



Legal Cannabis Cultivation in Colombia: Rising Risks and Overplayed Hype

Description

A long-standing civil conflict fuelled by the proceeds of narco-trafficking, tremendous socioeconomic inequality, and a weak central government has dominated the landscape for decades in Colombia, costing the lives of over 200,000 civilians. While a historic peace treaty was signed with the largest belligerent guerrilla group the FARC in 2016, it has done little to diminish the conflict or the drug trade in what is, according to the UN, the world's largest producer of cocaine.

One industry to rapidly emerge from the equatorial nation's push for peace and greater stability is the legal cultivation of marijuana. In 2015, then-president Santos signed a decree legalizing the medical use of marijuana, its cultivation, and sale. This it was hoped would provide an incentive for many illegal growers to convert to licensed cultivation. It also provided an alternative crop for the much-vaunted crop-substitution strategy to be implemented as part of the FARC peace deal.

Evolving hazards

Since then, the government, notably of arch-conservative president Duque, has failed to implement the crop-substitution plan, the peace deal is disintegrating, and the civil conflict continues, fuelled by record cocaine production. The legalization of cannabis cropping for medical applications sparked a considerable amount of hype about Colombia's nascent legal cannabis industry. This is reflected in a plethora of articles in the mainstream media promoting Colombia's potential to become a leading marijuana-cultivating jurisdiction.

While the nation is a global agronomic powerhouse possessing a [considerable comparative advantage](#) for cannabis cultivation, including a favourable climate, cheap skilled labour, and world-famous marijuana strains, it is not as bullish as some sources would have investors believe.

For the reasons discussed, well-armed and organized criminal groups remain a recurring hazard for legal cultivators, which is worsened by a weak state and lack of security in more remote cultivation areas. The fact that marijuana remains a U.S. federal government schedule one drug prevents local financiers, banks, investors, and other financial institutions from becoming involved in marijuana cultivation lest they be caught up in sanctions and the war on drugs.

While there is plenty of hype regarding Colombia's potential, red tape, a significant lack of access to capital, and confusing regulations, including multiple regulators, have all prevented the burgeoning industry from taking off. The reality is that despite the hype and claims that Colombia has been authorized by the International Narcotics Control Board (INCB) to grow 44% of world medical marijuana, only a small amount of dried flower has been exported to Canada for research purposes. There has been no large-scale exportation of legal cannabis from Colombia, and this is unlikely to occur for some time.

These factors could be the motivation for leading Colombian cultivator **PharmaCielo's** ([TSXV:PCLO](#)) [takeover](#) of Australian-listed cultivator **Creso Pharma**, which is operating in Nova Scotia. This is disappointing and confusing for investors, because PharmaCielo has claimed that it can produce dried cannabis flower in Colombia for as little as \$0.05 per gram, while analysts believe the average industry-wide cost is \$0.50 a gram.

Nonetheless, for the reasons discussed, the rationale behind the acquisition becomes clear when it is considered that the \$112 million deal gives PharmaCielo immediate access to Canada's legal cannabis market. Creso has a 24,000-square-foot indoor cannabis-cultivating facility in Nova Scotia, which can produce 4,000 kilograms annually. It harvested its first crop in late May 2019 and began sales earlier this month, which it is anticipated will generate around \$5 million in revenue by the end of 2019. That centre is also equipped to research and design marijuana edibles, and Creso has a range of distribution agreements in place.

By completing this deal, PharmaCielo can sidestep many of the issues currently constraining legal cannabis cultivation and its operations in Colombia. It immediately provides access to the burgeoning Canadian market, while positioning itself to capitalize from the impending legalization of marijuana edibles and extracts.

Foolish takeaway

There is no denying that Colombia has the potential to become a leading global jurisdiction for the legal cultivation of cannabis, but there are a wide range of factors that are preventing the Andean nation from achieving its full potential. Until these issues are dealt with, they will deter foreign investment in Colombia's nascent cannabis industry and could eventually trigger its failure.

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