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Parliament of Australia
Parliamentary Budget Office

Phil Bowen PSM FCPA
Parliamentary Budget Officer

Senator David Leyonhjelm
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *Legalising marijuana* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Julie Jasas on (02) 6277 9541 or David Tellis on (02) 6277 9542.

Yours sincerely

Phil Bowen

21 September 2016

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Policy costing—outside the caretaker period

Name of proposal:	Legalising marijuana
Summary of proposal:	<p>The proposal would legalise all marijuana/cannabis/hemp use by adults, as well as possession, cultivation, processing, transport, trade, import and export. No excise would be imposed on marijuana.</p> <p>This proposal would also reduce the budgets of relevant federal agencies including the Australian Federal Police (AFP), Australian Criminal Intelligence Commission (ACIC), and the Australian Border Force (ABF) by the level of funding directly associated with marijuana law enforcement.</p> <p>An estimate of the effect of this proposal on total marijuana usage was also requested.</p> <p>The proposal would have effect from 1 July 2017.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	21 September 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to increase the fiscal balance by \$342.0 million and the underlying cash balance by \$292.0 million over the 2016-17 Budget forward estimates period. This reflects the net impact of an increase in Goods and Services Tax (GST) revenue and a decrease in federal law enforcement expenses over this period.

The fiscal balance impact of this proposal differs from the underlying cash balance impact because the expense accrued in relation to GST payments to the states and territories is based on GST cash collections each month, which lag behind the accrual of GST revenue that occurs when consumer spending occurs.

As a result of a reduced requirement for law enforcement, this proposal would be expected to decrease the expenses of the AFP and the ABF by \$292.0 million over the forward estimates period on both a fiscal and underlying cash balance basis. Impacts on other federal agencies are unlikely to be material or are unable to be quantified.

A detailed breakdown of the financial implications of this proposal over the 2016-17 Budget forward estimates period is presented at Attachment A. This proposal would have an ongoing impact that extends beyond the forward estimates period.

This costing is considered to be of low reliability. There is uncertainty regarding the price and quantity of marijuana currently consumed, and the price and quantity of marijuana that would be consumed in a newly legalised market. It is also difficult to separately identify marijuana law enforcement activities, as these are often integrated within broader law enforcement activities.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	148.0	97.0	97.0	342.0
Underlying cash balance	-	98.0	97.0	97.0	292.0

(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.

- Indicates nil.

Key assumptions

- All states and territories would align with the Commonwealth in fully legalising marijuana, hemp growing, and the production of hemp for human consumption.
- There would be no restrictions on marijuana production, for example quotas or restrictive licencing.
- The proportion of supplies made by producers of marijuana under the registration threshold for GST is the same as the proportion of sales in the general economy.
- This proposal would result in an increase in marijuana supply and demand. It is estimated that marijuana consumption would increase from approximately 339 tonnes in 2016-17 to 381 tonnes in 2017-18, 388 tonnes in 2018-19 and 394 tonnes in 2019-20.
 - The legalising of marijuana would result in a significant increase in the supply of marijuana, either through Australian production or imports, with a commensurate reduction in the price.
 - The legalising of marijuana would result in increased demand for marijuana, reflecting the impact of lower prices and the lifting of penalties on marijuana use.

- There would be no impact on excise collections from the sale of alcohol or tobacco.
 - A number of studies have analysed whether marijuana is a complement to, or substitute for, alcohol and tobacco. However the literature has not reached a consensus, with the findings of different studies in conflict¹.
- While hemp seeds are currently used in a variety of food products in countries where it is legal to do so, including in foods such as margarines, cereals and hemp milk, or consumed raw, the level of consumption is relatively small². Therefore the impact of legalising the production of hemp seed for human consumption has not been included in this costing.
- Expenditure on marijuana increases at the same rate as the Consumer Price Index across the forward estimates period.
- The AFP and ABF are the only federal agencies where a material amount of funding directly associated with marijuana law enforcement is able to be separately identified.
 - As outlined in its 2014-15 annual report, the Australian Crime Commission (now the ACIC) high risk and emerging drugs intelligence operations primarily focus on drugs other than cannabis.
 - Any reduction in staffing numbers in federal agencies would be managed through natural attrition across the forward estimates.
 - The vast majority of the budget impact of marijuana law enforcement on the court and prison systems (including revenue raised from penalties) would be on state and territory governments.
- The Parliamentary Budget Office (PBO) has assumed that the proportions of the total budgets for the AFP and ABF that are directly relevant to illicit drug law enforcement are the same as those used previously by the National Drug and Alcohol Research Centre³. These amounts were then adjusted to reflect the estimated proportion of law enforcement activities that are directly relevant to cannabis.

Methodology

The GST impact of this proposal was calculated by applying the 10 per cent GST rate to estimated household consumption expenditure on marijuana under the proposal. The departmental expenses associated with the administration of applying the GST to marijuana products was calculated by applying the ratio of current GST administration expenses and revenue.

The proportion of AFP and ABF law enforcement budgets directly relevant to cannabis was estimated by multiplying total illicit drug law enforcement spending by the proportion of all illicit drug arrests that related to cannabis.

¹ Clements et al (2010).

² Crawford et al (2012).

³ Ritter et al (2013).

The PBO has not made any assessment of the impact of this proposal on state and territory government budgets.

Revenue estimates have been rounded to the nearest \$50 million. Departmental expenses have been rounded to the nearest \$1 million.

Data sources

Australian Bureau of Statistics, 2012. *The Non-Observed Economy and Australia's GDP*, Canberra: Australian Bureau of Statistics.

Australian Crime Commission, 2015. *2014-15 Annual Report*, Canberra: Australian Criminal Intelligence Commission.

Australian Criminal Intelligence Commission, 2016. *Illicit Drug Data Report 2014-15*, Canberra: Australian Criminal Intelligence Commission.

Australian Federal Police, 2016. *2015-16 Annual Report*, Canberra: Australian Federal Police.

Australian Institute of Health and Welfare, 2013. *National Drug Strategy Household Survey*, Canberra: Australian Institute of Health and Welfare.

Australian Public Service Commission, 2016. *APS Statistical Bulletin 2015-16*, Canberra: Australian Public Service Commission.

Clements, K., Lan, Y. & Zhao, X., 2010. The demands for marijuana, tobacco and alcohol: inter-commodity interactions with uncertainty. *Empirical Economics*, 39(1), pp. 203-239.

Commonwealth of Australia, 2016-17. *Attorney General's Portfolio Budget Statements*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2016-17. *Department of Immigration and Border Protection Portfolio Budget Statements*, Canberra: Commonwealth of Australia.

Commonwealth of Australia, 2016. *2016-17 Budget*, Canberra: Commonwealth of Australia.

Crawford, F., Deards, B., Moir, B. & Thompson, N., 2012. *Human consumption of hemp seed: prospects for Australian production*, Canberra: Department of Agriculture, Fisheries and Forestry.

Ritter, A., McLeod, R. & Shanahan, M., 2013. *Government drug policy expenditure in Australia - 2009/10*. Sydney: National Drug and Alcohol Research Centre.

Williams, J., 2004. The effects of price and policy on marijuana use: what can be learned from the Australian experience?. *Health Economics*, 13(2), pp. 123-137.

Attachment A – Legalising marijuana— financial implications

The following tables provide a breakdown of the estimated impacts of legalising marijuana from 1 July 2017 over the 2016-17 Budget forward estimates period on a fiscal and underlying cash balance basis.

Table A1: Legalising marijuana—Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
GST revenue	-	350.0	300.0	250.0	900.0
GST expenses to the states and territories	-	-297.0	-297.0	-248.0	-842.0
Departmental expenses - Australian Taxation Office	-	-3.0	-3.0	-2.0	-8.0
Net GST impact	-	50.0	50.0
Departmental expenses - AFP	-	52.0	51.0	51.0	154.0
Departmental expenses - ABF	-	46.0	46.0	46.0	138.0
Net law enforcement impact	-	98.0	97.0	97.0	292.0
Total	-	148.0	97.0	97.0	342.0

(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.

.. Not zero but rounded to zero.

- Indicates nil.

Table A2: Legalising marijuana—Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
GST receipts	-	300.0	300.0	250.0	850.0
GST payments to the states and territories	-	-297.0	-297.0	-248.0	-842.0
Departmental expenses - Australian Taxation Office	-	-3.0	-3.0	-2.0	-8.0
Net GST impact	-	-	-	-	-
Departmental expenses - AFP	-	52.0	51.0	51.0	154.0
Departmental expenses - ABF	-	46.0	46.0	46.0	138.0
Net law enforcement impact	-	98.0	97.0	97.0	292.0
Total	-	98.0	97.0	97.0	292.0

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

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

- Indicates nil.