



GREEN EXPECTATIONS

Tobacco companies are taking notice of and publicly participating in the rapid growth of the legal marijuana market.

By Timothy S. Donahue

It's on fire. Marijuana legalization is taking over in North America, where 10 U.S. states plus Washington, D.C., have all approved laws for recreational marijuana use over the past few years, and Canada fully legalized recreational marijuana nationwide in October 2018. As of 2018, there are 33 U.S. states that have legalized marijuana use in some form. Once considered off-limits to large tobacco companies, at least four major tobacco entities have now entered the lucrative legal cannabis market. In the next few years, more traditional tobacco companies are likely to enter the once-taboo industry, especially if the U.S. legalizes the product on a federal level.

In early 2016, Philip Morris International (PMI) became the first major tobacco company to openly invest in the cannabis industry. Although not technically centered on marijuana, the tobacco giant invested about \$20 million with Syqe Medical of Tel Aviv, Israel, to develop technologies to help reduce the health risks associated with smoking combustible cigarettes. Syqe has been developing a medical cannabis inhaler for some time. However, PMI says it currently has no plans to enter directly into the marijuana industry.

Then, in early 2018, a major tobacco leaf supplier publicly announced its move into the mainstream marijuana market. Pyxus International, the parent company of Alliance One International, purchased shares in two Canadian marijuana producers through its indirect subsidiary, FIGR, which has two licensed subsidiaries in Canada: FIGR East (Canada's Island

Garden), located in Charlottetown, Prince Edward Island (PEI), and FIGR Norfolk (Goldleaf Pharm), located in Simcoe, Ontario. Both hold Health Canada cultivation licenses; FIGR East is also licensed in Canada to process and sell legal recreational cannabis oil products as well as dried cannabis, according to Christian Cypher, Pyxus' senior vice president of global specialty products and managing director for specialty products.

The legal cannabis market in Canada is expected to have earned CAD1.7 billion (\$1.28 billion) in 2018, according to Cypher. It is projected to grow to approximately CAD7.3 billion by 2023. "FIGR is proud to sell their locally grown products in the Maritime Provinces of PEI and Nova Scotia. Additionally, both FIGR subsidiaries are expanding to meet the budding demand of legal Canadian cannabis. FIGR East is planning to add an additional 300,000 square feet by fall 2019; FIGR Norfolk is planning to add an additional 700,000 square feet by 2021," says Cypher. "As FIGR continues to grow, so will its product offerings. The brand is developing a robust innovation pipeline that will enable it to better meet the wants of consumers if and when alternative forms of cannabis consumption are legalized."

The next tobacco company to invest in marijuana was Imperial Brands in June 2018. Through its subsidiary, Imperial Brands Ventures, the company took a stake in Oxford Cannabinoid Technologies in order to help the British biotech company research how marijuana can be used in medicine. Imperial did not disclose the size of its investment.

The most recent major tobacco company to enter the cannabis sector is Altria Group, the largest cigarette manufacturer in the U.S. In December 2018, Altria acquired newly issued shares in Cronos Group, a global cannabinoid company based in Toronto, Canada. The transaction represents a 45 percent equity stake at a price of CAD16.25 per share.

“Investing in Cronos Group as our exclusive partner in the emerging global cannabis category represents an exciting new growth opportunity for Altria,” said Howard Willard, Altria’s chairman and CEO. “We believe that Cronos Group’s excellent management team has built capabilities necessary to compete globally, and we look forward to helping Cronos Group realize its significant growth potential.”

Altria expects its investment to help Cronos Group accelerate its growth strategies, R&D and intellectual property development. Additionally, Altria will provide expertise to help Cronos Group thrive in the growing global cannabis market; services may include assistance with regulatory affairs, regulatory science, compliance, government affairs and brand management.

Other tobacco companies have alluded to entering the cannabis market. For example, Turning Point Brands (TPB), a marketer of cigarette papers, smokeless tobacco and vapor products based in Kentucky, USA, announced the formation of a new wholly owned subsidiary called Nu-X Ventures for the development, production, and sale of alternative products and acquisitions in related sectors on Jan. 15, 2019.

TPB president and CEO Larry Wexler said the announcement “underscores our move into rapidly growing and emerging markets, such as the CBD industry. Nu-X Ventures will put us on the leading edge of the booming alternatives markets.” TPB added that it has a “robust” pipeline of products that will be released in 2019 and beyond, according to a press release.

Higher stakes

The process of marijuana legalization started in the U.S. when California passed its Compassionate Use Act of 1996, which legalized medical marijuana for use by patients with chronic illnesses. The 1990s saw legalization in four additional states plus Washington, D.C., for medical marijuana: Oregon, Washington, Alaska and Maine. By the early 2000s, Nevada, Montana, Rhode Island, Hawaii, Vermont and New Mexico adopted pro-marijuana laws.

Thirty-three states have now legalized, at a minimum, the medical use of marijuana. The other states include Arkansas, Arizona, Connecticut, Delaware, Florida, Illinois, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Utah, Washington and West Virginia. Washington state and Vermont were the first two states to vote to legalize the recreational use of marijuana in 2012. Several other states have also adopted laws legalizing marijuana for recreational use, including Alaska, California, Colorado, Maine, Massachusetts, Michigan, Nevada and Oregon.

In 2018, the U.S. legalized industrial hemp through a farm bill that put industrial hemp—which is defined as a cannabis

plant with less than 0.3 percent tetrahydrocannabinol (THC), the main psychoactive component of cannabis—under federal supervision and removed cannabidiol (CBD), a non-psychoactive compound, from the Controlled Substances Act. The law also clearly preserved the U.S. Food and Drug Administration’s (FDA) authority to regulate products containing cannabis or cannabis-derived compounds.

North America isn’t the only growth area for marijuana legalization. Globally, Uruguay became the first country to fully legalize marijuana in 2013. However, unlike Canada, Uruguayan law forbids nonresidents from purchasing the product. In other countries, rules can be vague. While not technically legal in the Netherlands, for example, the country tolerates possession of limited amounts for personal consumption.

Spain allows for marijuana clubs, and according to some news reports, North Korea doesn’t enforce any known marijuana laws. Portugal, the Czech Republic and Switzerland have also all decriminalized marijuana in some fashion. Courts in Georgia and South Africa have ruled in favor of consumption of cannabis but not legal sales. Several countries have legalized the medical use of cannabis, including Australia, Chile, Colombia, Germany, Greece, Italy, Norway, Peru, Poland and Thailand.

Often overlooked is that medical marijuana has been legal in Israel since the early 1990s. Full decriminalization will take effect in April 2019. Nearly 9 percent of Israelis use marijuana, according to the United Nations Office on Drugs and Crime. About 25,000 of the country’s 8 million people have a license for medical marijuana.

What truly sets Israel apart from other countries that have legalized cannabis is the country’s research, according to Joshua Church, founder and president of Roots Holdings International, a cannabis research company. He believes that Raphael Mechoulam, an organic chemist and professor at the Hebrew University of Jerusalem who is best known for isolating and synthesizing THC, has probably had the largest impact on marijuana science to date.

“In 1963, when the U.S. rejected Mechoulam’s request for a grant to study cannabis, he moved his research to a forward-thinking country. While in Israel, Mechoulam and his research group were the first to discover and isolate the THC molecule, as well as numerous other cannabinoids,” said Church. “This forever changed our understanding of the plant. When looking at Israel’s cannabis culture, you are looking at almost 60 years of meaningful research. They are the world leaders, and it will remain that way until other countries delve deeper into this plant that many are quick to dismiss as just an illicit drug.”

The green machine

The economic output from legal marijuana will grow 150 percent—from \$16 billion in 2017 to \$40 billion by 2021—according to an Arcview Market Research and BDS Analytics report from early 2018. The report estimates that spending on legal cannabis in the U.S. in 2021 will be \$20.8 billion, which will generate \$39.6 billion in overall economic impact, create 414,000 jobs and generate more than \$4 billion in taxes. ►

“The economic excitement around the legal cannabis industry is no longer just theory,” said Troy Dayton, CEO of The Arcview Group. “Due to the giant impact adult-use legalization is already having in the United States, it’s vital for key stakeholders to understand the full impact of legalization beyond just retail sales numbers.”

Tobacco companies have long been interested in the marijuana market. In 1970, shortly before marijuana was officially made illegal in the U.S., then-president of Philip Morris, George Weissman, wrote a memo outlining the company’s interest in marijuana, as found on the University of California San Francisco Truth Tobacco Industry Documents website. “While I am opposed to its use, I recognize that it may be legalized in the near future,” Weissman wrote. “Thus, with these great auspices, we should be in a position to examine: 1. a potential competition; 2. a possible product; 3. at this time, cooperate with the government.”

Nearly 50 years later, many experts say that Canada is where many of the tobacco companies looking to get into the marijuana market will hone their skills. Those skills will then be carried over into the U.S. market if cannabis is legalized federally. However, there hasn’t been much opportunity for federal regulators to understand how their agencies may regulate the product. That is slowly beginning to change.

During the first annual Food and Drug Law Institute Cannabis Conference in Washington, D.C., held on Nov. 2, 2018, speakers presented studies on how the U.S. government might regulate a legal marijuana market on a federal level. Summarizing the event, Wells Fargo Securities senior analyst and managing director Bonnie Herzog stated that “with the plethora of [CBD] products available on the market today and the mountain of public support behind medical use (90 percent of Americans) and recreational use (66 percent), it’s difficult to envision cannabis getting derailed anytime soon in the U.S.”

The conference was heavily attended by representatives from several U.S. federal agencies, including the FDA,

Department of Agriculture, Department of Health and Human Services, and the National Institutes of Health. There were also several scientists, lawyers, tobacco companies and pharmaceutical companies represented.

There was a discussion of legalities currently in place and international treaties that prohibit the U.S. Drug Enforcement Agency (DEA) from descheduling cannabis on a federal level during the seminar, according to Herzog. “It was illuminating to participate in discussions on an industry at the ‘ground floor’ of development, especially one with broad similarities to tobacco in terms of the heightened reactions and regulatory scrutiny it elicits,” she said. “Panelists were largely, but not unanimously, in agreement that federal decriminalization ... is ‘appropriate’ although timing is uncertain (the DEA has already declined requests from [Washington state and Rhode Island] to reschedule cannabis) as is implementation of an enforceable state-federal regulatory framework.”

Herzog says that even if the U.S. moves to regulate cannabis on a federal level, the results may not be as favorable as some believe. “The decriminalization argument aside ... we see an uphill climb toward any broad FDA approval of cannabis given the paucity of available science on safety/risk, how difficult it’s been for the agency to get a handle on youth uptake of (legal) e-cigs, and the agency’s arguable failure to effectively regulate tobacco generally,” she stated. “While Canada has passed cannabis legislation, the U.S. government may embrace an unfavorable regulatory framework.”

Most experts seem to believe that, at a minimum, the U.S. federal government must find a way to ensure cannabis consumers that products are safe while allowing states to decide whether they wish to legalize the drug. Whatever the reaction from the federal government, it doesn’t seem there is going to be anything that could disrupt the “green machine” of the legal cannabis industry from continuing to spread across North America and potentially the world. TR

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The new golden leaf?