How Small Cannabis Businesses Can Survive the Hurdles of IP Protection

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COMMENT

HOW SMALL CANNABIS BUSINESSES CAN SURVIVE THE HURDLES OF IP PROTECTION

by: Spencer Keller*

ABSTRACT

The current state of cannabis and intellectual property laws and regulations leaves small and emerging cannabis businesses at a distinct disadvantage compared to those in other industries. Those wishing to pursue cannabis inventions and patents face an uphill battle as cannabis research and development is nearly impossible to conduct legally. The difficulty in researching cannabis has pushed companies to move their research outside of the United States, leaving those growing businesses unable to corner their market in the cannabis industry. Complicating matters further are the overly broad patents that cannabis patentees are likely receiving as a result of market participants leaving innovations undocumented due to fear of being prosecuted for their involvement in the industry. Although the cannabis-patenting field is cloudy, businesses can utilize alternative strategies such as state and ancillary trademarks, trade secrets, and first-mover advantages to protect their information and grow their brands.

TABLE OF CONTENTS

I. INTRODUCTION .......................................... 200
II. CURRENT CANNABIS AND PATENT LEGAL SCHEMES .... 202
   A. Relevant Cannabis Laws ............................ 202
   B. U.S. Patent Laws .................................... 203
   C. Cannabis Patents in the United States ........... 205
   D. Are Cannabis Patents Valid? ...................... 205
III. THE ADVANTAGES AND DISADVANTAGES OF SEEKING CANNABIS PATENT PROTECTION ........................ 207
    A. What Is Prior Art and How Does It Relate to Cannabis? ........................................... 207
    B. Patents Require Invention Disclosure ............ 209
    C. The Hurdles in Conducting Cannabis Research .. 210
    D. Should Emerging Cannabis Businesses Utilize Patent Protection? .................................. 212
IV. TRADEMARKS AND CANNABIS .......................... 214

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I. INTRODUCTION

Humans have utilized cannabis in its various forms for thousands of years.\(^1\) Whether it be the strong and durable fibers of hemp, the psychoactive effects of tetrahydrocannabinol (“THC”), or the presently popular compound Cannabidiol (“CBD”), humans have an extended history with cannabis.\(^2\) Throughout the history of the United States, cannabis’s status—both legally and socially—has undergone intense fluctuations.\(^3\) From North America’s colonization until the turn of the 20th century, cannabis was widely grown for use in clothing and other cloth materials.\(^4\) In the late nineteenth century, Americans started using marijuana for both recreational and medicinal products.\(^5\) As the Great Depression hit the United States, public sentiment toward marijuana became increasingly negative, and the federal government eventually imposed strict penalties for marijuana use and possession.\(^6\) In the 1960s and early 1970s, marijuana would slowly be decriminalized, but this trend would flip in the other direction with President George H. W. Bush declaring a “War on Drugs” in 1989.\(^7\) At this point, cannabis products were illegal under federal law and under all fifty states’ laws.\(^8\) In 1996, California would pass the “Compassionate Use Act,” allowing doctors to recommend medicinal marijuana.\(^9\) The California medicinal-use law empowered other states to take a federalist approach to marijuana law, leading to the current cannabis renaissance, which is unlikely to end anytime soon.

As of February 2020, eleven states allow adult recreational marijuana use, and an additional twenty-two states allow for some form of

\[^{2}\text{Id.}\]
\[^{3}\text{Marijuana Timeline, PBS: FRONTLINE, https://www.pbs.org/wgbh/pages/frontline/shows/dope/etc/cron.html [https://perma.cc/6AEG-5T4C].}\]
\[^{4}\text{Id.}\]
\[^{5}\text{Id.}\]
\[^{6}\text{Id.}\]
\[^{7}\text{Id.}\]
\[^{9}\text{CAL. HEALTH & SAFETY CODE § 11362.5 (West 1996).}\]
Legalizing and decriminalizing cannabis has led to expansive business opportunities both directly (i.e., growing and processing fresh cannabis) and indirectly (i.e., using cannabis in already established industries) related to cannabis. Albeit possessing a wide range of industrial use, cannabis laws and regulations vary greatly among the fifty states and the federal government. Cannabis is a quickly emerging industry in the United States. In 2019, legal cannabis sales in the United States totaled $13.6 billion. Legal sales are expected to increase by 32% annually, with total sales expected to reach nearly $30 billion by 2025. The legal cannabis market’s astounding growth has opened doors to potential business owners in areas once occupied by black-market participants. With cannabis undergoing an economic renaissance, those wishing to build a cannabis business and stake their intellectual property (“IP”) claims must do so strategically.

Businesses across all realms of industry use IP protection options such as patents, trademarks, and trade secrets. However, the federal illegality of most cannabis products inhibits cannabis business owners and researchers from fully benefiting from certain IP options. This Comment will describe the IP obstacles those in the cannabis industry face and how industry participants can strategically utilize the IP options available to them. Part II explores current cannabis and patent laws in the United States and explains the possibility that cannabis patents are invalid. Next, Part III examines the pros and cons of cannabis patenting and how the United States Patent and Trademark Office (“USPTO”) continues to grant overly broad cannabis patents due to the insufficient record of technological advances in what has been a black-market industry for decades. Part IV examines how cannabis businesses can dance around federal trademark regulations by using ancillary federal trademark registration, state trademark registration, and common law trademark rights to protect their brands. Part V discusses other strategic options cannabis businesses can utilize such as trade secrets and the first-mover advantage. Finally, Part VI will con-
clude by recommending how the federal government can cure the IP hurdles that are unique to the cannabis industry.

II. CURRENT CANNABIS AND PATENT LEGAL SCHEMES

Cannabis and IP laws form a convoluted web of regulation that can be extremely difficult to navigate. Cannabis laws vary widely between states. Even if a state legalizes marijuana, that state and all of its marijuana industry participants still violate federal law. Further complicating matters are agency rules promulgated by the USPTO. Thus, patents, trademarks, and trade secrets all have different eligibility rules and criteria that directly affect the IP options available to cannabis businesses.

Patents are a valuable form of intellectual property that offer businesses exclusive property rights over their inventions while also signaling to consumers and investors that their businesses are worth financially supporting. Albeit valuable, the U.S. patent system is extremely complex with several nuances that directly implicate the cannabis industry. This Part will lay a groundwork of relevant cannabis and patent laws and how they intertwine. Specifically, this Part will discuss the complex history and relationship between cannabis and patents.

A. Relevant Cannabis Laws

The issues regarding the intersection of cannabis and IP began with the federal illegality of most cannabis products. The Controlled Substances Act of 1970 (“CSA”) placed cannabis as a “Schedule I” substance, deeming it as having very little medicinal value and a high potential for abuse. The Schedule I status of cannabis created extensive hurdles for those attempting to research cannabis, and outright outlawed any production, transport, sale, and use of medicinal and recreational cannabis products. Even though states are increasingly legalizing medicinal and adult cannabis use, the federal illegality still controls.

In 2018, Congress passed the latest rendition of the Farm Bill, which legalized cannabis products containing less than 0.3% of THC,
but only if the products were derived from hemp.23 This allowed for the legal cultivation of hemp and subsequent extraction of CBD from hemp products.24 But the Farm Bill only legalized cannabis derived from hemp and not marijuana, as these are distinctly different plants.25 This means any derivative from marijuana plants remains federally illegal, regardless of whether the product’s THC content is less than the 0.3% threshold.26 Thus, this Comment will refer to illegal cannabis as “marijuana.”

B. U.S. Patent Laws

The U.S. patent system arises from the Constitution, which empowers Congress “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”27 In 1790, Congress enacted the first-ever federal patent legislation.28 The most recent patent legislation, the America Invents Act (“AIA”),29 enumerates specific criteria for obtaining a patent, which have existed and evolved over the last 230 years of jurisprudence.30

A patentee starts the patent process by filing a patent application with the USPTO, where a patent examiner will scrutinize it to determine if all of the legal criteria for patent protection are met.31 There are three types of patents available to inventors: utility, design, and plant patents.32 Each involves different criteria and offers different types of protection.33

24. Id.
25. Id.
26. See id.
33. See id.
A utility patent application begins with a detailed description sufficient to allow a “person of skill in the art” (“POSITA”) to produce the invention without undue experimentation. The patent application must also contain “claims,” which are the legally protected portion of the patent. The claims must describe patent-eligible subject matter that is a “new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” Certain abstract ideas, laws of nature, and natural phenomena are not patent eligible. There are many patent statutory requirements, with the most relevant discussed below.

Section 101 of the AIA codifies a “utility” requirement. Utility requires that an invention confer some sort of identifiable benefit. Section 102 codifies a “novelty” requirement. Novelty means the new invention must not be described in whole by a single piece of “prior art.” Prior art includes previous patents, patent applications, printed publications, evidence of public use or sale of the invention, or literature otherwise available to the public before the claimed invention’s filing date.

Section 103 codifies the “non-obvious” requirement, which precludes patent eligibility for inventions that would be obvious to a “person having ordinary skill in the art to which the invention pertains.” Unlike the novelty requirement, non-obviousness deals with all prior art that pertains to the claimed invention. If all components of the invention can be gathered in bits and pieces from multiple pieces of prior art, then the invention is obvious.

A plant patent is different from a utility patent in that plant patents only protect unique, asexually produced plant species. Although a plant patent may intuitively appear useful in the cannabis industry, only 1% of cannabis patents are plant patents. Plant patent infringement claims are difficult to win, as plaintiffs must prove that alleged infringers asexually produced exactly the same plant that is protected

34. 37 C.F.R. § 1.71(a) (2020).
35. 35 U.S.C. § 112.
36. Id. § 101.
37. Id.; see also MPEP, supra note 31, § 2106.
39. Id.; see also MPEP, supra note 31, § 2106.
41. Id. § 102(a).
42. Id.
43. Id. § 103.
46. Id.
by patent. Thus, alleged infringers may argue that they produced their plants using seeds, precluding any liability.

C. Cannabis Patents in the United States

Protecting an invention through patenting is common practice for American businesses, and this is no different in the cannabis industry. The USPTO has granted cannabis-related patents since 1942 when it issued Patent No. 2,304,669—a method for the Isolation of Cannabidiol. Despite the CSA’s passage in 1970, the USPTO has not stopped granting cannabis-related patents. Ironically, the United States government owns a patent claiming CBD-related therapeutic benefits for neurological disorders such as epilepsy and Parkinson’s disease.

Historically, cannabis patenting was somewhat uncommon, but since 2012, the USPTO has issued over 400 cannabis-related patents, with hundreds of patent applications cycling through the USPTO annually. This recent surge is likely due to multiple states deregulating cannabis. The range of marijuana patents granted is wide and far reaching. For example, there are active patents for extraction techniques, plant breeding techniques, cannabis food and drinks, and lotions. Despite state reforms, marijuana use remains federally illegal. Even though federal law is supreme over conflicting state laws, the USPTO continues issuing cannabis- and marijuana-related patents, which poses the question: Are cannabis-related patents valid?

D. Are Cannabis Patents Valid?

For cannabis business owners and researchers, patenting cannabis-related inventions may appear to be a logical business and legal step, but marijuana’s federal illegality may render many cannabis patents invalid. Throughout patent law jurisprudence, courts have grappled with the principle that in order for an invention to be “useful” as required by section 101, the invention must be legal and “moral,” but

47. Id.
48. Id.
58. See U.S. CONST. art. VI, cl. 2.
courts have moved away from strictly applying morality and legality standards.\(^59\)

In *Lowell v. Lewis*, the federal court system first discussed the utility requirement in conjunction with illegal and “immoral” inventions.\(^60\) In the majority opinion, Justice Story stated that “[a]ll that the law requires is, that the invention should not be frivolous or injurious to the well-being, good policy, or sound morals of society.”\(^61\) This established what was known as the moral utility doctrine.\(^62\)

Courts have dismissed Story’s moral standards, instead requiring that inventions have “a significant and presently available benefit to the public.”\(^63\) Even so, the Supreme Court has not decided whether the illegality of an invention should be considered when examining utility and overall patent validity.\(^64\) But lower courts have, as was the case in *Whistler Corp. v. Autotronics, Inc.*

In a nonbinding decision, the United States District Court for the Northern District of Texas concluded that a patent for a radar detector satisfied the utility requirement even though the radar served illegal purposes.\(^65\) A radar detector is an electronic device used by motorists to inform them of when a police car is nearby, thus allowing a speeding motorist advanced notice to slow down.\(^66\) While examining if these devices were patent eligible, the *Whistler* court stated, “[u]nless and until [radar] detectors are banned outright, or Congress acts to withdraw patent protection for them, radar detector patentees are entitled to the protection of the patent laws.”\(^67\) Put simply, although radar detectors can be used to aid in illegal activity, the detectors remain patent eligible because Congress has not otherwise prohibited them.

*Whistler* demonstrates that cannabis patentees should be careful not to claim inventions that are only related to marijuana, but should generally claim that the invention can serve marijuana-related purposes.\(^68\) This strategy provides a safe route for cannabis patentees if courts

59. See Juicy Whip, Inc. v. Orange Bang, Inc., 185 F.3d 1364, 1366–67 (Fed. Cir. 1999) (stating that courts have moved away from immoral patent rejections).
60. See Lowell v. Lewis, 15 F. Cas. 1018 (C.C.D. Mass. 1817) (No. 8,568).
61. Id. at 1019.
63. *In re Fisher*, 421 F.3d 1365, 1371 (Fed. Cir. 2005).
64. Carmona, supra note 15, at 665.
68. See, e.g., Processes & Apparatus for Extraction of Active Substances & Enriched Extracts From Nat. Prods., U.S. Patent No. 7,622,140 (filed May 7, 2002) (This patent is not strictly directed towards extracting THC from illicit marijuana, but rather mentions that the invention can be used to do so.).
invalidate their cannabis patents to the extent they serve only illegal purposes.69

The cannabis and legal communities hoped that the federal court system would clarify the speculation and questions regarding the eligibility and legality of cannabis patents as the first-ever cannabis patent infringement lawsuit was being litigated in 2018.70 Unfortunately, after two years of litigation, the plaintiff, UCANN, filed for federal bankruptcy, pausing the litigation and ensuring continued uncertainty surrounding cannabis patents.71

III. THE ADVANTAGES AND DISADVANTAGES OF SEEKING CANNABIS PATENT PROTECTION

Patent protection can benefit an emerging cannabis business as patent rights grant the owner a monopoly over a given piece of technology for twenty years.72 Pursuing patent rights may also signal to investors that a business is worth investing in. But businesses must weigh the pros and cons of filing for and maintaining a patent, as patent filing can be both time consuming and costly, with no guarantees that a patent will ever be granted. This Part will first further describe prior art and how it relates to and uniquely affects the cannabis industry. Next, this Part discusses the risks of cannabis patenting in relation to the “enablement” and “non-obviousness” patent requirements. Last, this Part discusses the significant research hurdles cannabis businesses face.

A. What Is Prior Art and How Does It Relate to Cannabis?

Prior art is generally defined as the previous information that a patent application is compared against to ensure that only meritorious inventions are awarded protection.73 When reviewing a patent application, patent examiners perform a worldwide search for various forms of prior art to determine if the claimed invention is already described, which may lead to a rejection.74 Typically, prior art compels patent rejection if: (1) a single piece of prior art describes the new invention in whole; (2) multiple pieces of prior art can be combined to create the new invention; (3) the new invention would be obvious to create by a POSITA; or (4) the claimed invention was on sale or used

69. See Alice Corp. v. CLS Bank Int’l, 573 U.S. 208 (2014) (showing that courts do have the power to invalidate specific portions of a patent).
71. Id.
74. MPEP, supra note 31, § 2121.
in public a year prior to the filing of the patent application.75 Although some cannabis prior art exists, it is different than prior art in other industries.

The U.S. patent system promotes industrial growth by encouraging those within an industry to publish their inventions and discoveries.76 But until recent widespread cannabis decriminalization, cannabis innovation was discouraged and suppressed,77 causing a lack of cannabis literature that qualifies as prior art.78 Further, cannabis-related transactions have long gone unrecorded, making it difficult to determine if a new cannabis-related invention was previously on the market or used in public.79 Patent examiners are under time restrictions and thus often fail to find a piece of relevant prior art or they otherwise misinterpret existing prior art.80 Given the suppressed nature of cannabis-related prior art and the time constraints examiners operate under, patent examiners may miss relevant prior art, and then inadvertently grant invalid patent claims. If a patent examiner grants a patent in spite of preclusive prior art, then a competitor may seek to invalidate the patent through judicial or agency action.81

Cannabis prior art, whether used to invalidate an existing patent or cited by an examiner to deny a patent application, can be difficult to find, but there are available disclosures to which emerging businesses should be aware. For example, the Open Cannabis Project (“OCP”), whose goal was “to defend the richness and diversity of cannabis from overbroad patents,” was created to prevent commonly used marijuana inventions and plant types from receiving patent protection.82 The OCP compiled over a thousand genetic sequences of different variations of the cannabis plant, publishing them as prior art.83 The OCP

78. Id.
83. See id.
shut down in May of 2020, but there are multiple cannabis databases cannabis businesses can utilize such as The Phylos Galaxy and Medical Genomics.

The small-business benefits of these prior art compilations are three-fold. First, they give those in the field a possible mechanism to challenge the validity of another’s patent, or a defense mechanism for possible infringement litigation. Second, those who wish to cultivate and grow cannabis can use the plant varieties and inventions disclosed on these databases without fear of patent-infringement litigation. Third, they can be a useful reference for small businesses that wish to pick specific varieties of the cannabis plants based off factors such as the content of different cannabinoids, turpentines, or other organic compounds.

B. Patents Require Invention Disclosure

The original crafters of American patent law sought to maintain a quid pro quo within the patent system. On one hand, the system seeks to promote innovation by promising an inventor the sole right to exclude others from creating and using his or her invention for a finite period of time. On the other hand, in return for this exclusivity, the patentee must provide a written description detailed enough to enable a POSITA to recreate and use the invention. Enabling a POSITA to recreate an invention once the twenty-year patent monopoly lapses helps “[to] promote the Progress of Science and useful Arts” by sufficiently teaching those in the field of the new technology, creating an opportunity to build upon the technology.

Although invention enablement’s quid pro quo with a twenty-year technological monopoly furthers innovation, it can disadvantage emerging businesses with limited resources. Once a patent or patent application is published, its enablement component is available worldwide. Theoretically, anyone can use the patented invention’s description and produce or reduce the invention to practice. Consec-
quently, there are no patent police. Patent holders must police their own IP and initiate judicial action if they believe someone is infringing on their patent. For an emerging cannabis business, given the worldwide cannabis black-market presence, policing a patent may be logistically and financially impossible. Those who participate in black-market marijuana business dealings obviously do not feel inclined to abide by the law. They may infringe on a marijuana patent, and given that they are on the black market, will do so on a secretive basis, with the chances that they are caught infringing on a patent low.

Pursuing patent infringement damages or declaratory judgments can be expensive. For example, the average litigation costs for a patent lawsuit wherein the remedy sought is $1 million–$25 million, are $1.6 million. Other forms of review through the USPTO, while much less expensive than classic litigation, still can cost $100 thousand–$1 million. For emerging cannabis businesses, these litigation costs are unlikely sustainable, as was the case of UCANN mentioned above.

C. The Hurdles in Conducting Cannabis Research

In the American patent system, small businesses and micro entities make up over a fourth of patent holders. In 2015, independent inventors received over 25,000 granted patents. But small businesses and individual inventors in the cannabis world face unique hurdles. Among them, the ability to conduct marijuana research legally may be the biggest. Until the 2018 Farm Bill’s passage, research on all forms of cannabis fell under the CSA’s strict regulations. Under the 2018 Farm Bill, cannabis containing less than 0.3% THC, legally named “hemp,” is no longer a controlled substance as defined in the

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93. Id.
94. Id.
96. Id.
98. See supra notes 70–71 and accompanying text.
CSA. Thus, forty-eight states have created hemp cultivation and research programs, opening up numerous opportunities for emerging cannabis businesses. But the same cannot be said about cannabis containing over 0.3% THC, i.e., marijuana.

Marijuana, as a Schedule I drug under the CSA, is subject to the most strict drug research regulations. Over the last forty-five years, the Drug Enforcement Agency (“DEA”) has consistently rejected petitions that would reclassify marijuana to a lower schedule, which would ease research constraints. As it stands, the CSA sets forth regulations on who can grow marijuana for research and who can conduct the research, with both activities subject to near impossible licensing procedures. For example, the University of Mississippi (“Ole Miss”) is the only entity licensed by the federal government to grow marijuana for research. Ole Miss has been the exclusive grower of research marijuana in the United States since 1968, and although the DEA actively receives applications from other entities seeking to grow research marijuana, the DEA has accepted none.

Research marijuana grown and distributed by Ole Miss has not met necessary scientific standards. Researchers have found Ole Miss’s marijuana contaminated with various substances such as mold and lead. Not only can these contaminants potentially harm researchers and human subjects, they can potentially skew research results. Quality-control testing by researchers revealed discrepancies between the claimed and actual potency of Ole Miss’s research marijuana. One research group requested marijuana with a 13% THC concentra-
tion, but received cannabis that contained only 8% THC, even though Ole Miss packaged the cannabis as containing the promised 13% THC.\textsuperscript{116} Conducting research with flawed materials can yield flawed results, running counterproductive to the goals of research.\textsuperscript{117}

Further, American businesses are moving research operations overseas to countries where cannabis research is less regulated and more governmentally encouraged,\textsuperscript{118} likely compounding the issues faced by emerging cannabis businesses. For example, Israel maintains the oldest and most well-developed cannabis research program in the world.\textsuperscript{119} Over the last fifty years, numerous cannabis breakthroughs, such as the discovery of the human endocannabinoid system, have come via Israel-based research.\textsuperscript{120} Due to significant cannabis research regulation in the U.S. and comparatively less restrictions in Israel, fifteen U.S.-based companies have moved their research operations to Israel.\textsuperscript{121} Israeli companies conduct significant research—not only on the components of cannabis—but also how these components can treat conditions such as autism, Parkinson’s, and schizophrenia.\textsuperscript{122}

Conducting research overseas is nearly impossible for small businesses, whereas foreign countries incentivize large businesses to actually move their operations there.\textsuperscript{123} Ultimately, these foreign-based businesses are free to patent their technology in the United States, likely capturing a large part of the available market while leaving small U.S. entities at an IP disadvantage.

D. \textit{Should Emerging Cannabis Businesses Utilize Patent Protection?}

Whether it makes business sense to patent cannabis-related products boils down to a cost-benefit analysis. In summary, the benefits of patent protection include a twenty-year monopoly over the claimed invention.\textsuperscript{124} A patentee has the sole “right to exclude others from

\begin{footnotes}
\item[116.] Id.
\item[117.] \textsc{Nat’l Acads. of Scis., Eng’g, & Med.}, supra note 114.
\item[120.] Id.
\item[121.] Id.
\item[122.] See Adi Aran et al., \textit{Brief Report: Cannabidiol-Rich Cannabis in Children with Autism Spectrum Disorder and Severe Behavioral Problems—A Retrospective Feasibility Study}, 49 J. Autism & Developmental Disorders 1284 (Oct. 31, 2018), https://doi.org/10.1007/s10803-018-3808-2 (This study was conducted in Israel.).
\item[123.] Schwartz, supra note 118.
\item[124.] See MPEP, supra note 31, § 2701.
\end{footnotes}
making, using, offering for sale, or selling the invention.125 While a business awaits the grant of patent, it can claim their product is “patent pending,” which can have a positive effect on consumer confidence in the product.126 Once a patent is granted, a business can announce on packaging and other marketing that the product or process is patented, likely adding to branding and consumer confidence. But often the costs—financial and material—may weigh against pursuing and maintaining patent protection.127

By pursuing patent protection, cannabis business owners risk wasting money acquiring an invalid or infringing patent.128 Seeking patent protection can take years and cost thousands of dollars without a guarantee that the patent will result in profit.129 But often for emerging businesses, the legal rights that patents grant are not the only benefit of patent ownership and monopolization.

Patents can be a critical component for an emerging business to attract venture capital financing.130 Venture capitalism inherently involves a degree of uncertainty, leading investors to weigh several factors when deciding what businesses they wish to invest in.131 Pursuing patents signals to venture capitalists that a business is diligent and focused because the business has put in the time, effort, and money to file for a patent.132 A business that has filed at least one patent application receives venture capital funding 76% times faster than a business with no patent portfolio.133 Startup businesses’ patent portfolios further incentivize venture capitalists because the capitalists can potentially recover the portfolio if the business they invested in fails.134

Businesses must weigh the costs and benefits of pursuing patents in light of their business goals and overall plans. The cannabis industry

127. Neumeyer, supra note 95.
130. Haeussler, supra note 18, at 1.
131. Id. at 4.
132. Id.
133. Id. at 2.
134. Id. at 5.
encompasses multiple sub-categories of business types. The type of business and level of goals may dictate the decision to seek patent protection, but businesses should keep in mind that patents are not the only form of protection for their IP.

IV. TRADEMARKS AND CANNABIS

Trademarks are a valuable form of IP businesses use to protect and build their brands. A trademark is a “word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods of one party from those of others.” Trademarks do not have a finite protection period, as they remain in effect as long as the owner uses the mark in association with goods and services.

Generally, there are two types of trademark protection that cannabis businesses should consider: federal trademark protection and state trademark protection. Cannabis businesses may also attempt to invoke common law trademark rights. Each trademark form confers different rights and protections. Cannabis businesses should utilize all forms of trademarks as they offer unique brand protections that other forms of IP do not.

Given the lack of clarity regarding federal trademarks in relation to cannabis, cannabis businesses must use them strategically, with state trademarks and common law rights used to fill the gaps left by their federal counterparts. Exploring federal trademark registration should be a cannabis business’s first step as trademark registration provides the greatest benefit. Federal trademark registration gives a rights holder protection from confusingly similar marks entering the market across the entire United States. Federally registered marks may have the “®” stamp on their logos and brand names, which helps deter copycat producers by putting the public on notice that a brand is being exclusively used. Federal trademark protection also eases the process of bringing infringement claims to federal court and can lead


138. Id. There are other nuanced manners in which a trademark can be invalidated that will not be discussed in this Comment.

139. Id.

140. Id.

141. Id.
to a business receiving greater legal remedies. While federal trademarks provide the most legal rights and protections, they also carry the most strict application criteria.

Much like the patent process, federal trademark registration begins with an application to the USPTO. Then, an examiner reviews whether the applicant met all statutory and regulatory registration requirements. There are many nuanced federal trademark registration requirements, but only a few merit discussion. First, federal trademark protection requires that a business use the word, phrase, symbol, or design in interstate commerce. If a business only uses its mark in intrastate commerce, then the mark does not qualify for federal trademark registration. Second, a trademark must be descriptive and not generic in nature. Generic words and symbols cannot be registered for protection because everyone has the right to use generic words and symbols to describe their goods or services. Trademark registration also requires that the mark not be confusingly similar to another mark in commerce, i.e., it must be unique. Finally, the trademark must be used in lawful commercial actions. The final requirement is where cannabis gets hung up.

The federal illegality of marijuana leaves many cannabis businesses’ marks on goods unprotectable, even if the goods are made and sold in jurisdictions with legal cannabis. Marks on goods such as packaged psychoactive marijuana, CBD products derived from marijuana, ingestible CBD products, and consumption devices such as pipes and vapes remain trademark ineligible. This poses significant risk for businesses wishing to establish their brands. For example, if Company A sells a trademark-ineligible marijuana drink and Company B subsequently begins selling a similar drink with Company A’s logo on it, Company A could not bring federal suit against Company B because

144. Id.
145. Id. note 142, at 245.
146. Id.
149. Id. Confusingly similar means the trademark examiner believes there is a likelihood of confusion between your mark and an existing mark.
151. Id.
Company A does not and cannot own federal trademark rights to its logo for that marijuana drink.

Despite the inability to federally register certain cannabis-related marks, there are strategies small businesses can utilize to help mimic the benefits of direct federal trademark registration. The strategy most commonly used by cannabis businesses is best described as “boxing out” competitors from using their unprotected marks. 153 In order to “box out” competitors, businesses will register their marks for ancillary items such as clothing, stickers, and federally legal- and trademark registration-eligible CBD products. 154 Brand recognition is important for businesses, and building a trademark portfolio based on ancillary products can help cannabis businesses build their overall brand within the market. This strategy not only helps build brand recognition, but also puts competitors on notice that the mark is protected in some way, albeit not on the marijuana product.

Another commonly used strategy is placing the “TM” logo on marijuana items. Using the “TM” logo is an attempt to invoke common law trademark rights, which do not require registration. 155 But these common law rights only exist in the geographic area in which the marks are used in commerce and are not subject to any statutory remedies. 156 These common law rights can be difficult to uphold in a lawsuit, but the recognizable “TM” logo may help deter potential copycats.

Cannabis businesses can also acquire state trademark registration for their otherwise federally illegal goods. 157 State trademark registration is inexpensive and easily obtainable, but does not grant nearly the same protections as federal trademark registration. 158 The state trademark schemes of the fifty states all differ, with some granting greater protection and enhanced rights than others. 159 In some states, trademark registration is simply a certificate that may serve in state court as evidence of a common law infringement claim. 160 In other states,

154. See id.
157. Id.
158. Kamin & Moffat, supra note 155, at 257.
160. Id.
trademark registration may provide prima facie evidence of the mark’s validity and that the mark’s owner has the exclusive right to use the mark in association with goods and services. Unfortunately, claimants can only commence state trademark infringement action in the state where the trademark is registered, with many states further limiting protection to the city or “geographic area” where the mark is sold and used.

Regardless of the strength of a state’s trademark laws, cannabis businesses should register their marks within all states they do business. State trademark registration does not offer the same protections and benefits as federal trademark registration, but cannabis businesses should make every attempt to protect their IP through every available mechanism.

V. Other Mechanisms for Small Cannabis Businesses to Protect Their Intellectual Property

With the uncertainty surrounding cannabis patents and trademarks, emerging cannabis businesses must leverage every possible avenue of protection. Trade secrets and the first-mover advantage can work hand-in-hand to help emerging businesses clear the IP hurdles that patent and trademark law present.

Trade secrets are a unique form of IP that protects secret information which confers economic benefit to a business. Trade secrets are perhaps the most useful tool that a cannabis business can utilize because they do not require any form of registration or public disclosure.

The first-mover advantage, while not technically an IP right, can supplement trade secrets. The first-mover advantage is the economic principle wherein the first to introduce a product or concept to the market is usually at an economic advantage compared to competitors. This concept can ride the coattails of trade secrets, as businesses can create potentially profitable goods or services in secret and then be the first to introduce the product or service to market. These mechanisms are frequently used by both emerging and established businesses in other industries and should be used to a cannabis business’s advantage.

161. Id.
162. Kamin & Moffat, supra note 155, at 257.
164. Id.
A. Trade Secrets and Their Place in Cannabis

U.S. businesses have long used trade secrets as a tool to protect secret information from falling into the hands of competitors. Forty-seven states have adopted the Uniform Trade Secrets Act (“UTSA”), which defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.\(^{167}\)

In 2016, Congress passed the Defend Trade Secrets Act (“DTSA”),\(^{168}\) which is written nearly identical to the UTSA but gives claimants a federal mechanism for bringing a trade secret misappropriation claim to federal court.\(^{169}\) There are some differences between the two legal schemes, but this Comment will not discuss them.

A trade secret is business-related information that derives value from the fact that it is not readily ascertainable by the public and competitors.\(^{170}\) Unlike patent and trademark protection, trade secrets do not have rigid eligibility requirements, as virtually any secret that gives advantage to a business over its competitors can qualify.\(^{171}\) Trade secrets do not undergo review by a federal agency and do not require any third-party review.\(^{172}\) Although there is no registration process for a trade secret, businesses must be proactive in maintaining their trade secrets as required by statute.\(^{173}\) In order for a business to bring a lawsuit against a business who has stolen or “misappropriated” a trade secret, the suing business must establish that the secret provided economic value and that reasonable means were taken to protect the secret.\(^{174}\) Establishing that a trade secret exists does not require that the information be in absolute secrecy.\(^{175}\)

\(^{167}\) UNIF. TRADE SECRETS ACT §1 (UNIF. L. COMM’N, amended 1985).


\(^{170}\) Id.

\(^{171}\) Id.


\(^{174}\) Trade Secret Policy, supra note 163.

business’s board members may know a secret business practice and the secret business practice may still be considered a trade secret. 176

In order to maintain valuable secrets, businesses can utilize various physical and legal means. 177 The first thing a business should do to protect its trade secrets is not tell the secrets to anyone who does not need to know them. Maintaining a small group with knowledge of the secret is the single most important tool to keeping a secret. 178 Next, businesses should place in sensitive business documents “proprietary legend” clauses that announce the secrecy, sensitivity, and confidentiality of the information therein and that copying is prohibited. 179 Proprietary legends should ideally be tailored to the content contained in the document and should be used only when necessary as overuse can diminish the impact the legends have. 180

Courts consistently recognize the importance of confidentiality and non-disclosure agreements (“NDA”). 181 NDAs should be tailored to the content that is being disclosed, if possible. 182 A properly crafted and implemented NDA creates an implied duty of confidentiality with the recipient of the information and is evidence that the secret holder took reasonable measures to protect the secret. 183

Although not necessary to bring a trade secret misappropriation claim, businesses should implement protective measures such as carefully locking areas or places where sensitive documents are stored or where business techniques take place. 184 Access to these areas should be limited to those who absolutely need access. 185

Like other IP forms, trade secrets have their disadvantages. Trade secret law does not protect against reverse engineering and accidental discovery of the secret. 186 Further, if someone illegally obtains a trade secret, that trade secret may become fully accessible to the public, thus diminishing the secret’s overall business value. Despite these risks, cannabis companies should consider taking steps to protect secret practices, because not only can lax protection procedures leave

176. Id.
178. Id.
180. Id.
181. Passman, supra note 177. Courts use both the terms “nondisclosure agreement” and “confidentiality agreement” interchangeably.
182. Id.
184. Passman, supra note 177.
185. Id.
secrets vulnerable, they can foreclose a business’s ability to pursue legal recourse.

B. Trade Secrets vs. Patents

Trade secrets have advantages and disadvantages when compared with patent protection. The most prominent advantage is that they can save time and money. Trade secrets do not require an application process and do not bear any direct costs such as application fees or attorney fees. The only costs are the costs of keeping the secret, which may include increasing cyber security, preparing NDAs, and implementing physical security systems. Patents on the other hand can cost tens of thousands of dollars in filing and attorney fees. Patents are also finite as their protection only lasts for twenty years from the application time. Yet trade secrets last for as long as they are kept a secret and can theoretically last forever. For example, the recipes for Coca-Cola and Kentucky Fried Chicken’s chicken batter are both trade secrets that remain unknown to the public, and which continue to bring their respective businesses revenue. Conversely, patents and patent applications are published and available to the public. As discussed, patentees must sufficiently describe their invention in the application process such that a POSITA could reproduce it without difficulty. Patents do not allow for sensitive information to remain secret. Trade secrets do the opposite. Trade secret law protects the secrecy of profitable information and practices. Further, trade secret law can protect information or business practices that would otherwise not be patent eligible.

Trade secrets do have some disadvantages when compared to patent protection. Similar to the prior art and public use principles of patent law, courts do not recognize trade secret rights for information that is directly known to the public. If one were to reverse engineer a busi-
ness’s trade secret, rights for the information would no longer exist whereas patents give the holder exclusive rights.198

Realistically, emerging businesses should not build either a trade secrets portfolio or a patent portfolio, but rather they should utilize both protections strategically.199 There may be times when a patent is preferable. Patents mitigate IP risks in general whereas trade secrets are risky, especially if an industry has a critical need for an innovation.200 For example, if a business invents a cure for a critical need and chooses to rely on trade secrecy, another business could independently invent the same cure and patent it because the first inventor never disclosed the invention to the public.201 This situation would prevent the first-inventing company from profiting off something it originally invented.202

When deciding if IP should be protected by trade secrecy or patent coverage, cannabis businesses should assess each protection’s pros and cons, the company’s goals, and the IP’s value. Both forms of protection offer unique and valuable rights, and both can be valuable to a business’s IP portfolio.

C. First-Mover Advantage

The first-mover advantage is a term that refers to the economic advantage that a business has when it is the first competitor to introduce a product or service to the market.203 Because it is first, the business can establish and maintain the product or service’s brand recognition and overall market dominance without immediate competition.204 The first-mover advantage is not technically an IP term, but when businesses combine the strategy with trade secrets, businesses can create novel products and concepts in secret and then be the first to introduce them to market.205 The major disadvantage that a first mover has is that competitors can attempt to copy or improve upon the first-mover’s practices. But if first movers keep their trade secrets and techniques in-house, they can mitigate the effects of intentional copying.206 Albeit simple in concept, businesses should consider the first-mover advantage as a supplemental strategy to their IP portfolio.

198. Pooley, supra note 196.
199. Id.
200. Id.
201. Id.
202. Id.
203. Tarver, supra note 165.
204. Id.
206. Id.
Emerging cannabis businesses face significantly different hurdles compared to emerging businesses in other industries. Due to federal laws and administrative rulings, cannabis businesses cannot and do not enjoy the same patent and trademark advantages that emerging businesses in other industries enjoy.

These IP disadvantages mean that cannabis businesses must be mindful of their legal options and take advantage of these options in an effective and creative manner. Ideally, emerging cannabis businesses should utilize a combination of IP mechanisms to protect and build their brands as each confers different protections. When patenting is not a viable option, businesses can utilize ancillary and state trademarks, carefully protect trade secrets, and capitalize on branding techniques like the first-mover advantage. But given the cannabis industry’s exponential growth, the federal government must remove the IP hurdles that emerging cannabis businesses face. Congress can and should act to faithfully execute its duty to “promote the Progress of Science and useful Arts” and grant cannabis businesses rights enjoyed by other industries. The most obvious measure Congress can take is legalizing the cultivation, transportation, sale, and use of marijuana on a federal level. Such action would likely create uniform regulation throughout the country whereas currently marijuana law is a patchwork of state law.

Federal legalization would quickly clear the questions over the legality of marijuana-related patents and would likely fill the gap of missing prior art. Legalization may entice black-market participants to seek patent protection, or more likely, simply disclose their technology, thereby placing it into the public domain. If these inventions and innovations are known to the public, they can qualify as prior art, preventing cannabis patentees from acquiring overly broad patent rights. Over time, cannabis businesses seeking patent protection would all be on an equal playing field, as the scope of patent rights would be more precise instead of overly broad as it likely is today.

Legalization would allow for more cannabis research opportunities within the United States, adding an influx of money to the economy while helping the United States gain a global foothold on the international cannabis industry as the industry is currently digging its foundation in foreign nations. Enticing research would also help the above-mentioned realm of cannabis patents by progressing technology to a point where a cannabis patent is undoubtedly novel and non-obvious.

Furthermore, legalization would bring black-market participants into the legal market. Such a move would allow for better policing of patents, trademarks, and trade secrets as legal participants are subject to increased regulations including inspections and disclosures. Such

regulations also increase the tracking of goods from production to market, increasing policing capabilities while also increasing brand competition.

Although legalization could potentially cure many of the problems outlined in this Comment, such a drastic change is unlikely in the near future. Even if the federal government’s policies begin to move away from marijuana prohibition, such legalization is unlikely to be instantaneous.

Until the federal government acts, those wishing to break into the cannabis industry should utilize a combination of IP techniques. Cannabis businesses should be cautious when weighing whether to pursue patent protection because patents would force businesses to disclose their innovation while leaving the door open to potential infringement or costly litigation. But patents can offer monopolistic rights and opportunities for venture capitalist funding.

In conjunction with patents, businesses should also rely on protections such as trade secrets and trademarks. Trade secrets give businesses the most flexibility as it is the one form of IP that creates absolute secrecy. In what has become an extremely competitive industry, absolute secrecy is valuable and necessary. Along with trade secrets, ancillary trademarks on products that are related to the cannabis business, but not marijuana, allow for brand recognition and consumer confidence in the brand. Trademarking ancillary products can box out competitors and disincentivize any willful copying.

Overall, cannabis businesses’ IP options are limited but not impossible to implement. There are measures these businesses can take, and if done strategically, they can build successful, long-lasting businesses.