WHY CANNABIS PATENT ENFORCEMENT IS IN THE WEEDS

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Until the US government legalises the sale and distribution of cannabis, enforcing patents in this field and obtaining the traditional benefits of these rights will be challenging, says Daniel Pereira of Obion

Marijuana, for medical and recreational purposes, is an area of great political, social and legal interest. By some accounts, the industry is rapidly growing leaps and bounds with large inflows of cash to state's coffers. Not surprisingly, patent activity for this Industry is increasing in numbers.

Patents are unlike trademarks, that Is, there is no prohibition on patenting illegal substances such as cannabis. Indeed, the US Department of Health and Human Services has a patent (US no. 6,630,507, dated October 7, 2003) directed to the use or cannabinoids (which include THC. i.e. the psychoactive substance in cannabis) for use to treat disease caused by oxidative stress.

Trademarks cannot be obtained for such illegal products. Indeed, the USPTO states:

"Here, the evidence of record indicates that the terms or activities to which the proposed mark will be applied are unlawful under the federal Controlled Substances Act (CSA), 21 USC §§801-971.

“The CSA prohibits, among other things, manufacturing, distributing, dispensing, or possessing certain controlled substances, including marijuana and any material or preparation containing marijuana. 21 USC §§812, 841(aX1), 844(a): see also 21 USC §802(16) (defining '(marijuana)').

"In addition, the CSA makes tt unlawful to sell, offer for sale. or use any facility of interstate commerce to transport drug paraphernalia, i.e. any equipment, product, or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, Concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance, possession of which is unlawful under (the CSA].' 21 USC §863."

For a few brief months in 2010, the USPTO had a new 'international class' for marijuana products: “processed plant matter for medicinal purposes, namely medical marijuana.” A number of trademark applications were filed in this category, but the USPTO soon eliminated the new classification, and began denying applications for marijuana products on the grounds that the drug is Illegal under federal law.

Currently, the USPTO rejects trademark applications for registration from growers, producers, and sellers of marijuana on the basis that marijuana is illegal under federal law. However, businesses that merely provide lawful services related to marijuana, such as selling t-shirts, or advocating for the legalisation of marijuana have received federal trademark registration for marks that include the word ·marijuana and images or marijuana plants.

Realising the odd situation this creates, businesses engaged in the growth, production and sale of marijuana have developed a strategy called 'trademark laundering’ where they obtain federal Trademark protection for marks used in connection with the production and sale of marijuana, such as t-shirts, pipes or consulting services, but then use the mark in connection with the sale

of marijuana as well. They file trademark applications for the legal uses, and the registration for such marks is regularly granted by the USPTO.

Case law

In *Gerlich v Leath* (2017), the US Court of Appeals for the Eighth Circuit affirmed a district court's grant of injunctive relief to the Iowa State University student chapter of the National organization for the Reform of Marijuana Laws allowing it to use Iowa State University trademarks in conjunction with the student organisation because it advocates for reform to marijuana laws, not the illegal use of marijuana.

So one can obtain a patent directed to cannabis and its derivatives, but what about enforcing these patent rights and actually getting something of value from the patent?

There were at least four prior suits involving, directly or indirectly, cannabis products. However, all of those were dismissed voluntarily.

Presumptively, the Agriculture Improvement Act of 2018 {which re-classified some cannabis products from the CSA) has enabled some leeway in the question of enforcing a patent on an illegal substance. Yet, as of this writing, cannabis that includes the psychoactive THC remains illegal.

In one such recent case, *United Cannabis v Pure Hemp Collective (April 2019),* the US District Court for the District of Colorado addressed the patent eligibility question under 35 USC 101 of marijuana-derived compositions, and at issue in that case are claims directed to CBD. That case is ongoing despite an early challenge to patent eligibility; the defendant argued that the claims were natural products.

Besides claims directed to CBD (which is a non-psychoactive substance in cannabis), the patent also includes claims directed to THC (a psychoactive substance). We began thinking about the conflict between the enforcement of a patent right, granted by the US government in a federal court, for a substance that violates federal law. Cannabis is a Schedule I controlled substance under the CSA.
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United Cannabis sued Pure Hemp Collective for infringement of US patent no. 9,730,911. The patent focused on cannabinoids derived from the cannabis sativa plant where “every independent claim describes '[a] liquid cannabinoid formulation, wherein at least 95% of the total cannabinoids is' a specified cannabinoid or combination of them. See claims 1, 5, 10, 16, 20, 25. The dependent claims mostly add requirements for terpenes and/or flavonoids."

Pure Hemp challenged eligibility under 35 USC 101 in an early summary judgment motion: 'Pure Hemp argues that these claims are 'directed to' the unpatentable natural phenomenon of the specified chemical compounds (cannabinoids, terpenes, and flavonoids), as if UCANN is trying to secure a monopoly on use of these compounds."

The court acknowledged the legal precedent of patent eligibility to set up the background of the ruling on the motion, commenting:

“As the foregoing summary of case law suggests, the proper application of the Supreme Court's *Alice* standard is an evolving and sometimes hazy area of law. Deciding whether a patent claim

is 'directed to' a law of nature is not as straightforward as the Supreme Court makes it sound in *Alice* itself. Moreover, the Federal Circuit itself has remarked on the difficulty, at times, of distinguishing the first *Alice* inquiry from the second…"
Despite the lack of clarity in the law, the court held that the specific limitations in the claims as to the concentration and form (i.e., liquid) along with the processing (not claimed) to get to the compositions was enough to deny the summary judgment motion:

"Pure Hemp has failed to establish beyond genuine dispute that a liquefied version of cannabinoids and related chemicals at the concentrations specified in the 911 patent is anything like a natural phenomenon. It may be true, as Pure Hemp insists, that cannabinoids in nature can take the form of a resin; that a resin can be highly viscous; that a highly viscous substance may at times be considered a liquid; and therefore it is logically possible that cannabinoids in nature might appear in a form that could, in some sense, be deemed a 'liquid.' (ECF No. 38 at 6--7.)

"Even accepting as much, the 911 patent specifies threshold concentrations of cannabinoids and related chemicals. Pure Hemp nowhere claims that these precise concentrations, or anything close to them, occur in liquid form in nature."

Cannabis and contracts

While there are currently no instances of a federal court enforcing a patent directed towards an illegal substance, there are a number of cases relating to enforcement of marijuana contracts. It appears that these cases first started popping up around 2012, when parties would go to court attempting to enforce contracts or loans related to medical marijuana. Initially, the state courts found these contracts unenforceable under state law. See *Habele v Blue* Sky; *Hammer* v *Today's Health Care II.*

However, notably in 2013, Colorado enacted a new statute instructing courts "that a contract is not void or voidable as against public policy if it pertains to lawful activity authorised by' state marijuana regulations. There have *even* been a few federal courts address the enforceability of these contracts. Most notably is *Green Earth Wellness Center v Alain Specialty Insurance* (2016), the US Colorado district court declined the defendant's invitation to declare an insurance policy of coverage of a medical marijuana grow business void on public policy grounds. This was because there has been "a continued erosion of any clear and consistent federal public policy in this area" and the defendant "having entered into the policy of its own will, knowingly and intelligently, is obliged to comply with its terms or pay damages for having breached it."

There are also a number of bankruptcy cases relating to marijuana businesses, however, unlike the contract enforcement cases, federal bankruptcy courts seem to consistently hold that because marijuana businesses are violating federal law they are ineligible to benefit from the protections of federal bankruptcy law. Some of these cases have permitted a debtor to seek the benefits of bankruptcy protection if it agreed to abandon its marijuana business and get rid of all plants it possessed and equipment that it used to operate that business.

Illustrative of this point we can look to *In re Arenas* (2014), by the Colorado district court, which was affirmed by the Tenth Circuit (2015). It involved debtors that owned a commercial building in Denver, Colorado and leased a unit to a marijuana dispensary. "The court finds that administration of this case under chapter 7 is impossible without inextricably involving the court and the trustee in the debtors' ongoing criminal violation of the CSA.

"[T]he court [cannot] confirm a reorganisation plan that is funded from the fruits of federal crimes."
While there is close to nothing directly addressing how a federal district court would handle infringement and enforcement of a patent directed to an illegal substance such as cannabis and products thereof containing the psychoactive substance(s), there are a number of other areas of the law that we discuss above that provide us with some clues.

Most interesting is the distinction between federal courts that are willing to enforce contracts relating to medical marijuana, but refusing to offer these individuals and businesses bankruptcy protection. The apparent reason for this discrepancy or uneven treatments is that the enforcement of a contract is typically a state law matter and, as we have seen, states are increasingly legalising in whole or in part (e.g., for medical purposes) cannabis sales, possession, and use.

Bankruptcy, in contrast, remains exclusively within the jurisdiction of federal courts, i.e., federal law. Therefore, our presumption is that until such time that the US government declassifies cannabis and/or creates laws that legalise the sale, distribution and possession of cannabis, enforcing a patent and obtaining the traditional benefits of patents, injunctive relief and/or monetary damages will be challenging to say the least.

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