



## Policy costing

Legalise, tax and regulate the trade of cannabis	
Party:	Australian Greens
<p>Summary of proposal:</p> <p>This proposal would legalise the production and sale of recreational cannabis in Australia through a tightly regulated model, as follows.</p> <ul style="list-style-type: none"><li>• A new agency, the Australian Cannabis Agency (the Agency), would be established to oversee the legalisation and regulation of recreational cannabis. The Agency would act as the sole wholesaler between producers and retail outlets.</li><li>• The Agency would set the wholesale price for cannabis, based initially on the Australian street price for cannabis. The price would then fluctuate according to market forces.</li><li>• The Agency would be responsible for issuing production licences to cultivators and sale licences to private retail outlets.</li><li>• Application fees for production licences would be set at \$3,500 per application. Annual fees for producers would vary, based on the size of their plant canopies. Tier 1 producers, whose plant canopies are 2,000 square feet or less, would be charged \$1,750 per year. Tier 2 producers, whose plant canopies are between 2,000 and 10,000 square feet, would be charged \$2,000 per year. Tier 3 producers, whose plant canopies are over 10,000 square feet, would be charged \$2,300 per year.</li><li>• Application fees for retail licences would be set at \$1,500 per application and annual fees for retail outlets would be set at \$1,000 per year.</li><li>• Sales of recreational cannabis would be restricted to individuals over 18 years of age, with no restrictions on the amount individuals could purchase.</li><li>• Sales of recreational cannabis to overseas visitors would be permitted.</li><li>• Individuals would be permitted to grow up to six plants for personal use. Imports of cannabis into Australia would remain illegal.</li><li>• Sales of recreational cannabis would attract the goods and services tax (GST) as well as an excise.</li><li>• An excise rate of 25 per cent would apply on all GST-inclusive sales of recreational cannabis.</li><li>• 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.</li></ul> <p>The proposal would have effect from 1 July 2019.</p>	

## Costing overview

This proposal would be expected to increase the fiscal balance by \$4,181 million and increase the underlying cash balance by \$4,041 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, this impact reflects an increase in revenue of \$5,403 million, offset by a net increase in expenses of \$1,222 million.

The proposal would have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. The detailed financial implications of the proposal over the period to 2029-30 are provided at [Attachment A](#).

The departmental expenses of this costing include an increase in expenditure for establishing the Australian Cannabis Agency and for the Agency to regulate the recreational cannabis market under the proposal.

As a result of the reduced requirement for cannabis law enforcement, the proposal would be expected to result in a decrease in departmental expenses for the Australian Federal Police (AFP).

Departmental expenses for the Australian Taxation Office and the Department of Home Affairs to administer the proposed taxes on recreational cannabis sales are not expected to be material as it would be expected that these taxes could be administered through currently established systems and processes.

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 to estimate the level of consumption of recreational cannabis or the market price. There is also uncertainty around how consumption and price would change over the period to 2029-30 and any behavioural responses as a result of the proposal. Assumptions are based on analysis of countries and states where legalisation of recreational cannabis has occurred, however 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: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
Fiscal balance	9	1,547	1,377	1,247	<b>4,181</b>
Underlying cash balance	9	1,377	1,387	1,257	<b>4,041</b>

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

(b) Figures may not sum to totals due to rounding.

## Key assumptions

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

### Demand

- The proportion of the Australian adult population that currently consumes recreational cannabis on a regular basis is around 10 per cent.

- Recreational cannabis consumers would purchase three grams per week on average.
- The legalisation of cannabis would result in a 15 per cent increase in demand for cannabis products in the first year. Demand would continue to grow in line with population growth after the first year.

## Sales

- Sales of recreational cannabis to overseas visitors would account for around 10 per cent of total sales.
- The price of recreational cannabis and the profit margin of producers would initially decline as supply increases as a result of the proposal.

## Production

- The proposal would not be legislated and receive royal assent to give enough time for producers to cultivate cannabis plants ahead of the policy start date. Sales of Australian-grown cannabis would therefore be expected to commence in 2020-21.
- The average harvest per square foot of cannabis plant canopy would be 50 grams.
- The market share of producers would be:
  - Tier 3 producers would account for around half the market
  - Tier 2 producers would account for around three-eighths of the market
  - Tier 1 producers would account for around one-eighth of the market.
- The number of production licences issued would grow over time as more suppliers enter the market.
- The number of retail sales licences issued would grow over time with increased demand for recreational cannabis.
- The average cost of producing cannabis in Australia would be around \$4 per gram in 2019-20, based on data from Canada and the United States.
- The cost of producing cannabis in Australia would grow with the consumer price index (CPI).
- The profit margins of producers and retailers of recreational cannabis would be similar to those of the tobacco industry.
- Producers would cover the costs of manufacturing, packaging and shipping of recreational cannabis products.

## Other assumptions

- The financial implications related to the consumption of cannabis plants for purposes other than recreational use would not be material.
- Legalising cannabis would have no impact on alcohol and tobacco excise revenue.
- Departmental expense estimates for the Agency are based on budgets of agencies with similar regulatory functions.
- The AFP would re-allocate a proportion of the resources currently directed at cannabis law enforcement to strengthen the law enforcement of other illicit substances.
- No tax is currently being paid on the income derived from the illegal trading of cannabis.

- Penalties for the sale of cannabis to individuals under 18 years of age would be administered by state governments.

## Methodology

The magnitude of the annual sales of cannabis under the proposal was calculated by multiplying the expected number of cannabis users per year by the estimated average amount consumed per year. This amount was then projected to 2029-30 using the above assumptions, including adjustments for behavioural responses identified above.

The initial wholesale price set by the Agency was calculated based on the current street price of recreational cannabis and the proposed excise rate.

The GST impact was calculated by applying the GST rate to the estimated total pre-tax sales of recreational cannabis.

The financial impact of the proposed cannabis excise was estimated by applying the excise rate of 25 per cent to the estimated total GST-inclusive retail sales.

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

The number of applications for cannabis production licences was estimated by comparing the expected demand for recreational cannabis with the expected yield of cannabis plantations.

Departmental expense estimates for the AFP are based on the AFP's current budget for illicit drug law enforcement and the proportion of all illicit drug arrests related to cannabis.

The costing has taken into account the timing of tax collections.

Excise, GST and company tax estimates have been rounded to the nearest \$10 million.

Departmental estimates have been rounded to the nearest \$1 million.

## Data sources

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## Attachment A – Legalise, tax and regulate the trade of cannabis – financial implications

**Table A1: Legalise, tax and regulate the trade of cannabis – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Revenue</b>													
<i>Cannabis excise</i>	-	1,180	1,110	1,030	950	880	910	940	970	1,000	1,030	3,330	10,000
<i>Company tax</i>	-	330	270	220	170	130	130	130	140	140	150	820	1,810
<i>GST</i>	-	430	400	370	350	320	340	350	350	380	380	1,200	3,660
<i>Australian Cannabis Agency</i>	22	10	10	10	11	11	11	11	12	12	12	53	133
<b>Total – revenue</b>	<b>22</b>	<b>1,950</b>	<b>1,790</b>	<b>1,630</b>	<b>1,481</b>	<b>1,341</b>	<b>1,391</b>	<b>1,431</b>	<b>1,472</b>	<b>1,532</b>	<b>1,572</b>	<b>5,403</b>	<b>15,603</b>
<b>Expenses</b>													
<b>Administered</b>													
<i>GST to states</i>	-	-390	-400	-370	-360	-320	-340	-350	-350	-370	-380	-1,170	-3,630
<b>Total – administered</b>	<b>-</b>	<b>-390</b>	<b>-400</b>	<b>-370</b>	<b>-360</b>	<b>-320</b>	<b>-340</b>	<b>-350</b>	<b>-350</b>	<b>-370</b>	<b>-380</b>	<b>-1,170</b>	<b>-3,630</b>
<b>Departmental</b>													
<i>Australian Cannabis Agency</i>	-45	-45	-45	-45	-46	-46	-46	-47	-47	-47	-48	-180	-507
<i>Australian Federal Police</i>	32	32	32	32	32	33	33	34	34	35	35	128	364
<b>Total – departmental</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-14</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-12</b>	<b>-13</b>	<b>-52</b>	<b>-143</b>
<b>Total – expenses</b>	<b>-13</b>	<b>-403</b>	<b>-413</b>	<b>-383</b>	<b>-374</b>	<b>-333</b>	<b>-353</b>	<b>-363</b>	<b>-363</b>	<b>-382</b>	<b>-393</b>	<b>-1,222</b>	<b>-3,773</b>
<b>Total</b>	<b>9</b>	<b>1,547</b>	<b>1,377</b>	<b>1,247</b>	<b>1,107</b>	<b>1,008</b>	<b>1,038</b>	<b>1,068</b>	<b>1,109</b>	<b>1,150</b>	<b>1,179</b>	<b>4,181</b>	<b>11,830</b>

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A2: Legalise, tax and regulate the trade of cannabis – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Receipts</b>													
<i>Cannabis excise</i>	-	1,080	1,120	1,040	950	880	910	940	970	1,000	1,030	3,240	9,920
<i>Company tax</i>	-	300	270	220	180	130	130	130	140	140	150	800	1,800
<i>GST</i>	-	390	400	370	360	320	340	350	350	370	380	1,170	3,630
<i>Australian Cannabis Agency</i>	22	10	10	10	11	11	11	11	12	12	12	53	133
<b>Total – receipts</b>	<b>22</b>	<b>1,780</b>	<b>1,800</b>	<b>1,640</b>	<b>1,501</b>	<b>1,341</b>	<b>1,391</b>	<b>1,431</b>	<b>1,472</b>	<b>1,522</b>	<b>1,572</b>	<b>5,263</b>	<b>15,483</b>
<b>Payments</b>													
<i>Administered</i>													
<i>GST to states</i>	-	-390	-400	-370	-360	-320	-340	-350	-350	-370	-380	-1,170	-3,630
<b>Total – administered</b>	<b>-</b>	<b>-390</b>	<b>-400</b>	<b>-370</b>	<b>-360</b>	<b>-320</b>	<b>-340</b>	<b>-350</b>	<b>-350</b>	<b>-370</b>	<b>-380</b>	<b>-1,170</b>	<b>-3,630</b>
<i>Departmental</i>													
<i>Australian Cannabis Agency</i>	-45	-45	-45	-45	-46	-46	-46	-47	-47	-47	-48	-180	-507
<i>Australian Federal Police</i>	32	32	32	32	32	33	33	34	34	35	35	128	364
<b>Total – departmental</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-14</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-13</b>	<b>-12</b>	<b>-13</b>	<b>-52</b>	<b>-143</b>
<b>Total – payments</b>	<b>-13</b>	<b>-403</b>	<b>-413</b>	<b>-383</b>	<b>-374</b>	<b>-333</b>	<b>-353</b>	<b>-363</b>	<b>-363</b>	<b>-382</b>	<b>-393</b>	<b>-1,222</b>	<b>-3,773</b>
<b>Total</b>	<b>9</b>	<b>1,377</b>	<b>1,387</b>	<b>1,257</b>	<b>1,127</b>	<b>1,008</b>	<b>1,038</b>	<b>1,068</b>	<b>1,109</b>	<b>1,140</b>	<b>1,179</b>	<b>4,041</b>	<b>11,710</b>

- (a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.  
A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.
- (b) Figures may not sum to totals due to rounding.
- Indicates nil.