Trademark Law and the Cannabis Industry: Six Things That Will Separate Brand Winners from Brand Losers

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On January 1, 2014, in an electoral and commercial first, the recreational marijuana market opened for business in the State of Colorado. Recognizing the enormous opportunities a regulated cannabis market presents, numerous states followed suit. As cannabis remains illegal under federal law, the industry operates in a complex, dynamic and uncertain regulatory environment. Given this reality, cannabis businesses understandably focused their legal efforts on compliance—with little, if any, attention paid to properly securing intellectual property rights, including trademarks. This is particularly true for cannabis franchises where the primary value has been operational knowledge and not necessarily brands.

However, this is starting to change. Regardless of when and how the cannabis industry is uniformly regulated, brand creation, protection and enforcement will play an important role in determining the winners and losers in this nascent market, including the potential for franchising. For those contemplating entering this field, taking into account the following points will help maximize brand success.

1. Understand Available Strategies to Protect Cannabis Brands For Franchising in the United States.

Many in the cannabis industry understand that federal trademark protection cannot be obtained through the U.S. Patent & Trademark Office ("PTO") for marks that "touch the plant," that is, those used in connection with goods and services that do not comply with the Controlled Substances Act ("CSA"). *See* 21 U.S.C. §§801-971. For example, federal trademark registration is unavailable for brands used in connection not just with the cannabis flower, but with anything containing cannabis, including concentrates, edibles and topicals.

There are, however, a wide variety of ancillary businesses in the cannabis industry offering goods and services that do not touch the plant, including media, software, security and employment agencies, among others. For those businesses that comply with the CSA, federal registration of their marks is available and should be pursued given the many benefits, including the right to use the "circle R" ® symbol. Other benefits include a presumption of validity and exclusive ownership, nationwide constructive notice of the trademark registration (preventing an "innocent infringer" defense), the possibility of "incontestable" rights after a period of time, the right to sue in federal court, and, perhaps most importantly, federal registration enables the PTO to reject subsequent applications to register marks that are confusingly similar to the registered mark.

Many in the industry also understand that trademark registration is available at the state level in states that have legalized cannabis. State registrations are of less value than federal registrations because, in most cases, they provide no more than "common" law or "unregistered" rights. Moreover, state trademarks must be used in commerce in the state to be registerable. The problem this presents is that a cannabis brand owner obtaining a registration in one state will not necessarily prevent a third-party from using the same mark in another state, and that third party may be able to block the cannabis brand owner from expanding the use of its mark to the third-party's state. To head off this scenario, the cannabis brand owner could undertake expeditiously a strategy to obtain trademark registrations in all states where cannabis is legal. Such a strategy, which would require use of the mark and sales in those states, should serve to prevent third parties from getting a foothold on acquiring common law trademark rights in at least those states. In addition, in most cases, state registrations only create a presumption of registration and not a presumption of ownership or exclusive right to use throughout the state. This underscores one important difference between a state registration and a federal registration on the Principal Register, which affords a presumption of ownership nationwide. Nevertheless, as they are inexpensive and easy to obtain and may provide additional remedies, state trademark registration should be pursued where federal registration is unavailable.

Obtaining federal and/or state trademark registration benefits can be important for any cannabis brand owner looking to franchise in certain states. Owning a federal and/or state trademark registration enables a franchisor to avoid registration or notice filings in certain business opportunity and/or notice filing states, e.g., Maine and Connecticut. Without a federal registration most franchise registration states (for example, California, Illinois and Washington) will require that the franchisor expressly state in the required Franchise Disclosure Document ("FDD") that the franchisor does not own a federal trademark registration, and that its trademark rights may therefore be at risk. In addition, the franchisor will face some risk in connection with any franchise agreement warranties and/or representations for its trademark rights.

Finally, in the U.S., unlike many other countries, trademark rights are conferred by actual use of the mark in commerce and not by registration, either at the federal or state level. Even without state or federal registration, a cannabis brand owner that uses its brand in commerce in a certain territory possesses "common law" or "unregistered" rights in that territory based on priority of use. This is important because federal and state trademark law and the common law can prevent a later "junior" federal or state registrant from attempting to usurp the trademark rights of a prior "senior" unregistered mark owner. Accordingly, common law, as well as state and federal trademark rights should be considered and leveraged to maximum advantage in protection of cannabis brands for all franchising objectives.

2. Ensure Cannabis Brands are Properly Selected.

Care must be taken to ensure cannabis brands are properly selected to avoid traps in the protection of those brands. Generic words are never protectable as trademarks when used in connection with the goods or services they represent (*e.g.*, VAPE for vaporizers). Moreover, "descriptive" trademarks—those that immediately call to mind an ingredient, quality or characteristic of the goods or services—are also not protectable absent proof they have acquired distinctiveness in the marketplace, meaning consumers recognizing them as brands (*e.g.*, CANNABIS HORTICULTURAL ASSOCIATION for the online publication of information on the science of cannabis cultivation).

As an example of another potential trap, there are many businesses that are focused on creating new strains of cannabis or identifying newly discovered cannabis hybrids. With these new strains and hybrids comes a need for new brands names. Some of these companies are seeking to obtain plant patents for these new cannabis plants. How is this relevant to cannabis branding? Plant varietal names may also be generic and not protectable as trademarks. *See, e.g.*, *In re Hilltop Orchards & Nurseries, Inc.*, 206 U.S.P.Q. 1034 (TTAB 1979). Under the Convention of the International Union for the Protection of New Plant Varieties ("UPOV"), to which the United States adheres, if plant protection is sought, the new variety must be given a name and that name will necessarily be the generic designation free for all to use. *See* UPOV, Chpt. VI, Art. 20. In the United States, the Plant Variety Protection ("PVP") Act implements UPOV Article 20 by requiring that any application for a PVP certificate include the name of the variety. *See* 7 U.S.C. § 2422. Trademark examiners must refuse registration of a trademark if the words sought for registration for live plants or seeds comprise a varietal or cultivar name. *See* TMEP § 1202.12. Accordingly, it is important that the name submitted for plant patent protection, as required by law, be different than the cannabis strain brand name lest that brand be statutorily foreclosed from becoming a protectable brand at all. In other words, create two names—one unique, proprietary cannabis strain brand for the brand owner and a non-protectable one submitted to the Patent Office.

3. Do Not Mislead Government Trademark Authorities.

Understanding the inability to federally register trademarks used in connection with goods and services that violate the CSA, some cannabis industry applicants obtain federal trademark registration through an ill-advised lack of candor with the PTO. For example, a dispensary that sells cannabis under a particular brand might obtain a registration by describing the goods as "herbs" or "traditional medicine" rather than "cannabis" or "marijuana," or an edibles manufacturer might obtain a registration for cannabis-infused chocolate by describing the goods as "chocolate."

Most trademark examiners are wise to this tactic and, if uncertain about the nature of the goods or services, will require the applicant to answer two questions: (1) do applicant's identified goods or services involve the sale or provision of marijuana, marijuana-based preparations, or marijuana extracts or derivatives, synthetic marijuana, or any other illegal controlled substances; and (2) are the applicant's goods or services lawful pursuant to the CSA? Regardless, any federal registration obtained under less than fully candid circumstances is vulnerable to future attack on numerous grounds, including that the registration was secured by fraud or void from the outset because it was never actually used in connection with the goods or services for which it was registered.

4. Use Core Cannabis Brands in Connection with Legitimate Non-Cannabis Goods and Services and Federally Register Them for Use in Connection with Those Non-Cannabis Goods and Services.

That federal registration is not available for cannabis brands used in connection with goods and services that violate the CSA does not mean federal registration is foreclosed for those same brands used in connection with related goods and services that do not violate the CSA. Many cannabis businesses offer numerous goods and services other than cannabis (for example, clothing, books, mugs, and other novelty items or providing information in the field of cannabis or that can be used for purposes other than cannabis consumption (for example smoking paraphernalia or smoking lounge services)). Core cannabis brands should also be used in connection with as many other non-cannabis goods and services as possible that do not violate the CSA so registration can be obtained for the mark related to non-cannabis goods and services, ideally brand extensions most closely related to cannabis. In that regard, although several cannabis-friendly states do not permit cannabis and tobacco products to be sold via the same retail outlet, this should not preclude a cannabis brand owner from using, directly, or indirectly through or franchising or licensing, its cannabis brands on tobacco products or other related non-cannabis products or services and selling those products or services through a separate retail brick and mortar or online outlets.

Some recent examples of cannabis brand owners taking advantage of the legal cannabis-related trademark use/preservation strategy described above are (a) Green Growth Brands announcement to open hundreds of retail cannabadiol ("CBD") shops in U.S. malls around the country; and (b) Tilray Inc.'s announcement that it signed a development and marketing deal with Authentic Brands Group to distribute their CBD products through Authentic's various retail channels and partners. Like many other companies, Green Growth Brands and Tilray intend to take advantage of the passage of the 2018 Farm Bill in the United States which removed hemp (containing less than 0.3 percent delta-9 tetrahydrocannbinol ("THC")) produced in a manner consistent with the Farm Bill from the list of illegal Schedule I controlled substances, thereby allowing hemp-derived products containing non-psychoactive CBD to be sold and distributed direct to consumers, subject to compliance with other state and federal laws (for example, the Food, Drug, and Cosmetic Act). Indeed, Tilray also announced a deal with Anheuser-Busch InBev to begin research on cannabis-infused drinks.

Although federal law still prevents Green Growth and Tilray from selling psychoactive cannabis products containing THC, they can use their current brands for CBD products now, create marketing and retail distributions channels, and begin to generate goodwill for their cannabis brands in the United States via their CBD product lines. The steps Green Growth and Tilray are taking now to begin marking their legal hemp-derived products should serve to preserve the trademark rights for such brands when (and if) they are allowed at the federal level to expand into providing a full line of cannabis products.

For current and future cannabis franchise brand owners, such an approach to protecting the brand via alternative registrations can act as an important deterrent warning a would-be junior user that the senior user has devised a sophisticated strategy to protect its core cannabis brands that cannot presently be federally registered by creating a broad umbrella of federal trademark rights in related non-cannabis goods and services. It also provides a basis to assert a claim of trademark infringement on likelihood of confusion grounds given the identical nature of the mark and the relatedness of the goods or services (particularly when the goods are closely analogous such as tobacco products and smoking paraphernalia or services such as smoking lounge services). Furthermore, if the mark becomes sufficiently famous over time, the owner could assert a claim of trademark dilution, which is the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of competition between the owner of the famous mark and other parties, or likelihood of confusion.

5. Seek to Own the Entire Brand Landscape Associated with Their Trademarks.

An additional important strategy to deter would-be junior users from attempting to use the senior cannabis brand owner's mark, is to own not just "traditional" word and/or design trademarks, but the entire "brand landscape." There are many tools that serve to support and reinforce brand ownership other than traditional trademarks, including owning: (1) corresponding domain names in as many of the most important top level domains as possible, (2) social media handles in all significant social media platforms, and (3) "nontraditional" marks, such as colors, shapes, moving images, holograms, sounds, scents, tastes, and textures associated with a cannabis brand owner's business. Registering copyright should also be considered for packaging, labels, logos, advertising, websites, videos and photographs, among other things. Sophisticated cannabis brand strategists will further protect their brands by owning these additional means in which goods and services are communicated to consumers.

6. Understand State Regulations that Impact Cannabis Branding.

Understanding state regulations, including regulations governing the packaging, labeling and advertising of cannabis, is important when creating cannabis brands. For example, the State of Colorado sensibly prohibits packaging that is designed to appeal to children, including packaging that contains "cartoon characters and similar images," or that contains "false or misleading statements regarding health or physical benefits to the consumer." *See, e.g.*, 1 CCR 212-2, R 1001-C-D, R 1002-1-B-2, 5, and R 1112. Colorado also prohibits use of the word "candy" or "candies" on the product, packaging or labeling. *See id.*, R 1001-H, R 1002-1-B-8. The State of Connecticut's regulations on medical marijuana advertising prohibit "any statement, design or representation, picture or illustration that is obscene or indecent [or] encourages or represents the recreational use of marijuana." *See* Conn. Regs. §§ 21a-408-68(b)(3)-(5). Creating cannabis brands without consulting state regulations could result not only in a costly waste of time and resources, but also in illegal branding and invalid trademarks.

For a cannabis brand owner looking to expand its business via franchising, taking into account the aforementioned legal considerations and strategies can be of key importance to obtaining and maintaining strong and expansive brand rights in this emerging field. ■