

Don't Fall Over, but the DEA Just Changed Its Tune on Marijuana

The federal quota for cannabis production used in medical research will be over 450% higher in 2019.

[Sean Williams](https://www.fool.com/investing/2018/08/19/dont-fall-over-but-the-dea-just-changed-its-tune-o.aspx) - <https://www.fool.com/investing/2018/08/19/dont-fall-over-but-the-dea-just-changed-its-tune-o.aspx>

[Big changes are under way](#) right now in our neighbor to the north. Beginning Oct. 17, recreational marijuana will officially go on sale in Canada, making it the first industrialized country in the world to give adult-use weed the green light.

The legalization of marijuana in Canada is expected to generate up to \$5 billion in annual sales once the industry is fully up to speed. Though some of this revenue will come from domestic markets, Canadian growers are angling to reap significant rewards from exports since roughly 30 countries having legalized medical cannabis to some degree. However, the United States won't be one of those countries.



Image source: Getty Images.

The U.S. federal government stymies cannabis progress

Whereas most of the developed world appears to be progressing on their view of cannabis, the U.S. has remained stuck in neutral. Even though Oklahoma recently became the [30th state to have legalized medical marijuana](#) in some capacity, the federal government has held firm on its stance that cannabis is a Schedule I substance. According to the Controlled Substances Act, that means marijuana is entirely illegal, prone to abuse, and devoid of any recognized medical benefits.

As you can imagine, businesses that deal with marijuana in the U.S. [face quite a few disadvantages](#) with this Schedule I classification. For instance, businesses that sell a Schedule I or II substance are unable to take normal corporate income tax

deductions, aside from cost of goods. For pot companies, this can lead to an effective corporate income tax rate of between 70% and 90%.

In addition, weed's Schedule I classification has made it virtually impossible for marijuana-based businesses to access basic banking services like a normal company. That means little or no access to loans, lines of credit, and even checking accounts.

But the biggest slap of all might be what the Schedule I classification does to the medical side of the equation. Though researchers would like to conduct tests into the benefits and risks of cannabis, the drug's current scheduling makes getting regulatory approval for those tests difficult. Plus, with just one grow facility in the U.S. at the University of Mississippi, supply is also a serious concern.



Image source: Getty Images.

Having previously broken its promise, the DEA appears to have changed its tune

The interesting thing here is that changes the Obama administration made in 2016 were designed to rectify researchers' inability to get their hands on federally approved medical cannabis. The Obama administration set a path by which the National Institute on Drug Abuse would license additional cultivators, ending the University of Mississippi's monopoly on federally grown cannabis, which it's held since 1968. In doing so, the supply for researchers to conduct laboratory and clinical studies should increase.

But that hasn't happened. Despite receiving roughly 25 applications for federal cannabis grow farms last year, the U.S. Drug Enforcement Agency (DEA) and Attorney General Jeff Sessions have sat on these applications without approving a single one. In fact, the amount of cannabis the DEA requested be grown in 2018, 443,680 grams, is actually [a modest decline](#) from what the drug regulatory agency requested be grown in 2017.

The good news is that it appears the DEA is done breaking promises to researchers and the American public. According to a new register filing from the DEA, as [reported by Forbes](#), the regulatory agency is calling for 2,450,000 grams of cannabis next year "to meet the country's medical, scientific, research, industrial, and export needs for the year and for the establishment of reserve stocks." For those of you keeping score at home, that's a 452% year-over-year increase in requested production.

What we don't as of yet know is where this new production will come from. It's possible it could come entirely from the University of Mississippi in order to replace reduced reserves. It's also just as likely that this proposed 2.45 million grams of production implies that Sessions and the DEA plan to approve some of the grow farm applications they've received. Though Sessions hasn't tipped his hand one way or the other, he's certainly received bipartisan pressure from lawmakers in Washington to boost federally approved output.



Image source: Getty Images.

The big picture: Marijuana remains stuck in neutral

But when looking at the bigger picture, the U.S. cannabis industry is unlikely to see much in the way of change, even with the DEA requesting additional production for research purposes. That's because Republicans are still in control of the legislative branch of the federal government, and the GOP has a markedly more negative view of cannabis than Democrats or independents. That makes any chance of a rescheduling or de-scheduling unlikely.

However, there is a wild card that has the potential to incite change at the federal level.

Back on June 25, the U.S. Food and Drug Administration (FDA) approved **GW Pharmaceuticals'** ([NASDAQ:GWPH](https://www.nasdaq.com/symbol/gwph)) Epidiolex to treat two rare types of childhood-

onset epilepsy known as Dravet syndrome and Lennox-Gastaut syndrome. What makes this approval so different from just any other drug approval is that it marked the first time that the FDA OK'd a cannabis-derived drug. Synthetic versions of tetrahydrocannabinol (THC), the psychoactive component of the cannabis plant that gets you "high," have been approved before. But this was the first time a cannabidiol (CBD)-based medicine directly from the cannabis plant was given the green light. CBD is the non-psychoactive cannabinoid best known for its perceived medical benefits.

This is significant because the FDA approval of a cannabis-derived drug contradicts the definition of a Schedule I substance. In essence, a Schedule I substance has no recognized medical benefits -- yet here's this newly approved drug from GW Pharmaceuticals that shows otherwise. This [cannabis conundrum](#) may spark a rescheduling of cannabidiol, or perhaps lead to increased discussion of marijuana reform on Capitol Hill.

But make no mistake about it: The hill to climb is steep. Even though the public's opinion has shifted dramatically over the past two decades, the federal government [has little reason](#) to consider changing its classification of marijuana.