

Why B.C.'s Distribution and Retail Plan Should Worry Cannabis Investors

Description

The race to legalize marijuana has led to a significant amount of speculation over the past two years as to how the green commodity will be distributed and retailed at the provincial level. The Canadian government has announced its plans to legalize marijuana by the summer of 2018. While we are still a few months away from sweeping legislation that would render Canada the only G7 country to legalize cannabis at the federal level — and only the second country in the world to do so after Uruguay, the provinces have begun to finalize their plans on how cannabis will be regulated, distributed, and retailed in various Canadian jurisdictions.

Earlier this month, British Columbia announced its plans on how it will intend to make legal recreational marijuana available to B.C. residents using an existing government-owned entity that handles liquor distribution in the province. With B.C., the third most populous province in the country, following the lead of the two most populous provinces (Ontario and Quebec) along with other provinces such as New Brunswick, which have relied on government-run distribution and retail networks to bring cannabis to the Canadian public safely, an interesting phenomenon has begun to take hold.

B.C. Public Safety Minister Mike Farnworth announced a regulation plan that would require cannabis to be sold in stand-alone stores, which would only be allowed to sell marijuana and marijuana-related accessories, a move that has been made on the premise that it will make Canadians safer by promoting overall health and safety and keeping the criminal element out of cannabis. The B.C. government will also control online sales of recreational cannabis.

While some private retailers in B.C. and other provinces will be licensed to sell marijuana, the restrictions on where shops can be set up (specific distances away from schools, etc.) and how many licenses will be handed out remains uncertain.

In short, the majority of the Canadian population will rely on provincial Canadian governments to control the entire supply chain of recreational marijuana in the country, save for the production element, which will remain private.

I have previously stated my [concerns](#) with such a model given that the margin impacts selling to one centralized buyer and the impacts of future taxation (whether provincial or federal) on cannabis producers. This recent announcement underscores the need for investors to realistically forecast long-term profitability in this sector — something many investors are not currently doing. While companies like **Canopy Growth Corp.** ([TSX:WEED](#)) and others have already sought agreements with provincially-run distribution companies, the price these producers are likely to receive and the price companies like Canopy will be able to sell at remain uncertain.

Every Foolish investor needs to understand the fundamental risks and rewards of any investment before jumping in. At this point, the Canadian cannabis sector remains one that is far too [“bubbly”](#) for Foolish long-term investors to consider, in my opinion.

Stay Foolish, my friends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WEED (Canopy Growth)

PARTNER-FEEDS

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

Category

1. Investing

Date

2025/08/02

Date Created

2018/02/13

Author

chrismacdonald

default watermark

default watermark