



## Is Colombia's Cannabis Boom Destined to End Before it Truly Starts?

### Description

Colombia has been touted as one of the hottest destinations for legal cannabis cultivators. There were claims that the equatorial nation could become the [Saudi Arabia](#) of cannabis because of its extremely favourable climatic conditions and long history of agricultural products including fruits and cut flowers. The competitive advantage this creates was enhanced by low start-up and labour costs, a lengthy multi-generational history of cannabis cultivation, and a stable regulatory environment. This saw some licensed cultivators claiming that they could grow medical-grade cannabis for as little as US\$0.05 per gram or even less, well below what it costs in Canada.

There are, however, numerous signs that Colombia's emerging cannabis boom could end abruptly, with a range of factors weighing heavily on the industry's outlook. A key issue is growing insecurity and rising geopolitical risk in Colombia, which is a country long associated with civil unrest, narco-terrorism, and cocaine trafficking. These factors are deterring much-needed foreign investment in the Andean nation's burgeoning legal marijuana industry.

### Declining outlook

Leading Canadian cultivator **Canopy Growth** ([TSX:WEED](#))(NYSE:CGC), which has a 126-hectare farm in the Colombian department of Huila, acquired as part of the 2018 **Spectrum Cannabis Colombia** deal, is downsizing its Latin American operations. This has come on the back of Canopy's subsidiaries being unable to meet strict local regulatory requirements for registered cultivators in the South American nation.

The complex licensing and registration process means that at the end of July 2019 there were only five fully registered cultivars in Colombia, highlighting how complex regulation is impeding the industry's growth. Colombia's complex maze of regulations, licensing, and bureaucracy are confounding even the largest and most experienced foreign growers, weighing on an already struggling industry. There are also strict requirements governing the export of legally cultivated cannabis, which further reduces Colombia's attractiveness for growers. Proposed regulatory reforms will also make it more difficult to operate in the equatorial nation.

Then there is the lack of processing expertise and infrastructure in the country. Producing medical-grade marijuana requires the highest standards and considerable expertise as well as significant investment in laboratories and supporting infrastructure. That expertise, according to some sources, is deficient, with Colombia lacking the required level of pharmaceutical research infrastructure and experience.

Another significant hurdle is a lack of access to capital. A sharp rise in geopolitical risk across Latin America, as well as within [Colombia](#), which sees the Andean nation rocked by weeks of anti-government protests, is a considerable deterrent for investors. Recent protests are further alarming already rattled foreign investors troubled by the near collapse of the historic 2016 FARC peace accord, growing insecurity in rural areas, and rising crime across a nation with a long history of violence and instability.

Not only is greater geopolitical risk a major deterrent for investors, but marijuana remains a U.S. federal government schedule one drug thereby deterring financiers, banks, and other financial institutions from providing finance to industry participants. Financiers are fearful of U.S. sanctions, anti-money laundering regulations, and criminal investigations, which could destroy a legitimate business. The fear that generates is exacerbated by Colombia's long history of narco-trafficking and related violence along with the South American nation having long been the focus of the U.S. war on drugs.

Canopy's slew of massive losses — including a whopping \$1.3 billion for its fiscal first quarter 2020 and \$375 million in the second quarter, which have triggered considerable investor dissent — explain why it is scaling back its Latin American operations. The risks discussed combined with the need to make substantial investments in an unpredictable jurisdiction like Colombia make it a risky proposition for Canopy, particularly at a time when it is seeking to salvage investor confidence in its business. The push for profitability makes it even less appealing to invest in its Colombian property, which lacks the required infrastructure to produce medical-grade cannabis and has yet to reach production.

## Bottom line

There is no denying that on paper, Colombia is an extremely appealing location for the cultivation of cannabis, but a favourable climate, rich soil, and low costs are not enough. The latest round of proposed regulatory reforms as well as political and economic instability will stymie the growth of Colombia's legal cannabis industry.

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