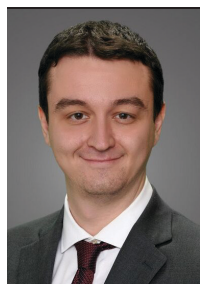


IP FRONTIERS

The difficulties of protecting cannabis and related intellectual property

■ **Jake Goldsmith** SPECIAL TO THE DAILY RECORD

The legalization and decriminalization of cannabis for medical and recreational uses has continued to expand across the United States in recent years. As of the date of this publication, 38 states now permit medical use of cannabis, and



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recreational use has been legalized in 23 states and the District of Columbia.

The federal government has indicated a lack of interest in prosecuting those who participate in

cannabis industry which is legal

under state law. Even more, the Biden Administration's Department of Health and Human Services (HHS) recently recommended to the Drug Enforcement Administration (DEA) that marijuana's designation as a Schedule I drug under the Controlled Substances Act of 1970 (CSA) be reconsidered, though the exact recommendation has not been made public. The current Schedule I classification of marijuana, the THC-dominant form of cannabis, reflects a determination by the federal government that marijuana has no accepted medical use and a high potential for abuse.

Like any business, companies selling cannabis and related goods invest in branding and product development. A company's brand and its innovative products can be protected by various forms of intellectual property schemes,

such as trademarks to protect branding and patents to protect inventions. The conflict between federal and state laws on the legality of cannabis and related goods has created ongoing difficulties in leveraging the laws to protect intellectual property in the cannabis industry. However, with the potential federal rescheduling of cannabis on the horizon, cannabis companies may want to reevaluate how they can best protect their intellectual property and position themselves for success as the landscape continues to change.

PATENTING CANNABIS AND RELATED TECHNOLOGIES

A U.S. patent may be obtained for any invention that is useful, new/novel (i.e., not previously publicly known) and non-obvious (i.e., not an "obvious" modification or combination of previously known technologies). These requirements say nothing regarding the legality, morality, or safety of the invention for which a patent is sought. The neutral requirements imposed by the U.S. patent system are unlike the patent system in Europe, which prohibits patenting of inventions which are "contrary to public order or morality." Thus, the legality of the invention itself – and of its use – have no bearing on whether a patent may be obtained for a particular invention.

The U.S. Patent and Trademark Office (USPTO) has been awarding patents on cannabis-related products for decades,

even before the recent legalization trends. For example, in 1942 inventor Adams Roger obtained U.S. Patent No. 2,304,669 for the Isolation of cannabidiol (CBD). In 2003, the HHS was granted U.S. Patent No. 6,630,507 on the use of cannabinoids as antioxidants and neuroprotectants. Hundreds, if not thousands, of cannabis-related patents have now been issued over a wide range of inventions including drug formulations, methods of processing cannabis, medical treatments and even plant variations.

While most of these patents have yet to be litigated, it can at least be said that patents for cannabis-related inventions that can be used for another legal purpose, such as with tobacco, have been held enforceable against infringers using the invention for that legal purpose.

Whether a cannabis patent is enforceable against others within the cannabis industry, however, has yet to be fully fleshed out by the courts. This enforcement dichotomy exists because patents are only able to be asserted in federal courts, where most cannabis products remain illegal.

When a patent owner seeks damages in a patent infringement action, they seek compensation of either (1) the royalty the infringer should have paid the patent owner; or (2) the profits the patent owner would have made but lost because of the infringer.

Under federal law, the patent owner is therefore seeking the proceeds of criminal activity, which courts are generally

unwilling to award. Unfortunately, the cases that would best illuminate the current judicial framework of cannabis patent enforcement are still in the process of litigation or have otherwise been dismissed in favor of settlements.

Companies and inventors may wonder what benefits a patent on a cannabis-related technology could provide if they cannot be enforced against infringers.

First, don't forget that a patent is enforceable against anyone using the invention for a legal purpose, such as where a patent for processing leaves (including cannabis leaves) could also be used to legally process tobacco leaves.

Second, patents are only able to be filed within one year of disclosing an invention publicly. If an inventor wishes to profit from their cannabis-related invention presently, while also retaining future ownership over the invention, they cannot wait for legalization to file a patent or they risk losing their rights in that invention to the public domain when the one-year grace period expires.

Third, it is possible that cannabis patents will become enforceable during their 20-year lifetime, meaning patents obtained presently may be used to reserve rights in a federally legal market.

Lastly, ownership of a cannabis patent may dissuade others from copying an invention presently because, should federal legalization be realized, a patent covering the invention could disrupt their operations and open them up to liability. Some of these companies may be willing to negotiate a royalty with the patent's owner just to avoid that liability down the road.

TRADEMARKING CANNABIS BRANDS

The Lanham Act is the federal statute that governs trademarks and unfair competition. Generally, the Lanham Act extends federal trademark protection only to marks associated with goods and services that are lawfully used interstate or foreign commerce.

As the Trademark Manual of Examining Procedure used by the USPTO

explains: A federal trademark application cannot relate to the shipment or production of an illegal drug. Due to the status of cannabis as a Schedule I controlled substance under the CSA, trademark protection at the federal level is not available for marks relating to the production, sale, or distribution of cannabis and related products and services.

The unavailability of trademark protections for cannabis products extends to CBD-dominant cannabis despite the 2018 Farm Bill, which removed hemp from the substances which are illegal under the CSA. Hemp is defined as "the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol [THC] concentration of not more than 0.3 percent on a dry weight basis."

Even though CBD or hemp-derived products were removed from the CSA, not all such goods are fully federally lawful. For example, the use in foods or dietary supplements of a drug or substance undergoing clinical investigations or which is the active ingredient in a regulated product, such as CBD, without approval of the U.S. Food and Drug Administration (FDA) violates the Federal Food, Drug, and Cosmetic Act (FFDCA).

The 2018 Farm Bill, in fact, explicitly preserved the FDA's authority to regulate products containing cannabis or cannabis-derived compounds under the FFDCA. Registration of marks for any goods containing CBD will therefore still be refused as unlawful under the FFDCA, even if derived from hemp, as such goods may not be introduced lawfully into interstate commerce without FDA approval. As it stands, only those products which are made from hemp and contain only "naturally occurring trace amounts of CBD," or those which are approved by the FDA, have any real likelihood of obtaining trademark protection for cannabis-related products.

One strategy for cannabis businesses seeking federal protections for their marks is to register the mark for use with non-cannabis related goods with which the mark is actually being used. For example, the cannabis brand STIII-ZY has obtained a trademark (Reg. No. 6,385,523) on a wide range of clothing items. STIII-ZY-branded clothing items can therefore include the ® symbol, allowing the owner of the STIII-ZY mark to build its brand with consumers on the federal level without running afoul of the rules prohibiting trademark use on illegal goods. Companies must be careful employing this strategy, as federal registration of a mark for clothing or other legal goods does not permit use of the ® symbol on any cannabis-related products and doing so may jeopardize a mark's registration and future registration opportunities in a federally legal market.

Another strategy for trademark protection is to leverage state trademark laws. Few registrants utilize state trademarks because they rarely give any additional protection over federal trademark law. However, since federal registration cannot be obtained for cannabis-related goods, state trademark law provides an effective avenue for preventing competitors within the state (but not out-of-state competitors) from using the same or confusingly similar marks.

While the intellectual property associated with cannabis and cannabis-related products may be a valuable part of a cannabis business, cannabis's federal classification as an illegal drug adds an additional level of complexity for business owners and investors. As a result, when considering an investment or strategy for developing a business in the cannabis field, it is important to work with an experienced advisor familiar with these issues.

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