

## How Well Are Canadian Cannabis Companies Managing Recall Risks?

### Description

It seems as though news of recalls related to specific batches of bad marijuana from licensed Canadian producers has been coming in more frequently than marijuana investors and consumers would like to see.

Following a highly publicized [recall](#) which led to approximately \$1 million of cannabis being destroyed by **Canopy Growth Corp.** ([TSX:WEED](#)) due to banned pesticides being found in product sold by its subsidiary Mettrum Ltd., a smaller Vancouver Island company, **Broken Coast Cannabis Ltd.**, has issued a recall for three batches of dried cannabis sold last year.

The dried cannabis was recalled after a spot test done by Health Canada showed the producer used two banned pesticides, myclobutanil and spinosad, in its cannabis oil and subsequently found traces of myclobutanil in its dried cannabis, leading to the recall notice. Myclobutanil is the same pesticide which was found earlier this year in tainted batches of cannabis sold by Canopy's subsidiary.

In a race to provide high-quality marijuana at the lowest possible price, concerns about industry-wide pesticide use have become apparent, as bugs and other pests can significantly eat into the profit margin of large producers. The reality of the cost benefit that pesticides can have on large "marijuana-culture" facilities has led some companies to use these banned substances to boost profits.

Many companies thus find themselves in "prisoner dilemma" situations in which choosing not to use pesticides may give competitors a cost advantage; this early in the game, cannabis companies are fighting and scratching for market share and profitability, and it may make economic sense for such companies to pay a fine and destroy a batch of cannabis due to the massive potential cost-savings the company can receive from using such pesticides.

The ethical questions surrounding how pot should be grown abound, and discussion on this topic remains somewhat muted. Should additional recalls come out of the woodwork, however, expect a much more heated debate down the road.

By looking at one Canadian ETF which tracks the publicly traded marijuana industry, **Horizons Marijuana Life Sciences ETF** ([TSX:HMMJ](#)), we can see that much of the rebound, which took place since the index bottomed a little more than two months ago, has been given up, with the index now trading near all-time lows amid somewhat stagnant investor sentiment and few growth catalysts and positive indicators for the sector, as previously seen in 2016 through the beginning of 2017.

It appears as though the market for marijuana issues has flattened out, making this potential headwind for producers much more distressing. I would expect industry-leading companies to continue to highlight the quality control measures already in place in an effort to reassure consumers and investors moving forward.

Stay Foolish, my friends.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:HMMJ (Horizons Marijuana Life Sciences Index ETF)
2. TSX:WEED (Canopy Growth)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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