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## **Analysis**

After the legalization of cannabis in 2018, the cannabis market is now entering a consolidation period. The number of firms in the cannabis market is decreasing. The merger of Aurora and CanniMed will cause the cannabis price to increase, and quantity to decrease. It will also lessen competition in the marketplace.

The merger of the two firms will create a larger barrier to entry to keep new firms from entering the cannabis market. If two firms merge, the merged firm will achieve economy of scale, which means that the merged firm has more resources to improve its production efficiency, lower the marginal cost and improve its product quality. For example, firm A's management team is efficient, while firm B have technology to produce better cannabis. After combination, both firm A and firm B have good management team and can produce better cannabis. Therefore, compared with other cannabis firms, the merged company has larger market power, which means that the firm has the ability to influence the market price of cannabis. To maximize the profits, the merged firm will sell the cannabis at a higher price and still attract more consumers due to larger market power. While other firms will lose consumers and might have to set a lower price for their products to gain maximum profits. Since the merged firm provide a better product with lower cost, it is difficult for both domestic and foreign small firms to compete with it and gain a profit.

The merged firm will gain a positive economic profit, but the merger of the two firms will lead to an inefficiency in the market. As the merged company increased cannabis price in the market, the average price in the market will increase, and the quantity of the cannabis sold will

decrease based on the demand curve. In this case, cannabis consumers will experience a loss in consumer surplus, and other firms will experience a loss in producer surplus. Overall, a deadweight loss is formed in the cannabis market.

If there are many firms in the cannabis market and merged firm only has a small market share, the merged firm will have a smaller market power on the market. On the other hand, if there are only several firms in the cannabis market, the merged firm will have a larger market power. Since Aurora has already purchased two medical cannabis brands in 2018, and both of the two brands sell their products in legal dispensaries throughout Canada, Aurora already has some market power in the cannabis market. Therefore, it is very likely that the merger will have a relatively large effect in the market.

Based on the above analysis, the merger of Aurora Cannabis and Aphiria Inc will increase the cannabis price and reduce its quantity, causing inefficiency and larger barriers to entry of the cannabis market. Therefore, the merger will restrict competition and should be prevented.

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To: Matthew Boswell  
From: Yiyun Ding  
Re: Suggestion on whether or not to prevent the merger from occurring

Dear Matthew

As we all know, the cannabis industry is entering a consolidation phase. I heard that the two licensed cannabis producers Aurora Cannabis and Aphiria Inc are likely to merge recently. Based on my analysis, the merger is likely to lessen competition in the cannabis market, which is not desired. Therefore, I feel that the commissioner of competition should apply for a court order to prevent, dissolve or alter the merger.

The merger will lead to inefficiency of the cannabis market by increasing the cannabis price and reducing its quantity. The cannabis consumers will not be happy since they have to pay more money to get cannabis and some people might not be able to afford cannabis. Other firms in the cannabis market will not be happy since their profits decrease as more consumers tend to buy products from the merged firm.

Also, as the merged company becomes larger, it has lower cost of producing cannabis, better technology and can control market price, the merger makes it hard for small and medium-sized firms to stay in the cannabis market and allow both domestic and foreign firms to enter the cannabis market. Thus, consumers cannot be provided with competitive prices and product choices.

Thank you for your time. I hope that you can consider my words seriously. I am looking forward to hearing back from you.

Best regards,  
Yiyun Ding