and the incubation of a diverse and healthy economy.

⁵⁰ The use of ALR land to produce cannabis lawfully may not be prohibited if the cannabis is grown outdoors in a field, in a structure that has a base made entirely of soil, or in a structure constructed for growing crops prior to July 13, 2018.

Appendix A – Max size for Micro Cultivator and Nurseries

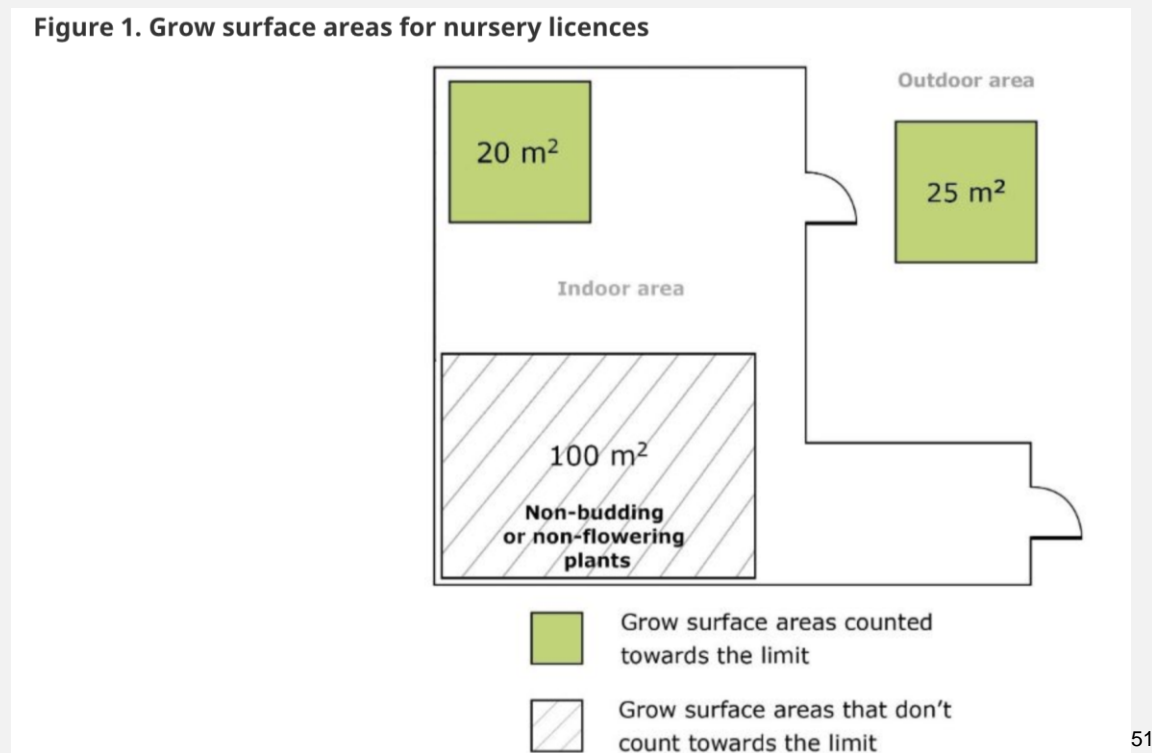
Size of Micro-cultivation license:

Figure 2: 200 m² area on a hockey rink



Grow area example re: Nursery license:

Figure 1. Grow surface areas for nursery licences



⁵¹ “Applying for a micro-cultivation, nursery and micro-processing licence“, Health Canada, September 26 2022, <https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/licensing-summary/micro-cultivation-nursery-micro-processing-applying.html>

Appendix B – Glossary

“Agriculture” is defined by the CVRD as growing, rearing, producing or harvesting livestock or agricultural crops other than cannabis, and includes the processing on a parcel of the primary agricultural products harvested, reared or produced on that parcel and the use and storage of associated farm machinery, implements and agricultural supplies. *

“Agricultural Land Commission (ALC)” is an independent administrative tribunal that is responsible for administering the Agricultural Land Reserve (ALR). The purpose as set out in the legislation is to:

- Preserve agricultural land.
- Encourage farming in collaboration with other communities of interest.
- Encourage local governments, First Nations, the government and its agents to enable and accommodate farm use of agricultural land and uses compatible with agriculture in their plans, bylaws and policies.⁵²

“Agricultural Land Reserve (ALR)” is a provincial zone in which agriculture is recognized as the priority use. Farming is encouraged and non-agricultural uses are restricted.⁵³

“Agritourism” is defined by the ALC to include tours, educational activities, demonstrations of farm operations, harvest festivals and other seasonal events, and other tourism activities conducted on agricultural land that is classified as a farm under the *Assessment Act*.⁵⁴

“Cannabis” means cannabis as defined in the *Cannabis Act* (Canada).⁵⁵ *

“Craft cannabis” is currently defined by the Craft Cannabis Association of BC as small-scale (produce up to 3,000kg per year) and Independent (less than 25% of the craft producer is owned or controlled - or equivalent economic interest - by a cannabis industry member which is not itself a craft producer).

“Cannabis – Micro Production and Processing” is defined by the CVRD as the commercial cultivation, processing, storage and wholesale distribution of cannabis and products derived from cannabis, contained entirely within a building where the gross

⁵² “Role of the Agricultural Land Commission”, <https://www.alc.gov.bc.ca/role-of-the-alc/>

⁵³ “Buying and Owning Land in the ALR”, Provincial Agricultural Land Commission, <https://www.alc.gov.bc.ca/permitted-uses-in-the-alr/living-in-the-alr-information/>

⁵⁴ “Activities designated as farm use: agri-tourism activities in the ALR”, Policy L-04, Agricultural Land Commission Act, October 2016, https://www.alc.gov.bc.ca/assets/alc/assets/legislation-and-regulation/policies/alc_-_policy_l-04_-_agri-tourism_activities.pdf

⁵⁵ “Cannabis Act”, Government of Canada, May 25 2023, <https://laws-lois.justice.gc.ca/eng/acts/c-24.5/>

floor area used for the production and growing of cannabis products does not exceed 200m², and does not include the cultivation of up to four cannabis plants in a dwelling house for personal use in accordance with the *Cannabis Control and Licensing Act* (British Columbia). *

“Cannabis – Standard Production and Processing” is defined by the CVRD as the commercial cultivation, processing, storage and wholesale distribution of cannabis and products derived from cannabis, and does not include the cultivation of up to four cannabis plants in a dwelling house for personal use in accordance with the *Cannabis Control and Licensing Act* (British Columbia). *

“Cannabis consumption space” is a general term that refers to a business such as a cannabis lounge, a special event or other establishment that has cannabis for sale and use on-site. Under the current rules, only licensed or authorized retail stores are permitted to sell non-medical cannabis in BC, and on-site consumption is not allowed. It is also prohibited to market or advertise a place as a space to use cannabis or spend time after using cannabis, even if the cannabis was purchased legally off-site.⁵⁶

“Direct delivery” as proposed “would entail cannabis producers delivering directly from their production sites to retailers. The intention of this initiative is to help the smaller producers by reducing some of the administrative burden and providing new distribution options.”⁵⁷

“Farm-gate” sales program that will give B.C. cannabis growers the ability to sell their products from “farm-gate” stores located at their production site.⁵⁸

“Farm retail sales” is defined by the ALC as the retail sale to the public of tangible farm products grown or raised on a farm or association to which the owner of the farm belongs, from that farm or farms and may include the sale of non-farm products as permitted by the Use Regulation.⁵⁹

⁵⁶ “Non-Medical Cannabis Consumption Space Engagement Discussion Paper”, Ministry of Public Safety and Solicitor General, April 2022, https://engage.gov.bc.ca/app/uploads/sites/741/2022/04/8711_Cannabis_Consumption_Discussion_Paper_PSSG_v5.pdf

⁵⁷ “Cannabis Regulation”, Union of BC Municipalities, <https://www.ubcm.ca/policy-areas/cannabis-regulation>

⁵⁸ “B.C. enables farm-to-gate sales of cannabis products,” Public Safety and Solicitor General, BC Gov News, October 4 2022, <https://news.gov.bc.ca/releases/2022PSSG0061-001490>

⁵⁹ “Activities designated as farm use: farm retail sales in the ALR”, Policy L-02, Agricultural Land Commission Act, February 2016, https://www.alc.gov.bc.ca/assets/alc/assets/legislation-and-regulation/policies/alc_-_policy_l-02_-_farm_retail_sales.pdf

“Farm product” is defined by the ALC as a commodity that is produced from a farm use but does not include water.⁶⁰

“Farm uses” are defined by the ALC and include the farming of a plant, like cannabis, in soil or within a structure, and are authorized to occur in the ALR without permission of the ALC. The ALR Use Regulation was updated in May 2019 to clarify that all forms of cannabis production are a “farm use”.⁶¹

“Home delivery” of non-medical cannabis products directly to consumers has been available to cannabis store licensees since July 15, 2021. Licensees are not able to use a third-party delivery service.⁶²

“Legacy market” aka the unregulated market or grey market, is made up of operators who worked in the cannabis space pre-legalization.

“Local farm products” are defined by the CVRD as commodities grown or reared on a farm within 160 km (100 miles). *

“Nursery license” is a type of license that allows for the production of cannabis plants and seeds for starting material. The grow area can include 50m² for growing flowering and budding cannabis plants. There is no size limit for areas used to grow cannabis in their vegetative state.⁶³

“Retail license” is a type of license issued under the Cannabis Control and Licensing Act of British Columbia to sell or market cannabis in BC.⁶⁴

“SME” means small and medium sized enterprises with between 1 and 499 employees.

⁶⁰ “Agricultural Land Reserve Use Regulation”, BC Laws, February 22 2019, https://www.bclaws.gov.bc.ca/civix/document/id/loo105/loo105/30_2019

⁶¹ “Cannabis production in the ALR”, Agricultural Land Commission, May 8 2019, https://www.alc.gov.bc.ca/assets/alc/assets/legislation-and-regulation/information-bulletins/information_bulletin_04_cannabis_production_in_the_alr.pdf

⁶² “Home delivery: another reason to choose legal cannabis”, Public Safety and Solicitor General, BC Gov News, June 17 2021, <https://news.gov.bc.ca/releases/2021PSSG0051-001120>

⁶³ “Types of cannabis and industrial hemp licences”, Health Canada, January 9 2023, <https://www.canada.ca/en/health-canada/services/drugs-medication/cannabis/industry-licensees-applicants/applying-licence.html>

⁶⁴ “Non-medical cannabis licences”, Province of British Columbia, <https://www2.gov.bc.ca/gov/content/employment-business/business/liquor-regulation-licensing/non-medical-cannabis-licenses>

“Zoning bylaws” regulate how land, buildings and other structures may be used. Zoning bylaws may divide an area into zones, name each zone and establish the boundaries of those zones.⁶⁵

* For ease of understanding, CVRD definitions have been used in this glossary. Municipalities within Cowichan may have different definitions for these terms. Please check with individual jurisdictions for more details.

⁶⁵ Zoning bylaws”, Province of British Columbia, <https://www2.gov.bc.ca/gov/content/governments/local-governments/planning-land-use/land-use-regulation/zoning-bylaws>