

THE DEBRIEF:

ECUADOR & INTERNATIONAL
EXPERIENCES IN THE
CANNABIS & HEMP INDUSTRY

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In collaboration with:

MINISTRY OF PRODUCTION,
FOREIGN TRADE, INVESTMENT AND FISHERIES



PRÆTORIUM
ESTUDIO DE ABOGADOS

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INTERVIEW

OPPORTUNITIES *abound*

With the goal of creating and positioning its own brand of high-quality hemp as a country, the Ministry of Production, Foreign Trade, Investments, and Fisheries is determined to lay down the best practices for the development of its cannabis industry.

Iván Ontaneda Berrú
MINISTER OF PRODUCTION, FOREIGN
TRADE, INVESTMENTS, AND FISHERIES

What advancements has Ecuador recently made to create a more investor-friendly system, and how can it benefit potential investment in the cannabis industry?

Ecuador and the rest of the world need to think outside the box in the aftermath of the pandemic. COVID-19 changed the global economy's rules, and Ecuador is no exception. For a dollarized economy such as ours, it is more important than ever to increase non-oil exports and to diversify our industry, and for this reason foreign investment is extremely important. Such investment has been scarce in the last few years as a result of the lack of an adequate investment legal framework. This administration is focused on changing our trade and production policy from a sustainability standpoint that is aligned with global trends. Today, Ecuador is looking for strategic alliances and strategic premium partners through trade agreements, within powerful global groups. The cannabis industry is highly attractive to us, and we are keen to explore and tend to the economic opportunities it is creating in other parts of the world. We are already in talks with interested industry stakeholders actively exploring these opportunities that Ecuador has to offer within the industry. Ecuador has certain natural advantages for cannabis production. Our biggest incentive for investment is legal certainty, with a decriminalization of non-psychoactive cannabis and industrial hemp with THC contents below 1% for therapeutic and industrial use. We are working on special regions to promote the production of hemp. Companies that set up operations in special development zones that we have created can immediately gain access to many benefits.

How is Ecuador cooperating with other countries with more permissive Cannabis legislations in order to guarantee best practices for the development of its own industry?

Close to 30 countries between Asia, Europe, and America currently allow the cultivation and industrialization of hemp. In that regard, the Ministry of Production, International Trade, Investment, and Fisheries is cur-

rently analyzing these experiences. This is why we have held talks with public and private-sector institutions from countries in the region like Uruguay, Colombia and Peru, among others, as well as the industry's world leading countries such as Canada to learn from them and implement the industry's best practices. We have equally met with companies from China, South Korea, Canada, the US, and Europe that have expressed their interest in exploring cannabis production in Ecuador. Some of these companies are willing to assume the cost of the research processes alongside us to determine how and which strains of hemp are most compatible with Ecuador's conditions. We want to create and position our own brand of high-quality hemp as a country. Moreover, we have compiled a list of local companies that seek to partner with foreign companies to explore joint business opportunities.

What is the potential in terms of economic development if the cannabis industry manages to thrive in Ecuador?

This industry has a huge potential in terms of job creation, though it all depends on research, the approach, and the regulations. It will be important to learn from the mistakes of other countries in the industry. Ecuador is open to exploring, studying, and building an industry that benefits both investors and the country. Our goal is to create jobs, investment opportunities, and economic dynamism around the industry. To set some numbers from the example of other countries, this could be a USD1-2-billion industry depending on how the economic conditions develop at the start of this business. Uruguay's Ministry of Agriculture, Stock, and Fisheries estimate that hemp is used in more than 25,000 products worldwide related to the textiles, recycling, automation, food and beverages, construction, and many other industries. This means we have an endless amount of economic opportunities we are open to exploring. Our alternatives may vary but our position is set; Ecuador is open to investment and we can grow together in this trending industry. ✖

BIO

Iván Ontaneda Berrú is a prominent businessperson in the Ecuadorian cocoa industry with more than 30 years of experience in the sector. He has a degree in business management from Universidad Católica Santiago de Guayaquil. He also has an A.S degree in business and management from ICPR Junior College in Puerto Rico. He describes himself as an agroindustrial entrepreneur focused on sustainable business models. His vision and leadership led him to become CEO and founder of Eco-Kakao in 1994.

preparing FOR THE FUTURE

Considering Ecuador's reputation within the agriculture sector globally and its skilled human capital in the country, it has great potential to outperform other markets in the cannabis sector.

Xavier Valverde Carcache
PARTNER,
PRAETORIUM



How have cannabis regulations in Ecuador progressed?

Since 2015, Ecuador started being aware of the global shifting perspective on the medicinal use of cannabis. We followed the trends and issued a law on integral prevention of the socioeconomic effect of drugs and the regulations on the use of controlled substances previously labeled as subject to criminalization. More than being prohibitive, it establishes the approach for the government to regulate cannabis-related activities. Over time and due to the campaigning efforts of the population and experts, in 2019, Ecuador reformed the criminal code published on December 24, 2019, in which hemp was taken out of the controlled substances category subject to criminalization in order to place it under a new category as an agriculture product provided grown hemp does not contain over 1% of THC. The Ministry of Agriculture was given 120 days to issue the outline to regulate activities and this new sector. It has issued the corresponding statements and held talks with different stakeholders, groups, associations, and chambers communicating its position regarding this new industry. It currently has a draft for the new regulations and legal framework and will officially issue its regulations and welcome this new industry to Ecuador. This is important because of everything we have gone through with COVID-19, the fall of oil prices, and the reduction of the shrimp market. Fortunately, the banana industry has been on the rise, and we have the opportunity to provide our country with a new source of income to reactivate the economy.

What are the incentives for international investors to have legal certainty when investing in Ecuador?

Though we have gone through periods of uncertainty in the past, Ecuador's constitution is full of guarantees. Even the environment is set as a subject of protection of the state by itself. Along the same lines, the 2008 constitutions secures our rights for entrepreneurial freedoms. It provides a wide range of benefits and incentives and guarantees innovation into the future. The same goes for all of our business-related regulations. We have a law for production promotion for new and established ventures that explore new activities that include skill transfer, innovation, and more. That law includes income tax waivers machinery depreciation of up to 200% and the most important incentive: an investment contract with the government that secures one's investment's legal framework for the next 20 years. Even if the administration or political dynamics change, the contract guarantees that the legal framework will be applied the same way for the next 20 years. Ecuador has those incentives and will promote them and enforce them. Adding to that law, we also have the production, commerce and investment civil code, the solidarity law, and many other incentives and benefits all added to the basic guarantees found in our constitution.

What is attractive for growing new crops such as hemp for Ecuador's agriculture sector?

Ecuador simply has a unique set of exosystemic conditions with impressive soil capabilities, with an amount of sunlight that cannot be found elsewhere that al-

low us to have a rare and high-quality set of products with a unique set of qualities that create a specific country brand that differentiates our product from other countries. The industry is convinced Ecuador could produce the world's best hemp, supported by historic precedent. That's where we want to go: to have a proper adaptability process for the seed, define a regional area for the development to determine where would it grow best, and for the sake of complying with the criminal code, understanding where can the seed get stressed and surpass that 1% of THC. As a traditionally agro industrial country, it will be hard to beat our skilled human capital that has decades of experiences handling agriculture products and processes. We even have first-class skilled labor to industrialize this crop, so we have track record that is indisputable for us to lead in this industry. The moment is now, and we are preparing for the future of this sector. ✖

BIO

Xavier Valverde Carcache is a lawyer from Ecuador pursuing a master's degree in state law with an emphasis on natural resources at Externado University of Colombia. Currently, he is also being considered as a candidate for a PhD at the Catholic University of Argentina. He had a successful venture in public service as an advisor to the environment minister and was also an undersecretary of marine and coastal management in the same government. In early 2019, he became part of Hoban Law Group, one of the most prestigious firms specializing in advisory regarding the cannabis industry and was appointed its representative in Ecuador.

ROUND TABLE

Ecuador & International Experiences in the Cannabis & Hemp Industry



THE DEBRIEF: ECUADOR & INTERNATIONAL EXPERIENCES IN THE CANNABIS & HEMP INDUSTRY

ECUADOR & INTERNATIONAL EXPERIENCES IN THE CANNABIS & HEMP INDUSTRY
BROUGHT TOGETHER PUBLIC- AND PRIVATE-SECTOR PLAYERS TO DISCUSS THE
GROWTH AND DEVELOPMENT OF THE SECTOR.



Iván Ontaneda
Berrú
MINISTRY OF
PRODUCTION,
TRADE,
INVESTMENT,
AND FISHERIES



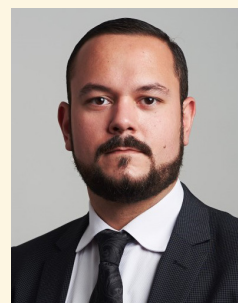
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CO-FOUNDER,
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Andrés Fajardo
PRESIDENT AND
CO-FOUNDER,
CLEVER LEAVES



Xavier Valverde
Carcache
PARTNER,
PRAETORIUM



José Antonio
Dávalos
PRESIDENT,
ECUACÁÑAMO

IVÁN ONTANEDA BERRÚ The cannabis industry is one of the fastest-growing industries right now. What was once regarded as a forbidden plant, now serves as a source of employment for thousands of people and generates millions of dollars in revenues from the health sector and the industrial one as well; this industry is about innovation and it is worth billions. Today, in Ecuador and the world, we are amidst an important economic crisis after the pandemic hit, so we find ourselves looking into initiatives such as cannabis and hemp to make our economy grow. We have to think outside of the box, in order to generate employment and attract foreign investment; this country has every detail in its favor to make the cannabis and hemp industry invest in it. We have created legal frameworks for investors, both local and foreign, to look at Ecuador as a destination for investment. We have taken the first steps toward the decriminalization of the consumption of non-psychoactive marijuana and hemp with low THC levels (1 %) for industrial and medicinal purposes.

Investors are looking to avoid excesses in regulations—they seek legal frameworks that guarantees security and dynamism in their investment. What are some highlights of cannabis regulation in South America?

XAVIER VALVERDE CARCACHE In order to answer such an important question, we have to start by looking into what other countries have done in terms of processes and regulations, in order to boost their economy and exports. We have a case study in Uruguay, where a law (law 19172) was passed back in 2013 to provide a legal framework for the imports, exports, farming, production, commercialization, acquisition, storage, marketing, use, and distribution of cannabis and hemp. This law regulated licenses of psychoactive cannabis for pharmacies; The Institute for the Regulation and Control of Cannabis (IRCCA) was created as well. Finally, there was an opening for scientific research and for the development of therapeutic products for medical use. These three things were fundamental for the case study in Uruguay, but it is connected to what Colombia did in 2017, when the country brought up a new legal framework to allow the production, use and distribution of cannabis

seeds with medical purposes, while also allowing pharmacies to prescribe it to patients in due form (with its lawful regulation and supervision). Brazil has recently approved regulations for medicinal cannabis and hemp, determining the procedures of manufacturing, importing and distribution of supervised products that come from cannabis and hemp. As we can see, South America is taking great steps in this very promising industry. Ecuador is not falling behind, it's working on coming up with the best possible regulations to attract investors and to promote technical, legal, financial and socio-cultural conditions to improve the life of all Ecuadorians.

What is South America's distinctive factor that could make this industry attractive for foreign investors?

ÁLVARO TORRES I believe there are two key factors. Countries such as Colombia and Ecuador have agronomic advantages for cultivation due to their geographical position and proximity to the equator, which is very attractive in terms of production costs since they are lower, they are much lower than those in Canada or Brazil, for example. This helps us be really competitive, with production to be expected in the short term. Another factor is how dense our population is in Latin America; we are talking about 650 million people, a population that imports expensive and addictive opioids. This is a great alternative for healthcare in Latin America. This ultimately means an opportunity for production and exportation at a low cost and the existence of a local pungent market with high demand for this product.

What are the most important best practices in terms of manufacturing, agriculture, and exportation?

ANDRÉS FAJARDO It's vital to understand that in order to compete in the global markets, farming at a low cost is important but not enough. While markets are welcoming the cannabis industry, they are also demanding the highest standards of quality. There is a growing demand for high-quality products, with pharmaceutical standards and BPMs, and we can meet it if we abide by the best possible practices and personnel in

every stage of the process, from growing to manufacturing to distributing. This is the demand we find in the most important markets, such as in Europe with Germany and the UK, but also in Australia and in Latin America.

What have been the greatest challenges for the cannabis industry in Colombia and how did you overcome them?

ÁLVARO TORRES I believe in Ecuador and in every market there is the need to have a convinced government that will lead the regulations with strong strides. Regulating, by little steps, makes everything harder. In the full picture, cultivating and harvesting is only one small factor. Four years ago, we were focused on this. Now, we are focused on how to develop quality products that can be exported and relevant to the pharmaceutical market or CBD products. None of that has been regulated yet. The fact that legislation and regulations are moving so slowly makes demand harder to increase. Another big factor concerns the fact that THC is demonized in Latin America. Opioids in Latin America are costing us approximately USD3 billion, which is very harming to the health of the public. We have these reservations about THC because of our recent traditions or history. We have to change our minds and the minds of the public regarding THC and CBD products; they are not the enemy. We have to increase the demand of these products so the industry may grow. It is not about dedicating large crops to cannabis, that is not sustainable. It is about products that people can take home. There are a lot of factors and players in this industry, it is convenient to have an institution that can handle this efficiently. There's no point in growing cannabis without the possibility to sell its products, we have to be forward thinking starting today. We don't have to be scared of THC. People need this molecule to treat their pain, as it is prescribed.

ANDRÉS FAJARDO Creating an industry is difficult. You can

take many things for granted that you did not think were going to be complicated: banks, bringing in foreign investment, insurance, supply chains, and airlines. A lot of things need to happen for the cannabis industry to really prosper. An international market for cannabis does not exist as of right now. We are going to countries where cannabis is legal, yes, but we need to strengthen our efforts and create a real international market and demand for cannabis. A lot of doors need to open; we have to create a global market. However, I do want to point out few key lessons we learnt in Colombia. The government was very restrictive when it came to cannabis use in Colombia. Ecuador needs to think about if it wants to be as restrictive as Colombia regarding medicinal use. In Colombia, cannabis is treated as a controlled substance like Fentanyl, and this doesn't allow the cannabis industry to go faster. Colombian regulations are too rigid and do not allow innovation. I'd also like to agree with Álvaro when he said that you definitely need a champion in government. Finally, this has to be a joint effort between the government and companies to create a global market for cannabis. If this doesn't happen, neither Colombia nor Ecuador can truly prosper in the cannabis and hemp industries.

What are the essential points to consider in Ecuadorian legislation for the cannabis and hemp industries to successfully develop?

XAVIER VALVERDE CARCACHE We have to keep in mind that the hemp industry has not been previously developed or well-regulated here in Ecuador. However, in 2019, there was a reform in our legislation that makes a cannabis industry viable, since hemp was officially withdrawn from a list of substances that need heavy audits and regulations. The Ministry of Agriculture is working hard in drafting the necessary regulations, determining how other countries have done things right and where they've gone wrong. On the other hand, we are at a historical and ideal time in Ecuador. The Ministry of Production

and Commerce can take action to develop and enhance the industry, particularly in three main areas: exemption from income tax, depreciation of machinery, and investment contracts with the state; these things will not only increase economic growth, but also provide legal protection and safety that no other country has been able to. This is why Ecuador must show a consolidated and attractive image for investors, and this way entrepreneurs can be presented with clear, stable, and safe rules for the present and the next 20 or 30 years. There is a new law that in Ecuador aims to establish the regulatory framework that encourages and promotes entrepreneurship, innovation, and technological development, and this law can be directly applied in the cannabis industry. The cannabis and hemp industry have an enormous presence in cosmetics, medicine, cleaning products, and crops, among other feasible alternatives for whoever desires to invest in this new business. With this proper legal framework, investors in Ecuador can thrive.

What are some of the potential uses of hemp in Ecuador?

JOSÉ ANTONIO DÁVALOS There are many uses for hemp. One of the main uses of hemp is to grow it for its flower and then extract the CBD. But the uses of hemp are diverse and its potential is enormous. We can use hemp to make fabric and textiles, paper, an alternative to cotton in clothing, plastic, or fuel. While the medicinal use of cannabis is very important, allowing us to treat pain in a healthier way without turning to opioids, we must not forget about the industrial uses of hemp. The planet is moving toward sustainable production methods and there is nothing better than using a plant, such as hemp, and making the best out of it.

Can hemp complement other productive sectors in the nation? How can the hemp industry adapt?

JOSÉ ANTONIO DÁVALOS We can not only create an industry from hemp or cannabis, we can also integrate this industry into others. Ecuador has been internationally recognized for its top-notch work, where people have incredible skills with their hands, such as in textiles, for example. It would be interesting to see how the textile industry can integrate hemp fibers. Moreover, even our animals—cattle, fish, or shrimp—feed themselves with vegetable protein. It would be interesting to see how we could include hemp into their diets, since it holds great amounts of vegetable protein. Hemp has so many industrial uses—it is in the processing of raw material where employment and investment can be generated, combining it with other industries to boost our economy in these crucial times.

What recommendations would you give in regards of the Ecuadorian regulation? And what would you recommend to the country and investors?

XAVIER VALVERDE CARCACHE It is important to take into account that the norm that the Ministry of Agriculture is elaborating must be a norm of introduction of the cannabis industry to Ecuador and, therefore, we must be very vigilant regarding the opportunities that it offers for investors and other strategic sectors. The norm needs to allow diligent access, and to not hinder the management and benefits of the whole production chains, taking as example countries that still have certain limitations due to social pressure, regulatory frameworks extremely restrictive or taboos originated by the mistrust or ignorance generated around the species. In short, there must be a norm that allows simple regularization, but with extreme control. Finally we advise all those who want to be participants in this industry, regardless of the productive sector in which they are going to operate, not to act rashly and have clear ideas about who your buyers will be and what will be their demand. It is useless to invest and not know who to sell to. ✖

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