



Slocan Valley Cannabis Synopsis

The Business of Transition - A Grassroots Perspective

Prepared for:

Slocan Valley Economic Development Partnership

[Villages of Slocan, Silverton, New Denver and RDCK Area `H` (Slocan Valley)]

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1) Preface

The Cannabis Industry in the Slocan Valley has a long and storied past. It has played a significant role in how we got here today - economically, demographically and culturally.

Asking residents “Where are we at now, and where are we heading?” – from black market to legalization- is met with wild speculation, on a spectrum from “gold-rush” optimism to plain fear of what may lie ahead.

While interviewing members of the local industry for this report, it’s safe to say that analysis and opinions vary wildly, the picture painted really depends on whose viewpoint you are considering. The field is constantly evolving. There is a lot going on behind the scene that this research isn’t privy to.

Ultimately there will be those that have capacity and will prosper by rising to the challenge, and those who simply don’t and need to prepare for change.

The challenge here is to anticipate and mitigate negative impacts, and foster and temper positive ones.

This is not an academic research paper. It is a snapshot of the Cannabis Industry as it exists in the Slocan Valley based on anecdotal and interview information gathered over a three month period. It is very important information that builds on work completed by the Regional District of Central Kootenay.

However, it is still at the grassroots level, merely adding to an important academic conversation and research area that is up until recently been an unprecedented sector of research and analysis for economic development in Canada, British Columbia, and the Slocan Valley - the isolated geographical region used in this paper.

It should be noted that this report does not suggest the Regional District of Central Kootenay is responsible for resolving the issues uncovered here, or for implementing the suggestions and “Ways to Support” identified.

2) Scope

This synopsis of the Cannabis Industry is not intended to be definitive, all-encompassing or even quantifiable. Rather, it is meant to be a sampling - an attempt to gather grassroots anecdotal and experiential views and information on the ground floor in the Slocan Valley. Armed with this knowledge we can better understand the potential social and economic perceived impacts to the community, as the industry transitions to the legal market.

What is true for Slocan is also true for other areas in British Columbia.

The audience for this report has grown beyond the intended reach of local government and stakeholders. To reposition the report to include the hard-to-get data and research methods that would be more useful for provincial and federal policy-makers would create a substantially bigger undertaking, beyond the scope and resources of the Slocan Valley Economic Development Partnership. The hope is that the material uncovered here is still of use to those conversations.

Consider this a contribution to the body of work done in analysis and consultation for Cannabis in the Kootenays, including the good work by Meeri Durand in the Planning Department of the Regional District of Central Kootenay.

3) Approach

The approach of this report is to dissect the industry, instead of treating it as a block, and look at the tiers of humanity that inhabit the layers of the industry and whose very livelihood and way of life is at play here. There is a wide range of capacity between these tiers, and with it, a disproportionate level of opportunity.

Gaining a better understanding of these tiers will help expose barriers to success within and between them, and improve the likelihood of having successful vertical integration of the industry's transition. With this knowledge, support can then be tailored in specific ways through bite-size programs or policy - delivered by the appropriate agencies.

The Cannabis industry is fluid and changing by the hour. Federal legislation and Provincial policy is a work in progress. The aim here is to create a succinct and digestible snapshot of the current situation, do the best we can and get it out the door, adding it to the on-going dialogue. Private industry is moving quickly to fill gaps in this `new` industry, and while we as government identify, strategize and plan – the pieces on the board have already moved.

4) Goals

1. Get up to speed on the Cannabis industry in the Slocan Valley.
2. Have a greater understanding of the socio- economic implications of legalization.
3. Inquire how people in the industry are being affected.
4. Identify vulnerable sectors of the workforce.
5. Uncover barriers to success.
6. Identify gaps and specific ways to support the different tiers of the industry.
7. Discover any opportunities that would make a big difference on a community scale.
8. Create a simple list of ideas and recommendations to be weighed and considered in greater detail in follow-up analysis.

5) Method

- Interview dozens of local industry leaders and innovators
- Leverage personal relationships and earned trust in the community to achieve a greater level of candor and gain access to otherwise hidden perspectives
- Consult with peers from other agencies and institutions working on the Cannabis file
- Gain a bigger-picture perspective by attending Lift & Co Cannabis Expo in Vancouver, to network, ask questions, and listen to guest speakers and panel discussions from national industry leaders
- Peer review and validate this synopsis by ten professionals working in the industry locally

6) General Observations

- We are at the tip, the inception, of a gigantic emerging industry
- We need to think outside the box
- Canada is at the vanguard of global social change, and the Kootenays is one of the few pockets of community-based Cannabis culture in Canada
- Change happening locally and globally is guaranteed
- Several national industry leaders suggest 50% of companies today won't exist next year- in a trend towards consolidation
- The size of the industry, in terms of projected value, dwarfs any other industry in the Slocan Valley. Historically and currently, it surpasses all other industries combined.

7) Executive Summary

Core Issues

- 1. Capacity and Accessibility** – Transitioning to legal cultivation is inaccessible for most growers
- 2. Land** - Suitable real estate for facility construction is limited, largely due to ALR restrictions
- 3. Financing** - Access to Cannabis capital and banking has challenges not found in other industries
- 4. Licensing Process** - A frontloaded fee-heavy application process with a lack of clear processing timelines and service guarantees
- 5. Infrastructure** – Limitations of power grid and water availability present invisible challenges
- 6. Labour** – Adapting to an above-board workplace requires a mind-shift for staff and employers
- 7. Housing** - Lack of available rental housing or affordable homes to purchase for staff
- 8. Operations** – Assistance with industry SOPs and meeting Health Canada regulations would help
- 9. Marketing** –Marketing and labelling rules limit differentiation, promotion of the Kootenay brand
- 10. Value-added** – Need to keep jobs and profits in the region to maintain its economy

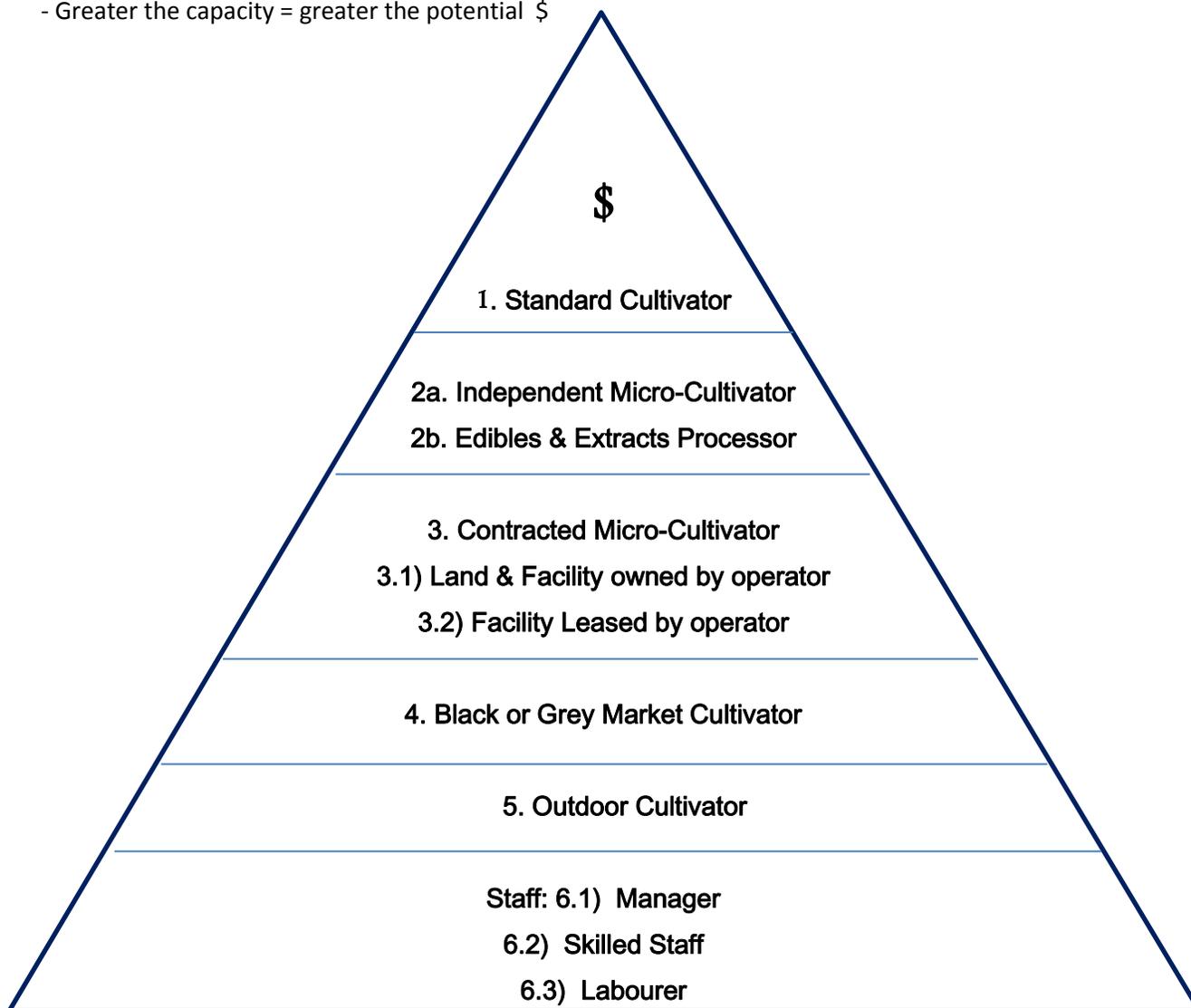
7) SWOT Analysis

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Kootenay “Brand” - reputation for quality product, plant strains and genetics 2. Skilled labour 3. Experience & knowledge with Cannabis 4. Local industry is cooperative and collaborative 5. Supportive local governments 6. Entrepreneurial spirit 7. Assets carried over – eg gardening stores 8. Supportive community and culture 9. Community Futures active on Cannabis 10. Equity in homes and land 	<ol style="list-style-type: none"> 1. Lack of ormalized business skills 2. Distance to distribution centre 3. Limited electrical power grid 4. Housing – rental & affordable 5. “Living in a bubble” mentality 6. Limited access to water 7. Lack of legal income/investment for loans 8. Hard-to-prove operational track record 9. Skittish and risk-adverse lenders 10. Cash flow - takes time to get to market
Opportunities	Threats
<ol style="list-style-type: none"> 1. Infused Beverages – micro, local 2. Edibles and Extracts 3. Cannabis Tourism – Bud & Breakfast, Cannabis Cup, Farm Gate 4. Craft Cannabis – “Luxury Brands” 5. Medicinal – relationship with the plant 6. Research Nursery 7. Supporting Businesses – cannabis and non-cannabis 8. Organics – soil and nutrients development 9. Capitalizing on well known “brand” 10. Cooperatives & Strata models 	<ol style="list-style-type: none"> 1. Global Competition – cheaper product 2. Legislation – unclear or changing 3. ALR zoning 4. Scale of operations – economies of scale 5. Lack of available, suitable land 6. Changing market preferences 7. Loosing strategic advantage over time 8. Corporate takeover of industry 9. Market saturation 10. Failure to meet Health Canada standards

8) The Industry Dissected – A Pyramid of Capacity

Key

- Capacity = ability + resources + opportunity
- Tiers ranked in order of capacity required
- Pyramid top = greatest level of capacity req'd
- Greater the capacity = greater the potential \$



Note: For impact of scale and in the interest of simplicity, Analytical Testing, Nursery, and Research licenses have been omitted.

9) The Industry Dissected – Tiers of Capacity

Introduction

The Pyramid of Capacity exercise is designed to dissect the industry in the Slocan Valley and drill down into its tiers, so policy makers can better understand its complexity. Different tiers of capacity face different challenges and opportunities, described here in terms of its characteristics and situation, barriers to success and ways to support.

In this section “Ways to Support” offers an incomplete list, noted briefly, of areas in which stakeholder organizations might engage or support the industry by addressing barriers that each group faces. Sometimes the barriers are unique to a group, and sometimes there is a considerable amount in common between groups.

It is not intended to lay out here exactly what form that support might take or necessarily by which stakeholder group.

1) Standard Cultivator (previously known as an LP)

Anticipated numbers: 5 in the Slocan Valley

Characteristics: Highly competent, experienced, innovative, well-connected and well-resourced.

Situation: Standard Cultivation requires major investment, sophistication and tenacity to navigate licensing requirements. If successful it represents a huge win for the applicant and the community. Elsewhere in Canada the Standard Cultivator may have substantial backing from a publically traded corporation, but here in the Slocan Valley we are looking at independents dealing with private funding, with similar issues and needs as Micro Cultivators.

Barriers to success:

- Huge Costs
- Difficult Licensing process
- Complex construction of facility
- Finding a suitable location
- Strict Health Canada regulations
- Local building code, zoning
- Infrastructure limitations – hydroelectricity, water
- Availability of labour
- Insurance and Banking slow to adapt

Ways to support:

1. Financing (start-up, operating loans, lines of credit)
2. Advocacy, legislative lobbying, zoning, bylaws , policy
3. Community liason regarding neighbourhood issues near facility
4. Establishing a specialized labour pool
5. Assisting with procedural obstacles
6. The same concessions or incentives any large company locating in an area would be offered
7. One-on-one consultation to tailor assistance to meet their specific and immediate needs.

2a) Independent Micro-Cultivator

Anticipated numbers: 20 in the Slocan Valley

Characteristics: Entrepreneurial, good managers, experienced, connected, resourced. Individuals may group together in twos or threes in order to pool resources and increase capacity, including stacking additional licenses like micro-processing. Taking greater risk to maintain control and reap greater rewards. Some may be speculative - setting up to sell the turn-key operation at a later date.

Situation: It costs an estimated \$1M or more for start-up cost excluding land purchase. They will need to enter into a supply arrangement with a Standard Processor in order to have their product processed and brought to market.

Barriers to success:

- Significant cost of building to specs
- Obtaining financing and investment
- Bottleneck as everyone is trying to get operating asap, leading to competition for access to officials, resources, building supplies and contractors.
- Availability of land, ALR policy, zoning
- Business and management skills sophistication
- Insurance and Banking slow to adapt

Ways to support:

1. Access to financing, especially operating loans and lines of credit
2. Pool of specialized professionals like accountants and lawyers
3. Bookkeeping and similar best-practices training
4. Providing templates, sample agreements and spreadsheets
5. Clarify ALR policy locally

2b) Edibles & Extracts Processor

Anticipated numbers: 10 in the Slokan Valley

Characteristics: Innovative, creative, passionate with a science or medicinal interest. Very independent and entrepreneurial.

Situation: Proposed legislation on Edibles and Extracts was just released in December soliciting feedback. Legalization date is in October. A handful of processors have already been experimenting in the medicinal realm over the past few years, selling product online and in Cannabis dispensaries. A lot of product R & D has already taken place, although more work needs to be done. Packaging design and labeling will need attention. Cannabis inputs for this market will be extracted from greenhouses, indoor crop failures, as a byproduct from trimming and also imported from outside the valley, even outside the country eventually.

Barriers to success:

- Delayed legislation- a year behind other Cannabis product
- Costs and Financing
- More vulnerable to entry by big Pharma, Food & Beverage giants
- Availability of suitable locations
- Volume of production– economies of scale, needs to be very efficient to compete
- Marketing, package design sophistication
- R & D process – more time and money
- Processing equipment can be expensive
- Insurance and Banking slow to adapt
- Lack of formalized science or medicinal accreditation

Ways to support:

1. Consider the co-op model of shared processing space
2. Provide feedback to proposed federal legislation re: Extracts and Edibles
3. Conduct RDCK community consultation process – similar to the Cannabis consultations in Fall 2018
4. Provide support funding for R & D
5. Food safety for Cannabis edibles education
6. Assistance with packaging and design to meet regulations

3) Contracted Micro-Cultivator

3.1) Land & Facility Owned by Operator

Anticipated numbers: 25 in the Slocan Valley

Characteristics: Strong, established growing skills, and able to produce consistently high quality product. Less experienced in administration (understanding of legislation, regulations, bookkeeping and finance). Mix of management abilities, stepping up into a Micro-Cultivator role is a managerial, operational and financial stretch.

Situation: Micro- Cultivator signs contract with third party to assist with licensing process, business planning, administrative support and product purchasing agreement. By far the biggest player in the valley is BC Craft Supply Co. with 12 contracts signed to date and another 10 anticipated in the next year. A longtime local resident is their representative in the valley. Since this is a new and dynamic field with no proven roadmap, if they succeed, so do the contracted Micro-Cultivators.

Each License-holder is expected to gross \$1.5 M in sales annually.

Barriers to success:

- Financing
- Competing for access to officials, building supplies and contractors
- Availability of land, ALR policy, zoning
- Business and management skills sophistication
- Labour force availability
- Challenges met by the contractor company
- Failure to meet product quality standards
- Insurance and Banking (obstacles exist preventing normalized bank services)

Ways to support:

1. In the early stages, support is best directed at the contractor company to increase the odds of success
2. Identifying the gaps in what the contractor company offers and what the contractees (cultivators) are able to provide in order to support contractees directly
3. Access to financing
4. Pool of specialized professionals like accountants and lawyers
5. Bookkeeping and similar best practices courses
6. Offer templates, sample agreements and spreadsheets

7. Professional cooperative development assistance
8. Casual labour pool

3.2) Facility Leased by Operator

Anticipated numbers: 20 in the Slocan Valley

Situation: Different to the Micro-Cultivator who owns their facility and the land it sits on, this cultivator leases the building to work in. There are a number of scenarios where this might take place, including a shared use Cannabis industrial park. This individual or team may not have the resources to own their own building, or may be leveraging the funds they do have to focus on running the business(es). It may also be a sublease situation. The beauty of this model is that it may make cultivation more accessible to those with less capacity.

4) Black or Grey Market Cultivator

Anticipated numbers: Unknown. This group can be split into two groups:

- A) those that are transitioning in the legal market; and
- B) those that intend to keep working the black (illegal) or grey (medical Marijuana licence holder bending the rules) market as long as they are able.

Many of those transitioning to the legal market will likely keep something going offsite in the short-term to help finance the transition, shutting down the unlicensed operation when the transition is complete. In this section we will refer to those not planning to transition to the legal market.

Characteristics: Ranging from competent to marginal quality growers, scale also ranges from very small to medium size. This group is at the greatest risk of having a bumpy transition. This group can include ``old timers``, whose options may be limited, but often have equity in real estate.

Situation: Operating in the black or grey market can't be condoned, as it is still against the law. There will likely be a grace period of 2-3 years whereby these markets will continue to exist through market supply and demand inequities. This group is one of the most vulnerable with consequences including moving away, selling their homes (if they are landowners), and being charged if caught breaking the law.

Options for the Black or Grey Market Cultivator:

- A. Maintain status quo, until they are unable to continue growing
- B. Apply for an Outdoor Cultivation license
- C. Start a legitimate Cannabis-supporting business or service (non-cultivating)
- D. Start an unrelated business, home-based or storefront
- E. Become staff for a Cannabis business (see Tier 6.1 Managers, and 6.2 Skilled below)
- F. Join the general labour pool
- G. Retrain or go back to school

Barriers to success:

- Insufficient traceable funds or credit
- May not possess suitable land
- Ability – might be lacking skills or practice for a good work regimen
- Lack of desire or energy to make the transition, especially for the older operators
- Possible criminal record

Ways to support:

1. Coaching through the transition into a new role in or outside the industry.
2. New business start-up support eg. Community Futures programs.
3. Staff training and re-training at Cannabis specific programs at community colleges and online
4. Create a casual labour pool and Cannabis recruitment service
5. Develop a Greenhouse program for Outdoor Cultivators

5) Outdoor Cultivator

Anticipated numbers: 100 in the Slocan Valley

Characteristics: Lower income, living more simply or frugally – often by choice. Many use this income as a supplement to other work or business.

Situation: The ALR restrictions can be an obstacle in obtaining a Cultivator licence, however soil-based greenhouses are permitted. An added benefit for the valley is the more greenhouses that are built, the closer we inch towards food security options for the future. Kootenay Outdoor Producer's Co-op is forming with alliances possible if the entity succeeds.

Barriers to success:

- Outdoor growing environment is more susceptible to naturally-occurring pests
- Product will often not meet the same quality standard as that grown indoor in a controlled environment
- Limited income - Only one or two crops a year, typically at a lower price
- Labour challenges more acute than other `tiers`, since work is seasonal and not consistent, and the need for help comes at the same as all other Outdoor Cultivators
- Reliant on a third-party nursery to obtain plant starts every season

Ways to support:

1. Streamlining the set-up process by supplying a list of suggested designs, contractors and training.
2. Create a Greenhouse License small loans program (\$10-50K)
3. Clarifying ALR restrictions and supporting good ALR policy would help
4. Provide access to Agricultural resources for pest management and soil amending
5. Help with a labour pool specializing in outdoor, soil-based production

6.1) Staff : Manager

Anticipated numbers: 40 in the Slocan Valley

Characteristics: Good people skills, multi-tasker, problem solver, they're competent, experienced, flexible. Can work with local officials, Health Canada inspectors, tradespeople and be financially savvy. They need to ultimately deliver a product that meets high standards. A lot of responsibility lies on their shoulders.

Situation: The managers typically did a good job of managing cultivation operations before (perhaps their own); knows the License holder and doesn't have the capacity to get a Micro Cultivation license for themselves. The industry needs adaptive and flexible staff as the landscape is changing quickly. Kootenay talent at this level is in high demand nationally and globally as new legal markets open up.

Barriers to success:

- Trailblazing an merging industry with moving goalposts
- Managing staff in a legal environment now – payroll, WorkSafe, Federal requirements, security, Health Canada
- Meeting quality testing requirements, standard operating procedures and Health Canada requirements
- Ensuring profitability in a government regulated marketplace

Ways to support:

1. Professional development workshops
2. Offer labour programs to help with hiring, training and keeping staff
3. Facilitate the flow of timely information from government on industry regulation developments, and policy changes
4. Streamline the interface with government officials

6.2) Staff : Skilled Worker

Anticipated numbers: 200, additional 50 seasonal for Outdoor Cultivators **in the Slocan Valley**

Characteristics: Experienced, smart, savvy, local, skilled, the best of the workforce who may have stepped up to fill a more senior role.

Situation: Currently staff `star candidates` are not fully employed and waiting in the wings. Positions like `Quality Control` are well paid and can be shared between several Cultivators. Each Micro Cultivator facility will likely employ 5-6 staff, plus casual workers.

Barriers to success:

- Re-training to learn SOPs and operate within Health Canada`s arena
- More conventional workplace - adapting to a different work environment
- Downward shift in income and lower wages likely for some

Ways to support:

1. Assist with the security clearance process
2. Encourage an employee referral and rating program to assist with upward mobility
3. Share best practices from the industry
4. Consider offering a "Red Seal" training program for excellence

6.3) Staff: Labourer

Anticipated numbers: 300, plus 100 seasonal **in the Slokan Valley**

Characteristics: General labour - young or new to the business, new to the area, youthful strength and energy. Trimmers and cleaners are currently predominately female. It is possible for older staff to do simple tasks like pruning.

Situation: One insider estimates the area will create 500 new jobs. Cleaners and trimmers have typically been female, often young mothers raising kids on their own or supplementing family income. Previously the going rate was \$25 an hour, which dropped to \$20 due to dropping prices of cannabis. In the current projected model they may be getting \$15-17 an hour.

Barriers to success:

- Transportation to work
- Training
- Finding connections to employers
- Being paid a livable wage
- Finding affordable housing

Ways to support:

1. Encourage industry labour standards and wage rates
2. Standardization for workforce training, including retail dispensary staff
3. Promote training courses to improve upward mobility and increase pay
4. Address the lack of rental or staff housing
5. Transportation may need to be addressed by having mobile work crews
6. Create a casual staffing pool to benefit all
7. WorkBC or KCDS support for those entering work force

11) Suggestions for Stakeholders - What We Heard

1. Prepare the labour force – meeting the demands of a restructuring industry. Training, educating standardizing and facilitating. Cannabis Employment agency-type website. Red Seal training program for master growers.
2. Finance – partner or pave the way with other funding agencies, banks or credit unions willing to lend alongside Community Futures. – capital, bridge, small loans and operating loans, lines of credit.
3. Provide help with navigating and streamlining various agencies– clarify zoning, ALR exemptions, educating Realtors and Building Inspectors, CRA compliance, Health Canada interface. Perhaps one point of contact?
4. Disseminate timely and accurate information from government to industry.
5. Develop Cannabis-specific business planning, providing sample budget templates and cash-flow spreadsheets.
6. Establish a pool of experienced bookkeepers, accountants, financial advisors, human resource professionals and lawyers that specialize in Cannabis practice.
7. Share sample Standard Operating Practices for the Cannabis industry.
8. Promote Advocacy – funnel information and feedback from the grassroots to decision-makers. Consider creating an industry lobbyist position to advise and help shape government policy. Support local Cannabis associations.
9. Normalize insurance and banking for the Cannabis industry including insurance coverage and bank accounts.
10. Assist with co-op development and facilitate team-building eg. provide tools to help group together those with less capacity in order to apply for a single Micro Cultivator license.
11. Provide transition coaching, counselling and support.
12. Allow for exclusion of some marginal lands in the ALR, to allow for Micro Cultivator facilities to be built.

13. Develop marketing work-arounds such as QR codes on packaging. Encourage solutions to over-packaging and waste in the new industry.
14. Look down the road at export/import implications.
15. Develop options for Cannabis Tourism such as farm-gate sales, Bud & Breakfast, Regional Branding or certification (like Appellation for wine).
16. Back training – provide workshops, training and courses for new businesses and the emerging workforce.
17. Explore feasibility and planning for Cannabis Industrial parks and the Strata model, housing multiple Micro-Cultivators.
18. Consider quick housing solutions like modular homes, campgrounds or tiny home parks.
19. Integrate WorkSafe BC into the industry.
20. Incentivize LED technology to reduce power consumption, and water conservation methods.
21. Consider Community or cooperative –owned Cannabis flower processing facility.
22. Consider Community or cooperative-owned Extracts and Edibles facility.
23. Explore the idea of mobile units for testing facilities, irradiation, vans to transport cleaning or trimming crews.
24. Create a Greenhouse Program – create a kit including greenhouse designs, preferred suppliers and contractors, turn-key business plan coupled with a loan program from Community Futures.
25. Assist with vetting non-traditional financial equity sources, loan deals and financing agreements.

Notes
