

Going big on marijuana, even before it's legal

CHESTERVILLE, ONTARIO

Investors are optimistic, with soaring valuations for Canada's nascent industry

BY IAN AUSTEN

Inside garage-size containers at one end of a cavernous warehouse in a former Nestlé factory south of Ottawa are rows of marijuana plants stacked atop each other, basking in the unearthly glow of grow lights.

They belong to Hamed Asi, an Ontario businessman who calls them his “vertical farm.” He has no background in growing marijuana, or in any kind of agriculture. His other line of business is installing office furniture; cubicles, filing cabinets and desk chairs fill the opposite end of the warehouse.

A financial boom not seen since the dot-com mania of the late 1990s has overtaken Canada. The legalization of recreational marijuana, scheduled for this autumn, is not only a momentous social change and public health challenge, but also a rare opportunity for entrepreneurs like Mr. Asi to be in on the birth of what they hope will become a multibillion-dollar industry.

Early signs of a boom abound: Marijuana growers have plowed millions into investments that without having recorded profits yet, have stock-market values measured in billions. Down-on-their-luck towns like Chesterville, Ontario, hope that marijuana will reverse economic decline. Former politicians and law-enforcement officials who once opposed legalizing recreational marijuana have now joined or formed companies to cash in on it.

Some provincial governments forecast that tax revenue from marijuana sales will help balance their budgets. And companies offering every kind of service or product — from real estate to packaging — are all out for a piece of the action.

Mr. Asi's dreams of wealth are sprouting here in a former factory that once turned out pallets of Nestlé Quik food for railway boxcars. A partner and operations manager at a company called the I.D.P. Group, he acknowledges the risks inherent in what has already become a highly competitive industry.



Hamed Asi oversees a marijuana-growing operation out of a former Nestlé warehouse in Chesterville, Ontario. Canada's legalization of recreational marijuana will begin on Oct. 17.

“You can't just do this because everyone else is doing it,” he said in his office which is, not surprisingly, fitted with the latest in office furniture. “Worry? Yeah, 100 percent. We see how good this industry can be if you do it right, but you've got to really be diligent.”

This month, Prime Minister Justin Trudeau fired the starting gun for Canada's new gold rush by announcing that legalization of recreational marijuana would begin on Oct. 17, months later than the original plan of July 1. But, as in the earlier mania for technology companies, there are growing concerns that this boom could produce more disappointment than riches.

Mr. Trudeau's government portrayed the legalization of recreational marijuana — Canada has had a medical marijuana system since 2001 — as a way to wipe out the black market, not as a potential job creator or moneymaker for either the government or investors. In effect, he promised a system in which marijuana would be available, but not promoted.

As a result, the federal government will license growers in Canada, and provinces will decide how it is sold to consumers.

In some provinces, notably Alberta, the government went with privately operated shops. Others, like Ontario and Quebec, will adopt a variation of the sys-

tem of government-owned stores used for alcohol sales.

Under regulations recently released, marijuana will generally be treated more like cigarettes than alcohol. Advertising will be severely restricted — as will the ability of Canada's marijuana makers to turn themselves into household brand names. Packages must be uniform and plain, aside from vivid, yellow health warnings and tiny logos. Baseball caps, T-shirts and all other logo-laden giveaways that might promote marijuana brands will not be permitted.

Many of the big companies eagerly awaiting the October light-up date have

their roots in the medical marijuana industry. But their styles have shifted.

Chuck Rifici, a founder and former chief executive of the company now called Canopy Growth (at more than 8 billion Canadian dollars, the most valuable marijuana company in Canada), once sported the clean-cut look one would expect from an accountant and former chief financial officer of Mr. Trudeau's Liberal Party.

But as he has shifted to selling marijuana as a way to get high — not just as pain relief — Mr. Rifici has abandoned suits and ties for designer T-shirts. His graying and less-than-trim beard give him the air of a rock star.

Bounced from Canopy in 2014, Mr. Rifici is now the chief executive of a competitor, Auxly, which has invested in 12 marijuana-growing operations. Among them is Mr. Asi's operation in Chesterville, which has received 12 million Canadian dollars. Shares in Mr. Rifici's company once surpassed 1 billion Canadian dollars and are now worth about just over 500 million dollars. Its ability to raise money, however, has yet to be matched by an ability to make money. Auxly recorded more than 10 million Canadian dollars in losses in the first three months of this year.

The future after October, Mr. Rifici said, offers nothing but promise, as marijuana will start flowing out of stores and new markets beckon.

“The rest of the world is going to legalize this,” he predicted. “So the urgency for me is having the people and the capability to be a first mover in that new jurisdiction. I think one or two of the large multinational cannabis companies will be Canadian companies.”

But before Mr. Rifici conquers the world, he and his competitors first have to figure out how to make their home market work. “The rules around cannabis start to look a little bit silly or a little bit over the top,” Mr. Rifici said. “Over time that will loosen a little bit. The industry is certainly pushing for it.”

That push, however, will meet forceful resistance from Canada's medical community, which has raised warnings about marijuana's health risks, particularly for users under the age of 25.

“There's already a lot of misinformation out there about it being natural and less harmful than tobacco and alcohol,” said Dr. Jeff Blackmer, a vice president of the Canadian Medical Association. “When there's that much money to be made, funny things happen.”

Cam Battley, who once worked in the pharmaceutical industry and who is now the chief corporate officer of Aurora Cannabis, acknowledged that the soaring values of marijuana companies may not be justified in every case. But he also rejected suggestions that the dreams surrounding the industry may, well, go up in smoke.

“People should be cautious and do their homework on the cannabis sector,” Mr. Battley said. “We've become a mainstream industry in Canada. On this, we're not seen as a wild and crazy country. I think the world trusts Canada to get cannabis right.”

Lobsters and border patrols

U.S. vessels intercept Canadian fishing boats in disputed waters off Maine

BY MATTHEW HAAG

As tensions rise between the United States and Canada, there's a new clash in the cool waters off the northeast tip of Maine, which are rich with lobster, scallops and cod.

For more than a decade, American and Canadian fishermen have had a largely friendly but competitive relationship in an oval-shaped region of the Bay of Fundy known as the gray zone. But this summer that camaraderie has been threatened, Canadian fishermen claim, as officers with the United States Border Patrol have started to wade into the area, pull up aside their vessels and ask about their citizenship.

“We don't want this to be a great international incident, but it's kind of curious,” said Laurence Cook, the chairman of the lobster committee at the Grand Manan Fishermen's Association in New Brunswick. “They say it's routine patrolling, but it is the first routine patrolling in 25 years.”

At least 10 Canadian fishing boats have been stopped by the American immigration authorities within the past two weeks, Mr. Cook said, the latest escalation in a long disagreement between the countries in the disputed waters off Machias Seal Island.

Both countries claim the island, which is about 10 miles off Maine and home to two full-time residents (both Canadian), puffins, rocks and not much else, and say they have the right to patrol its boundaries.

Canada has responded with its own show of force. Last Sunday and Monday, after the first reports surfaced about the

Border Patrol operations, a roughly 100-foot-long Canadian Coast Guard vessel appeared in the disputed gray zone and began patrolling the area.

“That wasn't coincidence,” Mr. Cook said.

The scope of the Border Patrol activity, as well as what motivated it and what, if anything, it has uncovered, is not clear. The agency has not disclosed how many stops have been made. But both Canadian and American fishermen said they noticed increased activity in harbors and in the Atlantic in early June.

The clash, which has caught the attention of Canadian leaders, has taken on added significance, coming just weeks after President Trump took parting shots at Prime Minister Justin Trudeau when he left the Group of 7 summit meeting in Quebec.

Canada's foreign affairs department said that it had heard about two stops in late June involving Border Patrol officers and had asked the United States government for an explanation.

“Canada continues to investigate these incidents that occurred in Canadian waters,” said John Babcock, a spokesman for Global Affairs Canada. “Canada's sovereignty over the Machias Seal Island and the surrounding waters is longstanding and has a strong foundation in international law.”

The State Department did not respond to a request for comment. The Border Patrol described the encounters in the Atlantic as “regular patrol operations to enforce immigration laws.”

“The U.S. Border Patrol does not board Canadian vessels in the gray zone without consent or probable cause, and agents only conduct interviews as a vessel runs parallel to it,” said Stephanie Malin, a spokeswoman for Customs and Border Protection, which operates the border agency.

Mr. Cook said that he heard from boat captains that the Border Patrol had searched at least two Canadian vessels in June. No one was arrested and nothing was confiscated, he said.

“There is no illegal immigration going on there,” he said. “It seems silly.”

While the bulk of the Border Patrol's operations focus on the United States' southern border, the agency maintains a modest presence near the northern border with Canada. One of its smallest outposts is in Houlton, Me., the division assigned to patrolling the state's boundaries with Quebec and New Brunswick, conducting checkpoints on highways and cruising the coastline.

The region is not exactly a hotbed of activity for the Border Patrol. Of the 310,500 apprehensions the agency conducted from fall 2016 to fall 2017, only 30 were made by officers in the Houlton office. But those officers have been spotted on boats at a higher rate this summer, fishermen said.

“I wouldn't call it unprecedented or say that the fishermen were harassed,” said John Drouin, 53, a member of the Maine Lobster Advisory Council who lives in the coastal town of Cutler, about 10 miles from Machias Seal Island. “They have had a strong presence in the area for a good solid month. It wasn't just in the gray zone.”

Mr. Drouin said he was stopped about two weeks ago, when a roughly 20-foot-long Border Patrol boat pulled beside him in Cutler's harbor. The agents did not board his boat.

“The patrol approach them just as they do me,” Mr. Drouin, who catches tens of thousands of pounds of lobster annually, said about his fellow fishermen from Canada. “They ask what your citizenship is and ask for your name and stuff.”

Chris Mills, a former lightkeeper in the Canadian Coast Guard, said he never saw a Border Patrol boat or a United States military vessel pass by when he worked at the Machias Seal Island Lighthouse in 1991 and 1992. He said he found the Border Patrol operation “entirely farcical.”

“It's just a small part of a huge sea change in the way Canada is interacting with the U.S. and vice versa, especially with the trade issue,” Mr. Mills said. “It will have to be handled carefully by Canada and the States because it will just add fuel to the fire.”

To get to the gray zone, fishermen in the United States depart from a port like Cutler, and those in Canada take off from Grand Manan Island in New Brunswick. But once they are in the same waters, it becomes nearly impossible to determine at a glance whether the fishing boats are Canadian or American.

Mr. Drouin said he believed Canadians were overreacting to the Border Patrol stops. “If we had a single boundary line and weren't intermingling, it would be a lot simpler,” he said.



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United States Border Patrol officers have stopped at least 10 Canadian fishing vessels near Machias Seal Island off Maine in recent weeks, fishermen said.