



# Joint ventures

As both the medical and recreational marijuana businesses in North America grow apace, David Ader explores the pot at the end of the rainbow.

With Colorado and Washington's experiments with recreational cannabis legalisation filling acres of newspaper space, the continued rapid development of the medical marijuana industry has slipped under the radar. The industry is best established in Canada, where the market is projected to be worth more than a billion US dollars by the end of the decade. Unlike the US, medical marijuana is unequivocally legal throughout Canada, meaning risk-averse investors don't have to worry about the long arm of the law. In fact there are suggestions that much of the

investment in the budding Canadian industry comes from the US, with businesses and their backers hoping to perfect their techniques and grow larger, ready to take on the US market if and when federal restrictions are removed. Canada is pursuing a route that looks familiar to existing pharmaceutical regulation; companies must apply to the government regulator Health Canada for a licence to produce cannabis. So far 850 companies have applied, and 13 have been granted licenses, and are then legally able to supply anybody who has a prescription, making a tidy profit in

the process. One big Canadian producer, **Tweed Marijuana Inc**, is now valued at over \$100 million.

Money like that attracts investors, and **Privateer Holdings** are the first private equity company specifically formed to invest in the cannabis industry in the US and Canada. **Fortune magazine** excitedly reported the completion of their latest funding round, which raised \$50 million to add to the \$22million they already had in the bank. One of Privateer's companies has just invested a sizeable portion of that, spending \$20million on a state-of-the-art facility in British

Columbia, Canada, to grow licensed medical cannabis. Opened in April, the facility is already shipping legal medical marijuana direct to customers. The size of the untapped market is what investors are so excited about – **one market research report** estimates the US legal cannabis industry will reach a value of \$10 billion within five years. Even this is only a fraction of the size of the current market for illegal cannabis, thought to be worth \$40 billion.

It may be a riskier investment in the US, but there's no shortage of companies looking to get involved. A quick look at **the cannabis industry's trade association website** shows the polished logos and blandly professional names of these new companies, some of which give little hint that they deal in a product still very much illegal under federal law: Organa Labs, MMJ America, Verde. These companies portray themselves as part of corporate America, comparable to biotechnology, chemical or pharmaceutical companies and at a very far remove from the usual stereotypes of cannabis producers as either criminal gangs or grown-old hippies. **United Cannabis Corp** (market value over \$100 million dollars) have recently announced the appointment of an executive called John C Hunter III to their board of directors, who spent over 40 years at Monsanto, working his way up to the very top table. Best known for producing controversial genetically modified crops, as well as pesticides and herbicides – including the notorious Agent Orange – Monsanto are an enormous American agriculture and biotechnology company, with \$15 billion revenue in 2013. The appointment of one of their most senior executives gives a clear indication of where United Cannabis Corp see their business heading. Another cannabis company has a CEO from an even more establishment background; **Cannabis Sativa Inc** is now run by Gary Johnson, former Republican Governor of the state of New Mexico. Another prominent businessman, Jamen Shively, previously corporate strategy manager at Microsoft, is seeking to create the first cannabis 'Starbucks' – a national cannabis chain in the US, starting with medical marijuana outlets in three states, and aiming to sell both recreational and medical marijuana under the same brand. He's also attracting **a lot of media attention**, and irritating others in the industry, who fear his high profile and bold claims will attract negative publicity.

Despite the bad press around some captains of the cannabis industry, confidence in the legal status of their

companies is growing. Recently a bill approved in the House of Representatives – backed not only by Democrats but many Republicans too – **forbade** the use of federal funds to undermine cannabis providers or 'patients' where supply or use is legal in the state. President Obama himself shows little sign of wanting to interfere in Colorado or Washington.

The talk from the many policymakers in favour of legal cannabis in the US often stresses the business benefits – jobs created, profits raised and tax collected – a contrast to the UK where the debate focusses almost exclusively on public health and community safety. But there are concerns about the increasing power and wealth of this new industry.

This emerging 'American model' of cannabis production, where huge private companies run with only minimal regulation, carries serious risks. Will profit-seeking override public health, with 'Big Cannabis' behaving as irresponsibly as 'Big Tobacco' or 'Big Alcohol'? In this scenario, companies will use advertising and marketing to target the impressionable and the young, and encourage people to consume as much cannabis as they can. Imagine cannabis on special offer in the run-up to holidays or sports matches, and available in twenty different flavours. Profits which are channelled back into lobbying and well salaried non-executive directorships for policymakers, with powerful vested interests resisting future regulation. This nightmare is only imaginary at the moment, but there are worrying omens. Colorado has already seen intense debate about what constitutes acceptable marketing, with concern particularly focussing on 'edibles'. These products, considerably more sophisticated than the space cakes for sale in Amsterdam, include cannabis infused **chocolate bars**, sweets and even **fizzy drinks**. You can even get medical marijuana for your dogs and cats – sold as '**Canna-biscuits**', naturally they're gluten-free and organic.

Even among pro-legalisation campaigners there's an ambivalence towards the direction the industry is going – Alison Holcomb is Drug Policy Director of the American Civil Liberties Union and campaigned to legalise cannabis in Washington, but **wrote to the Liquor Control Board** to voice her concerns: "Large industries that have large overheads and are interested in maximising their profits are going to target their advertising in ways to promote marijuana use, not simply meet current demand where it currently exists."

How you feel about this is probably

determined in part by your attitude to public health versus individual choice. It's not uncommon to think that the 'nanny state' has no business telling us how to live our lives. Perhaps if we want to spend our money on wine or weed, that's our prerogative, harmful though it may be to our health. Counter-intuitively, there could actually be potential for any increase in cannabis consumption to reduce population level health harms. Whilst the **16,000 people** in the UK last year who started treatment for cannabis problems show its very real potential for harm, the level of mortality and disease does not come anywhere near to those from the legal drugs alcohol and tobacco. So it's possible that public health might actually be improved if people swapped their whisky for weed. But the very fact that alcohol and tobacco are used by, and kill so many people is proof for some that potentially addictive drugs need to be exceptionally tightly controlled, and kept far away from the advertisers, marketers and lobbyists of big business.

In Colorado, the first state to legalise recreational cannabis, some businesses are already 'lawyering up' in an attempt to reduce the taxes paid on recreational cannabis, in what may be a crucial test of the ability of the state to restrict a now legal industry in the face of well-funded opposition. Currently a 15% excise tax is added to the standard 12.9% state sales tax, with some claiming that this is at odds with the wording of the legalisation proposition that was approved by voters. The original proposition called for marijuana to be taxed 'in a manner similar to alcohol', but **the complainants argue** that alcohol attracts significantly lower rates. Other US states will be paying close attention to the result.

Meanwhile in Uruguay, which will be the first country in the world to fully legalise recreational cannabis possession and use, an altogether different route is being taken, with much stricter regulation and monitoring. **It now appears**, contrary to earlier reports, that Uruguay's legal cannabis will not be grown directly by the state, but also by for-profit companies. Nonetheless there are huge differences between the stricter Uruguayan model and the comparative free-for-all in Colorado and Washington. Uruguay intends to tightly restrict the total quantity of cannabis grown by licensed companies, sell only to people who have registered with the government, and also impose limits on the amount that can be bought per month – although individuals will also be allowed to grow up to six plants of their own. The Uruguayan model may



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be much more public health focussed than its US equivalents, but the cannabis producers will presumably still be motivated to sell as much as they can, and it's not clear yet what restrictions there will be on advertising, marketing or lobbying.

In the UK, of course, cannabis remains totally illegal whether for recreational or medical use, and there's no sign that this is set to change any time soon. That's not to say there haven't been any developments though. GW Pharmaceuticals, makers of Sativex, a cannabis-derived medicine licensed in the UK for the treatment of multiple sclerosis, appear to be going from strength to strength. Whilst Sativex is based on THC, the most important psychoactive compound in cannabis, GW have other medicines based on CBD, the other significant compound, that are at various stages of regulation too. As their cannabis-based products are being licensed in more and more countries around the world, their stock price soars along with it – **up by more than 1000%** since they launched on the NASDAQ in May 2013, with the company now valued at \$1.4billion.

They represent much more than just another cannabis company though. In fact, their success is a huge threat to medical marijuana and with it the emerging legal cannabis industry around the world. Medical marijuana is legal in many more American states and countries than recreational cannabis. But if GW Pharmaceuticals can show that their products are as effective a medicine as smoking cannabis, they will surely be preferred. By following the traditional route for regulation of

medicines, Sativex has been able to stay almost entirely free from controversy; there's little risk of diversion to the illicit market, it isn't carcinogenic as it's taken as a mouth spray rather than smoked, and unlike medical marijuana it has gone through exactly the same rigorous trials for effectiveness and safety as other pharmaceutical products. Sativex represents the pharmaceutical industry successfully appropriating the medical benefits of cannabis, and it would be surprising if other big pharmaceutical companies weren't already attempting to develop their own cannabis-derived medicines. United Cannabis Corp and Tweed Marijuana Inc may be doing very well, but you wouldn't fancy their chances of competing with the big beasts of 'Big Pharma' – the likes of Pfizer, Roche or GlaxoSmithKline each have revenues of around \$50 billion. And it's not just Big Pharma that the aspiring Big Cannabis sector needs to look out for. After all, there's already a £500billion global industry that specialises in growing psychoactive plants for smoking, and it's easy to imagine Big Tobacco eyeing up a new and lucrative legal cannabis market, especially given declining rates of tobacco smoking in the developed world.

The debate around cannabis policy has generally skipped over the finer details, focussing only on the two extremes of imprisoning users versus an unregulated free-for-all. This has always been unhelpful, but is especially so now that some countries and states have set in motion various degrees of decriminalisation and legalisation for the medical and recreational use of cannabis. It seems essential now that the debate includes the intricacies of

how a legalised system would look; which companies or organisations would produce legalised drugs, how would they be regulated, where would the profits end up, should there be limits on how much people can use, are we prepared to see adverts for drugs on TV? Jon Collins at the London School of Economics and Stephen Rolles at Transform Drug Policy Foundation are both in favour of legalisation backed up by strong regulation, and have authored two of the more serious attempts to answer those questions and discuss how regulation ought to look, and how the risks of a new and powerful Big Cannabis industry can be minimised. The complexity of the subject is borne out by the reports, **Ending the drug wars** and **After the war on drugs: Blueprint for regulation**, being 84 and 232 pages respectively.

Admitting that the effects of policy changes cannot be predicted with certainty, Ending the drug wars exhorts governments not to interfere but to observe the likes of Colorado, Washington and Uruguay: "Let the experiments run. The places that legalise cannabis first will provide – at some risk to their own populations – an external benefit to the rest of the world in the form of knowledge, however the experiments turn out." The experiments in North and South America are now very much underway, and politicians, public health professionals and stockbrokers the world over will be watching closely.

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