



## Canopy Growth Corp.: There's a Downside to the LCBO Entering Marijuana Retail

### Description

The Ontario government announced September 8 that the LCBO will oversee the retail sale of cannabis in Ontario through standalone stores and an e-commerce site.

The Ontario government's approach to the impending legalization of cannabis by the federal government in July 2018 created quite the buzz with investors (no pun intended), sending marijuana stocks such as **Canopy Growth Corp.** ([TSX:WEED](#)) higher on the news.

"When it comes to retail distribution, the LCBO has the expertise, the experience, and the insight to ensure careful control of cannabis, helping us to discourage illicit market activity and see that illegal dispensaries are shut down," said Charles Sousa, Ontario's finance minister.

It's understandable why investors are excited about the move.

Canada's largest province has set in motion the implementation of retail distribution of marijuana across this country. No longer is the legal sale of recreational marijuana a possibility in Ontario; it's a reality, one in which Ontario has chosen to corner the market fulfilling the LCBO's mandate to "control" the marketplace.

"Illicit cannabis dispensaries are not and will not be legal retailers," states the Ontario government's press release. "The province will pursue a coordinated and proactive enforcement strategy, working with municipalities, local police services, the OPP and the federal government to help shut down these illegal operations."

The Ontario government wins, the union wins, law enforcement wins, and many of the 32 licensed producers of medical marijuana, including Canopy, win.

The losers include the dispensaries, **Loblaw Companies Ltd.** ([TSX:L](#)), whose Shoppers Drug Mart subsidiary wanted in on the action, and ultimately the people of Ontario.

### The winners

The Ontario government wins in so many ways, it's hard to know where to start. More control over the sale of so-called sin products in the province increased profits for its seemingly bare coffers, and, of

course, who can forget higher tax revenue, the ultimate aphrodisiac for any finance minister.

The union wins because it's got another 150 stores it can hold over the Ontario government the next time its contract comes up for negotiation. This past summer, a strike at the LCBO was only avoided after the government caved to OPSEU demands. The union will be back asking for more once the 150 stores start opening in the second half of 2018.

Law enforcement wins because it continues to be able to throw its weight around when it comes to the illegal operation of dispensaries in Ontario. The application of anti-drug policies in Canada and the U.S. has put billions, if not trillions, in the hands of police forces across North America.

Producers such as Canopy win because of the province's antiquated pricing policy. The LCBO on several occasions has been criticized by the Ontario auditor general for how it sets its prices. For example, let's say the LCBO wants to sell a 750-millilitre bottle of wine for \$15 with a 50% markup; it would pay \$10 wholesale for that bottle of wine, even if it could pay less. The same thing will happen with marijuana.

### **The losers**

I've got a pot dispensary just down the street from where I live in Toronto. Seemingly operating in a grey area at the moment, Ontario's plans would appear to shut the door on their operation, but we won't know for sure until 2018.

I thought the pharmacies were a natural for marijuana distribution, so it's understandable if Loblaw executives are feeling the blues as a result of the Ontario government's decision to exclude every possible retailer from the legal retail of pot.

But the biggest losers in this decision are the people of Ontario. Once again, the Ontario government has chosen its self-interest over the people it governs. After years of residents and industry begging and pleading for beer and wine in grocery stores, the government finally relented, but like everything it does, it did so with strings attached.

The bottom line when it comes to the retail sale of marijuana, like what currently exists with alcohol through the LCBO, Ontario residents will get nice-looking stores with very little customization of its product offerings.

So, for those who live in Timmins, the selection will be fabulous. However, here in Toronto, the same selection will appear to be lacking.

But at least we'll all be in control.

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washworth

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