



Policy costing

Legalise Cannabis Nationally	
Person/party requesting the costing:	Senator David Shoebridge, Australian Greens
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Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential <input type="checkbox"/> Not confidential
<p>Summary of proposal:</p> <p>This proposal has 2 options that would both have effect from 1 July 2023.</p> <p>Option 1</p> <p>This option would legalise the production and sale of recreational cannabis in Australia through a tightly regulated model and by establishing the Cannabis Australia National Agency (CANA).</p> <ol style="list-style-type: none"> The CANA would: <ul style="list-style-type: none"> be established to oversee the legalisation and regulation of recreational cannabis act as the sole wholesaler between producers and retail outlets set the wholesale price of cannabis, based initially on the Australian street price of cannabis and which would then fluctuate according to market forces. be responsible for issuing production licences to cultivators and sale licences to private retail outlets. The CANA's departmental costs would be fully recovered by the application fees for production and retail licences. Sales of recreational cannabis would be restricted to individuals over 18 years of age, with no restrictions on the amount individuals could purchase. Penalties would apply for the sale of cannabis by retail outlets to individuals under 18 years of age at similar rates to the penalties for the sale of alcohol to individuals under 18 years of age. Sales of recreational cannabis to overseas visitors would be permitted. Individuals would be permitted to grow up to six plants for personal use. Imports of cannabis into Australia would remain illegal. Sales of recreational cannabis would attract the Goods and Services Tax (GST) as well as an excise of 25% on GST-inclusive sales. <p>Option 2</p> <p>Except for Item 7, all other items are the same as Option 1. Under this option, sales of recreational cannabis would attract the GST as well as an excise of 15% on GST inclusive sales.</p>	

The market under both options will exclude any existing tobacco, pharmaceutical or alcohol supplier and be structured to be primarily based on co-operatives and sole traders.

Costing overview

Each of the two options would be expected to increase the fiscal and underlying cash balances over the 2022-23 Budget forward estimates period. All options would be expected to have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The departmental expenses of this costing include an increase in expenditure for establishing the CANA and for the CANA to regulate the recreational cannabis market under the proposal. There is also an increase in departmental expenses for the Australian Taxation Office (ATO) reflecting the upfront cost of updating systems and procedures, as well as ongoing administrative costs associated with cannabis excise and other relevant taxes.

The fiscal and underlying cash balances differ because of the difference in timing between when tax revenue is recognised and when tax receipts are collected.

There is a high level of uncertainty in this costing as there is limited information available in Australia to estimate the production in cannabis cultivation and the consumption of recreational cannabis, in particular its market price.

There is also uncertainty around how production, consumption and price would change over the period to 2032-33. In particular, the behavioural responses as a result of the proposal, such as the take-up by new users after legalisation as well as the proportion of existing consumers who would switch to a legal source, are highly uncertain. Assumptions are based on recent research in Australia and evidence in Canada where legalisation on recreational cannabis has recently occurred. The actual outcomes may differ significantly due to differences in policy specifications and market characteristics between Australia and overseas. The costing estimates could vary significantly with changes in the assumptions.

Table 1: Legalise Cannabis Nationally – Financial implications (\$m)^(a)

	2022–23	2023–24	2024–25	2025–26	Total to 2025–26
Option 1: Sales of recreational cannabis excise at 25%					
Fiscal balance	-	-31.2	1,964.7	2,975.2	4,908.7
Underlying cash balance	-	-31.2	1,744.7	2,955.2	4,668.7
Option 2: Sales of recreational cannabis excise at 15%					
Fiscal balance	-	-31.2	1,174.7	2,095.2	3,238.7
Underlying cash balance	-	-31.2	1,024.7	2,075.2	3,068.7

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

- Indicates nil.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

Demand

- Around 12% of the Australian adult population currently consumes recreational cannabis on a regular basis.
- Legalising cannabis would result in a 15% increase in demand for cannabis products in the first year of the policy and would then grow in line with adult population growth.
- On average, individual recreational cannabis consumers would purchase approximately 6 grams per week.

Sales

- Sales of recreational cannabis to overseas visitors would account for around 10% of total sales.
- The pre-tax price of recreational cannabis set by the CANA would be \$13.40 per gram in 2024-25.
- Recreational cannabis prices and the profit margin of producers would decline as supply increases under the proposal.
- 52% of recreational cannabis users would purchase cannabis from a legal source in 2024-25 (based on the take-up rate in Canada after legalisation) and this would grow to 95% over 5 years.
- Legalising cannabis would have no impact on alcohol and tobacco excise revenue.
- Penalties for the sale of cannabis to individuals under 18 years of age would be administered by state governments.

Production

- The proposal would not be legislated and receive royal assent with sufficient time to allow for the cultivation of cannabis plants and establishment of supply chains ahead of the proposed 1 July 2023 start date. Therefore, sales of Australian-grown cannabis would be expected to commence in 2024-25, although the application for production and retail licences would commence in 2023-24.
- Both indoor and outdoor production methods would be adopted. The average harvest per square metre of cannabis plant canopy would be around:
 - 1,709 grams for indoor production
 - 180 grams for outdoor production.
- The weighted average cost of producing cannabis in Australia would be \$1.10 per gram in 2023-24, based on data from Canada and the United States and would grow in line with the consumer price index (CPI).
- The profit margins of retailers of recreational cannabis would be similar to those of retailers in the tobacco industry.

Other assumptions

- The Australian Federal Police (AFP) would retain the current cannabis-related resources to combat the black market and associated crimes after legalisation, noting that most resources currently directed at cannabis law enforcement lie within state level jurisdictions. Hence, there would be no savings to the AFP under the proposal.

- No patients would switch from the PBS-listed medicinal cannabis, cannabidiol (Epidyolex), to recreational cannabis.
- 50% patients currently accessing other unapproved medicinal cannabis in Australia via the Special Access Scheme (SAS) and Authorised Prescribers (AP) would be affected by the proposal.

Methodology

GST

The GST impact was estimated by applying the GST rate of 10% to the pre-tax annual sales of recreational cannabis through legal sources.

The pre-tax annual sales of recreational cannabis through legal sources in 2024-25 was estimated by multiplying the initial average pre-tax price set by the CANA by total grams of recreational cannabis sold through legal sources in 2024-25, which was assumed to be 52% of total initial demand.

The initial pre-tax annual sales of recreational cannabis through legal sources were projected to 2032-33 based on demand and sales assumptions above.

Total initial demand was calculated by multiplying the expected number of cannabis users in 2024-25 by the estimated average amount consumed by each user in 2024-25, adjusted for behavioural responses identified above.

The increase in GST revenue would be offset by an equivalent increase in GST payments to the states and territories.

Cannabis excise

The financial impact of the proposed cannabis excise was estimated by applying the specified excise rate to total GST-inclusive sales of recreational cannabis.

Total GST-inclusive sales of recreational cannabis were derived by grossing up the pre-tax annual sales of recreational cannabis through legal sources by the GST rate of 10%.

Cannabis excise and GST would be paid on a monthly basis.

Company tax

The company tax impact was calculated by applying the relevant company tax rate to the estimated total net profits of producers and retailers.

PBS Saving

This proposal would have no impact on the government cannabidiol subsidies. This is mainly because Cannabidiol is mainly used for the management of severe myoclonic epilepsy in infancy (Dravet syndrome), a rare and lifelong form of epilepsy. It is highly unlikely to be easily substituted by recreational cannabis.

MBS Saving

The impact of this proposal on MBS Benefits were calculated by multiplying the average MBS benefit per visit, the assumed switch ratio from medicinal cannabis in Australia to recreational cannabis of equivalent medicinal effect and number of visits

- The average MBS benefits per visit were estimated based on outpatient benefits for consulting chronic pain, anxiety and sleep disorder, which are the top three indications under the SAS stream.
- The number of visits per year was estimated based on information from Department of Health and Aged Care.

Departmental expenses

Departmental expense estimates for the CANA were based on the staff profile published in the *2020-21 Annual Report of the Australian Pesticides and Veterinary Medicines Authority (APVMA)*. However the size of the CANA was adjusted to reflect fewer regulatory functions compared to APVMA.

Departmental expense estimates for the ATO were based on the departmental profile of a similar measure to establish and administer a new tax in the 2010-11 Budget.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.¹

Data sources

The Treasury provided economic forecasts as at the 2022-23 October Budget.

The Department of Health and Aged Care provided data on medicinal cannabis.

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¹ https://www.apvma.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

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Commonwealth of Australia, 2010. Budget 2010-11, Canberra: Commonwealth of Australia.

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