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STATE LEGALIZATIONS OF MARIJUANA TRADEMARKS OPTIONS FOR A “GROWING” INDUSTRY

By Robert Payne

On October 27, 2016, the Trademark Trial and Appeals Board released a precedential decision confirming the policy of the U.S. Patent and Trademark Office (USPTO) to deny federal trademark registrations relating to marijuana-related sales and services. *In re JJ206, dba JuJu Joints (2016)*, case nos. 86474701 and 86236122. The JUJU mark was for a “smokeless marijuana or cannabis vaporizer apparatus” and “cannabis delivery device.”

Just days later, on November 8, 2016, several states by referendum approved legalization of recreational use of marijuana, including California. In roughly thirty states now, medical and even recreational marijuana have become legalized. Additionally, on November 8, Donald Trump was elected President of the United States. His election portends a possible change in federal enforcement efforts regarding the sale and possession of marijuana and related paraphernalia. The Obama Administration had a policy which limited enforcement of drug laws in states which had legalized use, under its “Guidance Regarding Marijuana Enforcement memorandum.”¹

A larger-scale commercialization of marijuana puts the nascent industry on a collision course with federal obstacles, of a far greater scale than existed just months before. What level of trademark protection can these companies enjoy, and what strategies can be used to cope with these issues?

Trademark protection is important to marijuana businesses, as it is to all successful companies. This is an area which will face increasingly vigorous competition. Differentiating their product and enhancing their brands as a symbol of source, character and quality will become increasingly critical. At its core, that is what federal trademark protection provides. A registered mark provides significant benefits, including nationwide protection and priority, and a presumption of ownership of the trademark.

But depending on the goods or services, federal trademark registration may not be available. Federal trademark registration is not permitted for unlawful uses. The federal Controlled Substances Act prohibits making, distributing or possessing controlled substances, including marijuana, or sale or use of drug paraphernalia. Thus, marijuana-infused food and beverages, oils, creams and smoking implements do not qualify for registration. Further, enforcements based on unlawful use in connection with federal registrations are not enforceable.²

What options, then, do marijuana-based businesses have? There are several.

Federal Registrations for Uses Not Federally Prohibited

While federal registration is not available possible for goods and services that are illegal under the Act, federal registration still is an option for certain goods or services a marijuana-based company may offer. The goods or services must be capable of use outside the drug context. Registrations have been granted, for example, for dissemination of marijuana-related information, promotional items and food and beverages which do not contain a controlled substance.

This will not go as far as these businesses prefer, of course. However, registered protection for food items like non-cannabis brownies under the mark “DreamSweets” would have implications for enforcement against a competitor selling “DreamSweets” or even “DreamTreats” brownies containing marijuana.

State Trademark Registration

One option is trademark registration in the particular state in which legalization has occurred. This is an unusual strategy. Ordinarily, the more effective alternative to registering in each of thirty to forty states is a single, federal registration, covering the entire country. But while most businesses need not resort to state registrations, marijuana-oriented companies may want to consider it.

A state registration strategy would involve multiple filings in selected states, creating a patchwork of protection. Aside from the cumbersome process itself, another shortcoming is that in most states, there is no process for filing intent-to-use applications. California is one such state. Intent to Use applications, available in federal registrations, allows one to secure priority rights to a mark even before sales of the goods or services begin. It allows an applicant to select and “secure” the mark while it develops the product. Only after the product is sold, however, can registration issue.

Notwithstanding the above, a state registration approach is a good approach for many legalized sellers. It is generally better than reliance on protection of completely unregistered marks. Applications are relatively simple and thus cheap. However, there’s a big glitch in some states, like California. Currently, California follows the standards for issuance of registrations that is followed by the USPTO.³ Thus, a mark which is not registrable at the USPTO (e.g. for cannabis products) is not registrable in California, even if the sale of goods is lawful under California law. The California legislature is considering a change to that standard.

Relying on a state-by-state strategy has several unique considerations. Foremost among them is that the lack of federal registrability puts a premium on companies to “race” to each legalized state to be the first to use or register the mark in or with that particular state. Statewide sales, even

without state registration, may establish priority in that state. This would not ordinarily be necessary. With federal registration, a seller in California with some overflow into Nevada would have national priority. With its application in 2017, the California registrant would have priority over a competitor who first uses the same or confusing mark in Texas in 2018, even though the California registrant only starts selling in Texas in 2019.

Common Law Protection

Even if federal or state registration is not available or desired, marijuana-based companies may still rely on common law trademark protection. Common law trademark rights arise from use in a given area. Generally, the first to use a distinctive mark in a territory has protectable trademark rights for that mark. However, protection extends only so far as the area in which goods or services are sold. Localized sales, say only in the San Diego area, would give local priority at common law for that area, but not throughout the state. While there is no explicit bar in enforcing common law marks in federal court (under 15 U.S.C. §1125(a)), the issue of illegality is untested so far. However, in most states there is no impediment to enforcement of common law rights under concurrent state law. Common law protection on a state by state basis is therefore generally available in states where medical or recreational cannabis sales are allowed.

Priority Fights Looming

Current strategies aside, widespread resort to state registrations and common law protection will create industry-wide legal headaches in the future. There will, in the first instance, be complications in enforcing common law rights between parties, arising from the lack of presumptions of priority and ill-defined territorial scope.

Even if or when federal registration of marijuana-based goods and services is permitted by the USPTO, the current trends will complicate the scene. The relatively clear national priority rights arising from federal registration will be problematic at that point. The ongoing process of patchwork creation of state registrations and common-law rights described above will produce a thicket of exceptions to national priority by then. Sometimes, this will create complexities within a given dispute relating to vague scope of rights. In any event, cannabis companies can look forward to fighting on ten or thirty fronts in ten to thirty courts, due to rights arising separately state by state. It will be cold comfort that legal campaign would not ordinarily be necessary under the federal registration scheme. Stay tuned.

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¹ See <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

² See, *CreAgri, Inc. v. USANA Health Sciences, Inc.* 474 F.3d 626 (9th Cir. 2007).

³ Cal. Bus. & Prof. Code §14272: “The intent of this chapter is to provide a system of state trademark registration and protection substantially consistent with the federal system of trademark registration and protection under the Trademark Act of 1946 (15 U.S.C. Sec. 1051 et seq.), as amended. To that end, the construction given the federal act should be examined as non-binding authority for interpreting and construing this chapter.”