

**Public Hearing in the European Parliament on Drug Reform and Cannabis
regulation 08-12-2010**

My name is Marc Josemans, I am a cannabis coffeeshop owner for almost 30 years and I am also the chairman of the tolerated Maastricht coffeeshop union, the VOCM, and a board member of the LOC, a national platform of Dutch coffeeshops.

Regulation of cannabis can be considered as a way out of the economical crisis.

Maybe this statement is a bit exaggerated, but regulation can certainly help to relieve the financial pain of the crisis. Let me give you some examples.

In 2008, the VOCM commissioned the Science Shop of Maastricht University to carry out a study into the economic significance for the local economy of coffeeshops in Maastricht. The assignment was carried out by OWP Research. The final study report included an estimate of the economic effects of the 14 tolerated coffeeshops in Maastricht as well as a description of coffeeshop visitor profiles.

Maastricht is on the brink of major changes as a result of the policy intentions of the municipal government with regard to the urban location of coffeeshops. A plan has been formulated to move a number of coffeeshops to locations on the edge of the city in order to reduce the pressure, in terms of traffic and visits, brought to bear on the city centre of Maastricht by mostly Belgian and German visitors to coffeeshops.

This plan can be viewed within the context of the autonomous growth in the total number of visits paid to the Maastricht city centre, which have increased sharply in recent years (source: OWP Research, Tourism Index Maastricht 2005 and 2006). In view of the above developments, the VOCM considered it important to ensure that a study was carried out into the economic significance of coffeeshop visits for Maastricht.

The study focuses on the economic effects of the amounts spent by coffeeshop visitors in their purchases outside the coffeeshop but inside Maastricht.

Purchases spent on goods and services have direct as well as indirect effects on turnover and employment. The indirect or spin-off effects generally benefit suppliers. After all, if a coffeeshop visitor spends money on eating and drinking, it will first and foremost result in increased turnover for the restaurant or bar. The restaurant or bar also needs to purchase goods and services to meet the demands of the visitor. An increase in the turnover of the restaurant and/or bar will therefore also result in an increased turnover for their suppliers. This indirect effect can also be expressed in terms of turnover and employment.

The study indicates that 3.9 million visits are paid to Maastricht coffeeshops each year by 2.1 local and foreign million visitors.

The total amount spent by coffeeshop visitors outside the coffeeshop is estimated at €119 million per year.

It has a total effect on the turnover of Maastricht businesses equal to €141 million.

The largest part of this impact benefits the retail sector (€80 million) and the eating & drinking sector (€38 million). The increased turnover in the non-commercial services sector is estimated at €5.3 million, primarily due to parking expenses. It is also notable that the "other commercial services" sector, primarily involving business services, benefits from a significant indirect effect equal to €8.0 million.

Similar to the manner in which the impact on turnover was calculated in the previous section, the impact on the local job market was calculated resulting from the amounts spent (outside the coffeeshops) by visitors to coffeeshops. The impact is expressed in terms of full-time employment years.

The direct impact on the job market of the €119 million spent (outside the coffeeshops) by visitors to coffeeshops is equal to 1.484 employment years. The total impact on the job market, including spinoff from suppliers, is equal to 1.617 employment years. This effect benefits primarily the retail sector (958 employment years) and the eating & drinking sector (508 employment years). As the amounts spent by visitors are recurring annual amounts, they are structural in nature.

The 14 coffeeshops in Maastricht provide another added 384 employment years. So actually coffeeshops contribute significantly to the local economy.

Coffeeshop owners are from a fiscal aspect subject to normal charges. They are liable, just like every other enterprise, to pay taxes on their revenues (income or corporation tax). They have to pay social premiums and income tax for the employees that work in the coffeeshop, even for the employees that work (although forbidden) in the supply. Dutch coffeeshops have a positive effect on the economy. They create thousands of full-time jobs, mostly for those who have not attained higher-education, provide a strong impulse on the regional economy, and yield an estimated 443 million Euros in tax revenue each year according to officials of the Ministry of Finance in February this year. .

Economist Boermans, a Lecturer at the Academy of Utrecht, presented a study at the Amsterdam Law Forum in April 2010, named:

AN ECONOMIC PERSPECTIVE ON THE LEGALISATION DEBATE: THE DUTCH CASE

His conclusion is that key assumptions driving any policy recommendation from an economic perspective are the price elasticity of demand and externalities involved with consumption.

A key point many economists have made is that the market structure causes most of the negative externalities, and not necessarily drug consumption; this is obvious in the Netherlands where consumers generally do not fear prosecution.

Two propositions derived from his study are that firstly: prohibition hurts consumers and leaves profiteering to producers. Secondly, enforcement not only increases the price of drugs but under inelastic demand, enforcement pumps disproportionately more resources into the drug market because consumers and producers alter their behaviour in illegal goods markets.

A corollary shows that higher punishment causes an adverse selection process, where only the 'toughest' producers remain while earning even more profits and causing greater negative externalities such as increased criminal activity. In other words, prohibition of drugs shifts the supply curve upward. Enforcement and punishment are effectively a tax on suppliers, which raises their production costs and allows them to profit. Prohibition shifts the demand curve downward and lowers consumption. Taking these factors into account together implies higher drug prices under prohibition, which is a disadvantage for consumers. Under prohibition the producer surplus results in negative externalities including criminal activity, health problems, distorted education and moral stigmas.

Boermans states that in legalized markets, producers lose the possibility of profits and prices drop to a competitive level. In order to balance the possible rise in consumption, government can apply a tax system to raise prices, lower consumption and obtain income transferred from consumption; yet, only up to the point where externalities from consumption can be paid back for. Therefore, under legalisation the government earns some income and saves in costs typically put towards enforcement, while compared to prohibition, consumers are better off and producers cannot profit.

As there is so much uncertainty about possible policy implications, Boermans proposes first to levy a tax on drugs that does not extensively affect the current price level. Based on preliminary back-of-the-envelope calibrations one can expect a yearly 'net' tax gain of up to 850 million euro in the Netherlands. It is not a concern that legalisation of soft drugs may cause a rapid rise in consumption, because the good is already widely and 'legally' available in the Netherlands and prices are kept constant. Regulation and taxation can ease consumption and negative externalities through price effects and tax income. The core pillars of Dutch drug policy should remain and they would be strengthened under legalisation.

If you are interested to receive a copy or more details about the two mentioned studies, please feel free to ask me. Thanks for your interest.