



Big business or big mistake?

A partisan debate awaits the 2020 legislative session

By Angelo Gentile

Doug Friednash changed his mind about recreational pot in Colorado. At the time legal marijuana was being considered by the state in 2012, Friednash was Denver's city attorney and he and most others opposed it.

"Most people expected the sky to fall, including myself," he recalled in a recent interview with Business North. "I just thought it was going to destroy our economy. We expected teen use to drive up, we were concerned about the public safety implications, we expected all of the horror stories ... it was disconcerting to policy makers."

Colorado's recreational marijuana law passed in 2012 by a state constitutional amendment on the ballot in a close 54 percent to 46 percent vote. Sales of legal pot began there in 2014. Five years later, Friednash said, "My guess is, if you were to ask people today, over 70 percent would approve of what's happened here." That includes Friednash, who has also served as chief of staff to Colorado Gov. John Hickenlooper and is now with a Denver law firm. "The horror stories didn't happen. The cool factor has worn off for kids. Teen use has actually dropped ... and economic development has occurred," Friednash said, citing about 23,000 jobs that exist right now directly in the marijuana industry and another 10,000 ancillary jobs.

Friednash's conversion and Colorado's story are relevant narratives to consider given that Minnesota's Legislature is expected to take up the issue in 2020, and given that Colorado now has a well-established industry of licensed companies growing, processing, manufacturing and selling legal cannabis products,

and, given that Colorado and Minnesota have a similar population. It is a state and market that could be looked to for lessons learned.

In Minnesota, a partisan debate awaits the 2020 session. In the House of Representatives, DFL Majority Leader Ryan Winkler of Golden Valley will likely be the chief sponsor of a bill, along with co-authors who include DFL Rep. Jennifer Schultz of Duluth. They want to see a small-business, entrepreneurial approach to the business side of recreational marijuana, similar to how the craft-brewing industry in the state has emerged. Gov. Tim Walz has expressed his support. Yet most capitol watchers say any bills are unlikely to pass this session, given strong opposition by the Republican-controlled state Senate.

Still, despite many seeing this issue as a non-starter for 2020, the legal pot buzz is getting stronger. Here's a glimpse at the current landscape of the recreational marijuana industry, a look at public policy arguments on both sides of the issue and a few lessons to consider from Colorado and Canada.

A budding industry

It's important to keep in mind, as several sources noted, that under federal law, all cannabis is illegal to sell, possess or use. The feds' stance is that cannabis is a Schedule I substance – wholly illegal, considered prone to abuse and lacking in recognized medical benefits.

That said, federal agencies have been willing to take a hands-off approach to regulation at the state level as support grows. As a result, 11 states (and the District of

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Columbia) have legalized recreational marijuana, and 33 states now allow medical marijuana (including Minnesota and North Dakota; it remains illegal in Wisconsin except for CBD oil and industrial hemp), according to the National Conference of State Legislatures. Plus, Canada's government has legalized pot nationwide.

And, up until some recent reports of drops in sales in some states, business has been, well, budding, if not booming.

Example? Overall, \$8 billion in U.S. legal marijuana sales was recorded in 2018, and this is estimated to grow to \$41 billion in sales by 2025, according to data analytics firm Nielsen.

Another example can be seen in square footage. During 2010 in Colorado, a plant-growing operation (back then only medical marijuana was legal in that state) was typically about 5,000 square feet, said Norm DeHart, principal and managing broker of Denver-based Guidance Corporate Realty Advisors. He has extensive experience as an owner/landlord of industrial property and leases space to licensed cannabis companies. He also represents Colorado cannabis companies on a variety of lease and purchase transactions, and was an early-stage investor in Evolab, a high-growth marijuana extraction company.

Today, DeHart said, it's common to see 30,000-square-foot facilities or larger. Canada has even bigger grow



Canopy Growth Corporation operates retail and other enterprises under brand names such as Tweed and Tokyo Smoke. They are on the NYSE under CGC.

operations, he added, totaling 250,000 square feet and larger. That's because it is federally legal in Canada, so companies there can ship nationwide. Whereas, "in the U.S., because of the federal illegality, each state is siloed," so companies can't do business across state lines.

For Canada, on an aggregate basis, according to statistics reported by The Motley Fool, recreational cannabis sales have totaled CA\$688.58 million (\$519.27 million U.S.) since Oct. 17, 2018, Canada's official legal launch date.

These numbers, though, have not persuaded opponents in Minnesota, including Republican state repre-



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sentatives and senators who are not in favor of legalization beyond medical cannabis.

Opponents not convinced

Minnesota Senate Majority Leader Paul Gazelka, a Republican from the Brainerd/Baxter area, isn't shy about where he stands on this issue. "I can tell you, we, the Republican-controlled Senate, will not pass recreational marijuana."

He said legalizing recreational pot would be "a double standard. It feels hypocritical that we are trying to address the opioid abuse problem and creating more resources to do that, and then at the very same time people want to legalize recreational marijuana, which has just as many problems as opioid abuse."

Additionally, he said, the added costs to Minnesota taxpayers of public health and public safety problems related to legal pot "far outweigh the revenue" that would come in from legal marijuana sales, so, "in the long run, it doesn't make good business sense either."

Rep. Sandy Layman (R-Grand Rapids), who has broad experience in past chamber of commerce and economic development roles, also is not convinced there's a business benefit. Layman said



State Sen. Paul Gazelka

she has heard about the promise of a new industry and new jobs that might emerge from legalization, but "what I have heard, in states like California and Colorado, I have not seen valid evidence that the business benefits outweigh the societal costs." Dave Baker, a Republican representative from Willmar, agreed. He said he is influenced on this issue by being a business owner himself, and by having lost his son Dan to opioid addiction several years ago.

"I got the air knocked out of me ... so I know the effects of substance abuse. I get it. I know what these substances do to people when they are not used properly." In addition, he believes marijuana is a gateway drug. "So, that's why, for me, legalization of recreational marijuana is an absolute no-go."

Even some legalization supporters seem tepid. DFL Sen. Erik Simonson of Duluth thinks legalization would create some business opportunities.

"But what I hear from other states is you need to be cautious before you go down this path because there will be challenges, especially law enforcement challenges ... we don't need to create another situation like the Last Place on Earth," referring to the now-closed controversial head shop on Superior Street.

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Advocates see advantages

Other supporters are more proactive, though, like House Majority Leader Winkler.

"There certainly will be economic development opportunities and job creation and good jobs created" by legalization that should create "business opportunities for a lot of people."



State Rep. Jennifer Schultz

He added, though, that the push for legalization is "not some sort of bonanza or cannabis rush ... In fact, what other states have learned, it is difficult for those who start out right away in this industry. It takes some time for the market to find its footing."

Instead, the legalization goal isn't necessarily to increase marijuana sales, but to shift the sales from a black market to a legal market. "Shifting from criminalization to legalization and regulation is what we're working on," Winkler said.

Further, Winkler said, based on lessons from other states and from what he is hearing from Minnesotans,

he believes people want a "small-business, craft-type industry rather than a large corporate, out-of-state type of industry."

Rep. Schultz agreed. "We should try to keep as much of the production revenue with people in Minnesota as possible ... as many smaller growers as possible so our revenue isn't going out of state." Schultz sees potential for jobs, including retail jobs in dispensaries plus jobs with growing and manufacturing facilities, scientists doing lab and new product research and more.

Leili Fatehi, campaign manager for Minnesotans for Responsible Marijuana Regulation (MRMR), said her group supports legalization for social justice reasons particularly, she said, "Because prohibition has been an absolute failure in achieving its public policy goals and has resulted in some terrible outcomes because of it ... including devastating communities of color across the nation" with higher arrest rates for low-level marijuana possession offenses.

Fatehi said MRMR envisions a legal cannabis industry "much like the craft-brewing industry in the state. There are ways to keep (large companies) out. The state can develop its policies to help support local people who want to go into this industry."

One recent economic impact study paints an optimistic picture. Denver-based Marijuana Policy Group (MPG) recently forecast that Minnesota's cannabis industry would do \$426 million in sales in the first year of legalized pot, and \$1.12 billion by the fifth year. MPG

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ver city attorney Friednash, the real estate broker DeHart, and Andrew Floor, vice president of marketing for Denver-based Dixie Brands, formerly Dixie Elixirs.

Mistakes will be made - just correct them

"We made a lot of mistakes at the beginning and over time we corrected them," recalled Friednash. Example? Edibles. "Initially, companies were able to make products that mimicked candy products or gummy bears, so they were attractive to kids. We fixed that by banning those kinds of products and placing stamps on (anything) that is a marijuana product." Five years in, Friednash said, "We've created a robust regulatory system with substantial guardrails to protect the public."

projected tax revenues of \$112.9 million in the first year, and growing to \$297 million by year five. MPG also predicted an annual economic impact of \$2.69 billion, with 20,300 jobs generated directly and indirectly. Not quite as rosy is Minnesota's current medical cannabis market. MPG reported that the state's two medical marijuana companies, Leafline Labs and Minnesota Medical Solutions, lost a combined \$2.4 million in 2018, continuing the losses that the state's program has experienced since it began in 2015.

Lessons learned from Colorado

Three Colorado sources recently offered Business North some war stories and a few tips: the former Den-

Products vary

Dixie Brands is a good example of this, said Floor. His company manufactures a variety of "infused products, anything you can infuse, edibles, beverages, tablets, etc. We produce 15 products from fun (think THC) to functional (think CBD)."

Regulations abound

Be warned, the cannabis industry is highly regulated, said DeHart. There are two layers of regulation in Colorado, at the state level and the local level, be it a mu-

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municipality or county. But it doesn't end there. Each local level has an assortment of agency regulations such as building department approvals, zoning approvals, fire department approvals, public health inspections, and so forth. Additionally, in Colorado, state rules give any local jurisdiction the choice to opt out completely of cannabis-related businesses, and many have.

Each state is siloed. As previously mentioned, Colorado, like every other state, is self-contained or "siloed," DeHart said. Multi-State Operators, or MSOs, do exist, including Dixie for example, but it's a complex arrangement, Floor says. "In every state we have our own production facilities. We have to operate with a licensed partner within that state, that sort of thing."

A premium for leased space

DeHart said because so many of these companies are "absorbing space" in Denver and elsewhere for retail, growing or processing purposes, industrial lease rates are up. Indeed, industrial real estate properties in Denver "have more than doubled in value" in the last six or seven years, and industrial vacancy rates are under 5 percent. "The marijuana market isn't the only cause of this, but it has had a significant impact."

Meanwhile in Canada

In Colorado, all growers, manufacturers and retailers

are privately owned, and every operation must be licensed.

In Canada, the federal government regulates the production of cannabis, and each provincial government controls the distribution, similar to how states here operate with the regulation of alcohol sales, said Jordan Sinclair. He is vice president of communications for Ontario-based Canopy Growth Corporation, a giant firm that works in 16 countries; operates growing, manufacturing, and retail facilities; includes brands such as Tweed and Tokyo Smoke (marijuana dispensaries); and is publicly traded on the New York Stock Exchange (CGC) and Toronto Stock Exchange (WEED), the first cannabis company to ever be publicly listed on a stock exchange in North America.

So some provinces allow privately operated retail stores while others are completely province-run enterprises. Which versions have worked the best so far, 15 months in from legalization's launch in Canada?

"In the provinces that allow the free market to operate, the systems have thrived," Sinclair said. For example, in Alberta, which is "as close as you can get to free market," more than 300 retail locations exist. In Ontario, which is not free market, and where the vast majority of Canadians live, there are only 24 locations.

Gilbert-native Angelo Gentile is a Twin Cities-based freelance writer.

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