



A GROWING MARKET

Peter S. Sloane offers a timely update on legalisation, registration and protection in what is a boom time for cannabis products

In late 2017, the *CITMA Review* published an article about cannabis trade marks in the United States. At that time, just seven states and the District of Columbia had legalised cannabis for recreational use, and an additional 19 states had legalised cannabis for medical use. The California market was developing slowly, and sales in Colorado had hit about \$875 million over the course of the previous year.

Much has changed since, and the market for cannabis is on the rise. Recreational cannabis is now legal in 11 states, and several others are actively considering legalisation. Meanwhile, medical cannabis is legal in 22 states. Recreational sales in California reached approximately \$1.2 billion in 2018 (and would have

been higher but for taxes and local licensing restrictions, which make it difficult for legitimate businesses to compete with street sales), and sales of regulated cannabis in Colorado rose to an estimated \$1.5 billion last year. By the end of 2019, retail sales of recreational and medical cannabis in the US are on pace to surpass \$12 billion – approximately a 35 per cent increase over 2018. More growth is expected.

Big brands have, predictably, taken notice and are making moves. In August 2018, Constellation Brands Inc., the market-leading alcoholic beverage company in the US, announced that it was investing some \$4 billion into Canadian cannabis grower Canopy Growth Corp. In December, Altria, the largest tobacco

company in the US, announced that it was buying a 45 per cent stake in Cronos Group, a global cannabis company, for around \$1.8 billion.

Big pharma is also getting in on the act. Last June, the US Food and Drug Administration took a major leap forward when it approved the first cannabis-derived medicine, a seizure disorder drug named Epidiolex. In December, Canadian cannabis company Tilray announced that it had signed an agreement to partner with Novartis subsidiary Sandoz to sell medical cannabis in countries where it is legal.

Yet in January 2018, the considerable growth of the US cannabis market seemed at risk when then-Attorney General Jeff Sessions rescinded the Cole Memorandum (an Obama-era Justice Department directive that essentially halted federal government prosecution of those who complied with state cannabis laws). Many expected a federal crackdown on individuals or businesses for cannabis-related offences to follow. However, Sessions' decision may actually have backfired, galvanising backing for states' rights and cannabis reform in Congress.

With this renewed momentum for cannabis legalisation, it seems timely to review key legal and regulatory changes, explore registration options, and offer pointers for IP practitioners.

THE HEMP GATEWAY

On 20th December 2018, the Agriculture Improvement Bill of 2018 (popularly known as the 2018 Farm Bill) was signed into law. Among other things, it legalised the cultivation and sale of hemp at the federal level by amending the Controlled Substances Act of 1970 (CSA) to declassify hemp as a Schedule 1 controlled substance. Hemp is a strain of the *cannabis sativa* plant species with a rich history of industrial, food and health-related uses. More technically, “hemp” is a term used to classify varieties of cannabis that contain 0.3 per cent or less tetrahydrocannabinol (THC, the active chemical that produces psychological effects) by dry weight. ►

The 2018 Farm Bill offered a path towards the registration of trade marks for compliant hemp-related goods and services. And on 2nd May 2019, the USPTO issued Examination Guide 1-19 to clarify the procedure for registering marks for cannabis and cannabis-derived goods and for services involving cannabis and cannabis production.

The guide states that for applications that identify goods encompassing cannabis or cannabidiol (CBD, defined as “a chemical constituent of the cannabis plant that is encompassed within the CSA’s definition of marijuana”), the 2018 Farm Bill potentially removes the CSA as a ground for refusal of registration, but only if the goods are derived from ‘hemp’. According to the guide, if an applicant’s goods are derived from hemp, as defined in the Bill, the identification of goods must specify that they contain less than 0.3 per cent THC so that the scope of the resulting registration will be limited to goods compliant with federal law. The same rule applies when applications outline services involving cannabis-related activities (ie, they will be examined for compliance with the CSA and the 2018 Farm Bill). Applicants seeking to register marks for cultivation and other services related to hemp-based products must also show that they have an applicable state, territory or tribal government licence to provide their services.



While many variations of hemp are currently pre-approved as goods and services in the official ID Manual of the USPTO, the majority relate to fibres (hemp-cotton mixed fabrics in class 24, for example). It seems likely that the USPTO will eventually adopt a pre-approved term for lawful products containing 0.3 per cent or less THC content by dry weight. This would provide certainty in examination and allow applicants to avoid inquiry by examiners into the nature of the goods or to object on the grounds of specificity.

The new guidelines are a welcome step in the expansion of trade mark rights for the cannabis industry, and they are a boon for protecting brands in the red-hot CBD market. Unlike its close relative THC, CBD is

not psychoactive. CBD is sold in various forms, including oils, tinctures and topicals, and may help to treat a variety of conditions including anxiety, inflammation and pain. Products infused with CBD include skin care and beauty products, bath products and balms. However, while the guidelines will permit the registration of trade marks for some such hemp-derived goods such as cosmetics, they do not offer any obvious protection for the brands of CBD products derived from cannabis.¹

WHAT ARE THE WORK-AROUNDS?

Registration of cannabis marks remains forbidden at the federal level in the US. The USPTO last addressed the issue in *In re Pharmacann LLC*, 123 USPQ2d 1122 (TTAB 2017).² In that case, the Trademark Trial and Appeal Board affirmed its refusal to register the marks PHARMACANN and PHARMACANNIS for “retail store services featuring medical marijuana” and for “dispensing of pharmaceuticals featuring medical marijuana” on the ground that the Applicant lacked a bona fide intent to use the marks in commerce because the relevant services are prohibited by the CSA and can therefore not be considered to be in lawful use.

Despite the prohibition, foreign cannabis brand owners may have an advantage over domestic colleagues in trying to obtain registration for cannabis-related marks through the USPTO. Foreign applicants do not





Cannabis is coming under fresh scrutiny in the US as the market for CBD products grows

necessarily need to prove use of the mark in the US before obtaining registration. Under s44 of the US Trademark Act,³ if an eligible applicant owns a valid registration from its country of origin, it may base its US application on that foreign registration. By contrast, an American cannabis brand owner must prove use of its mark in commerce prior to registration. If the specimen of use reflects a connection with cannabis, the examiner will likely refuse registration based upon unlawful use.

Of course, the ability to avoid the need to prove use of the mark in the US before obtaining registration does not entirely obviate the risk of refusal for foreign trade mark owners. When reviewing applications, examiners in the USPTO may still search the internet to look for evidence showing that the mark is used as a brand name for cannabis or related goods or services. They will then refuse registration on the ground that the identification of goods or services is too broad and must be read to include unlawful goods or services.

There are some strategies that may help to minimise the risk of such an objection. These include filing single-class applications rather than multi-class filings; the theory being that goods and services that may present an issue in one class should not jeopardise registration of another. For example, Leason Ellis LLP filed single-class applications with the USPTO on behalf of Tikun

“ *The new guidelines are a welcome step in the expansion of trade mark rights for the cannabis industry*

PRACTICE POINTERS: CANNY STRATEGIES

- Avoid adopting marks at the outset that are likely to highlight controlled substance issues
- File for trade names, strain names and logos
- Include merchandising products and other ancillary goods that are legal at prima facie
- Use innocuous (but accurate) terms in the identification of goods and services (eg dried herbs or edible oil)
- Make sure that the identification used in the home country registrations will not raise red flags in the US
- Address anticipated technicalities when filing to avoid giving the examiner the opportunity to refuse registration
- Consider copyright protection for packaging design and logos
- Preserve evidence of first use and continued use of the mark, including sales receipts and advertisements, to back up common law rights
- Subscribe to watch services covering federal, state and common law marks
- Follow best practice guidelines for non-cannabis trade mark owners, from conducting availability searches with qualified US counsel to using proper trade mark notice and policing for infringements.

Olam Ltd., a global medical cannabis company and a pioneer in modern medical cannabis agriculture, treatment and clinical research. An application covering “providing information in the fields of health and wellness” in class 44 avoided refusal for unlawful use, while applications for the same mark in other classes have initially been refused under the CSA.

STATE REGISTRATION

Where federal registration is not available, state trade mark registration remains a viable option for cannabis-related businesses. While often looked down upon for what is perceived as weak protection, state registration laws closely mirror US federal trade mark law, albeit with a limited geographic scope.

European and other foreign applicants should bear in mind that many states have stringent filing requirements that are in many instances narrower than their federal counterparts. For example, the majority of state trade mark systems require not only use of the mark in the US, but also use of the mark in the state in which registration has been sought. In this regard, reliance on a foreign registration will not eliminate the use requirement. As such, applicants should only apply for state registration if and when the mark is being used in commerce within the relevant state.

Both the filing requirements and application forms are generally available online through each state’s Secretary of State website. There, applicants can find not only the procedure for filing an application in that jurisdiction, but also guidelines on how to identify goods and services within the application (which generally tracks that of the US federal system), whether specimens of use are required and other practical requirements. ►

Stores selling hemp and CBD-infused products are now a familiar sight



There is little case law regarding the enforcement of state trade mark registrations, but in *Headspace International LLC v Podworks Corp.*, 5 Wash.App.2d 883 (2018), the Plaintiff relied upon both common law rights and a Washington State trade mark registration for the mark THE CLEAR for cannabis concentrates in asserting an infringement of its trade mark rights. The trial court had granted the Defendant's motion to dismiss, ruling that the Plaintiff had not alleged any lawful use of its mark in the ordinary course of trade in Washington and therefore had no trade mark rights to THE CLEAR in Washington. In reversing the decision and remanding the case, the Court of Appeals did not find any inconsistency between the CSA and the state law which established a framework for regulating commerce in cannabis. While the enforceability of the state trade mark registration was not at issue in the decision, the fact that the Plaintiff relied upon

such registered rights and that the Court found it a valid cause of action suggests that state courts may be willing to hear infringement cases and enforce trade marks even if the underlying goods are illegal under federal law.⁴

ANCILLARY OPPORTUNITIES

Of course, the cannabis industry encompasses much more than just the drug itself. A major industry convention in Las Vegas last year featured more than 1,000 exhibitors in product categories including cultivation real estate, extraction equipment, packaging supplies and paraphernalia. In a crowded market, branding is a crucial element of differentiation among competitors, and trade mark protection is essential to establishing boundaries and enforcing rights.

One of the most prolific litigants in the broader cannabis space in the US is Roor International BV, a German manufacturer of high-end glass pipes for smoking. Since 2018, Roor and its exclusive US licensee Sream are reported to have filed a torrent of trade mark infringement and counterfeiting suits in federal courts across the US. In one such lawsuit, *Sream Inc. v Superior Discount LLC*, 2019 WL 2124887 (E.D.La May 15, 2019), one of the Defendants, Quickys Discount, fought back and asserted counterclaims seeking cancellation of Roor's trade mark registrations based upon invalidity and unenforceability. Sream and Roor moved to dismiss the counterclaims

on the ground that they failed to state a claim on which relief can be granted, but the Court disagreed and denied the motion.⁵

In denying the motion to dismiss, the Court recognised that to qualify for federal trade mark registration, the use of a mark in commerce must be lawful and that the CSA makes it illegal to deal in drug paraphernalia, including glass pipes. With the counterclaims now allowed to proceed, there is a risk that Roor's registrations will be cancelled and that it will be unable to maintain a claim under federal law for counterfeiting. There are a number of enormous benefits to pursuing a claim for counterfeiting rather than mere infringement, including the prospect of obtaining statutory damages in addition to actual damages, which would be lost without a federal registration.

Overall, then, the 2018 Farm Bill and the USPTO's implementation of regulations for the registration of hemp marks should be a source of optimism for cannabis trade mark owners. However, until such a time as the CSA is repealed, those owners will have to be creative in their brand protection strategies in the US. They may also take solace in the fact that, at present, Canopy Growth has just two federally registered trade marks and Cronos Group has none (although both have many pending applications on file). Even the market leaders are finding themselves facing the same challenges when it comes to registering cannabis marks. ●

1 The registration of marks for foods, beverages, dietary supplements or pet treats containing CBD will still be refused as unlawful under the Food Drug and Cosmetic Act. The drug Epidiolex is the only CBD product currently approved by the US Food and Drug Administration.

2 See ttabvue.uspto.gov/ttabvue/86520135-EXA-31.pdf.

3 See tmep.uspto.gov/RDMS/TFSR/current#/current/sec-dcb5b705-31d5-4c41-be3d-dc16b4f897c0.html.

4 Interestingly, Headspace was also plaintiff in two federal decisions. *Headspace International LLC v New Gen Agricultural Services LLC*, CV-16-3917-RGK (GJS), 2016 WL 9275781 (C.D.CA. 2016) and 2017 WL 2903181 (C.D.CA. 2017). It was also an Applicant in a USPTO opposition proceeding in connection with its now abandoned application for the mark THE CLEAR. *Herbal Wellness Center Inc v Headspace International LLC*, Opposition No 91233785. Herbal Wellness had opposed registration of the mark on mere descriptiveness grounds. Headspace subsequently abandoned its application with consent on a without prejudice basis. Despite the abandonment of the application, the product is still advertised online at clearconcentrate.com.

5 A cancellation proceeding between Quickys Discount and Roor International before the Trademark Trial and Appeal Board of the USPTO has been suspended pending the outcome of the civil action. Cancellation Number 92069681. See ttabvue.uspto.gov/ttabvue/v?pno=92069681&pty=CAN.



Peter S. Sloane

is a Trade Mark Attorney at Leason Ellis LLP in White Plains, New York
sloane@leasonellis.com

Co-authored by Chelsea A. Russell, Trade Mark Attorney at Leason Ellis LLP.