The Number 1 Long-Term Threat to Canada's Marijuana Stocks

Description

What's the number one long-term threat to Canada's Marijuana Stocks?

Competition. There, I said it.

Canadian marijuana companies such as **Canopy Growth Corp.** (TSX:WEED), **Aphria Inc.** (TSX:APH), and **Aurora Cannabis Inc.** (TSXV:ACB) are each making a concerted effort to come out as the top dog in global cannabis production. Will they? Or will large multinational players, consolidation, and global competition make the current situation a dire one for Canadian marijuana producers in only a short few years?

Foresight is godly, and hindsight is 20/20, but in the current environment for cannabis companies, it seems that perspective is hard to come by. Let's put the facts into perspective.

Fact #1: Canada has a small population and a small market for marijuana (even after recreational pot is legalized)

With 36 million people, Canada represents a mere 0.5% of the world's population, sitting in 38th spot behind Sudan, Algeria, Uganda, Poland, and Iraq.

The total retail market for recreational marijuana in Canada (this means all marijuana usage — medicinal purposes and otherwise) stands to range between $4.9 billion and $8.8 billion annually, according to a recent report by Deloitte. To put this in perspective, Canada's marijuana industry, when legalized, would not make the list of the top 20 industries contributing to GDP and would be put in the "other" bin.

Fact #2: Protecting an industry from competition is expensive

The good news for marijuana companies is that Canada has a track record of protectionism when it comes to certain industries. Ask grain farmers in the prairies or dairy farmers in Quebec if they are worried about competition. Or ask any of the unions representing healthcare workers, teachers, or insurance companies if the threat of competition is driving them to make advances in their fields.

A healthy amount of competition is what makes the wheels of capitalism turn. It's out with the old, in with the newer, faster, better (as the saying goes … I think).

Certain hand-picked industries have been protected, be it through heavy regulation and unionization, duties, tariffs or quotas, or the creation of crown corporations serving the sole purpose of levying extra unseen taxes against the Canadian taxpayer through increased fees for basic services normally provided through private businesses.

What the Canadian taxpayer doesn't see are the losses the country generates over time from a lack of innovation stemming from the burdens of protectionism. Studies have shown time and again that private markets and incentives spurred by competition are key drivers behind economic advancement.

The marijuana companies, which will inevitably begin to produce significant value for the government via tax revenue, risk becoming the lemon that is squeezed too hard for its juice, becoming yet another industry that is heavily taxed, levied, and controlled by the Canadian government.

Conclusion

Right now, the Canadian business environment is one that encourages the development and growth of marijuana companies. We have seen a number of successes come to the forefront in recent years, such as the three companies mentioned at the beginning of this article.

My worry is that in the long term, these businesses will become less competitive than global counterparts and begin to see declines as global market share gets swallowed up by the larger fish in the pond.

Stay Foolish, my friends.

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Date
2025/08/06
Date Created
2017/04/05
Author
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