

Oh Cannabis!

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In October, 2018, Canada's Government fulfilled a popular election promise by legalising recreational cannabis, starting with plants, oil and seeds, with cannabis edibles, topicals and extracts permitted later in 2019. Consumer response was immediately positive, encouraging others, especially in the alcohol and pharma industry, to buy or invest in cannabis companies. Brand owners had already mobilised, filing thousands of trade mark applications for cannabis, accessories and popular merchandise. However, as explained below, the current regulatory framework imposes restrictions on brand choice and display, and the early stages of market growth may create many uncertainties for trade mark, use, registration and enforcement.

On 17 October 2018, Canada legalised recreational cannabis. Currently, there are only five permitted classes of cannabis: fresh, dried, plants, oil and seeds. It has been an eventful few months. Initial demand for recreational cannabis outstripped supply, leaving licensed provincial retail outlets depleted of product, and there are predictions of ongoing shortages for some time. There are regular announcements in the press of joint ventures between alcohol, pharma and Canadian licensed producers of cannabis. It was reported at the end of October that Health Canada issued seven warning letters to unnamed producers for contravention of the promotion provisions in the Cannabis Act, and, on 20 December 2018, Health Canada initiated a consultation on proposed regulations for additional permitted forms of cannabis, namely edibles, extracts and topicals, which the Federal Government has stated will be lawfully available for sale

by 17 October 2019. In other words, the pace of developments has quickened and shows no sign of slowing down.

From a trade mark perspective, the number of applications for cannabis has ballooned to over 3,000, with most having been filed in the last year or so. It is currently taking between 12 and 14 months to first examination, which means that many of these applications have not been examined. Even before legalisation, there was a notable increase in Canadian trade mark filings covering cannabis, cannabis accessories and related services. What is interesting is that the display of many of these marks on cannabis packaging or promotional materials may not comply with brand use restrictions in the Cannabis Act and Regulations.

Canada is one of a handful of countries to legalise the recreational use of cannabis. The approach has been cautious. One of the stated purposes of the Cannabis Act and Regulations is to protect young persons and prohibit any inducement to use cannabis. This stated purpose is apparent in the restrictions on promotions, packaging and labelling of cannabis and by extension “brand elements”.

A “brand element” is defined in the Cannabis Act as:

“a brand name, trademark, tradename, distinguishing guise, logo, graphic arrangement, design or slogan that is as associated with or evokes cannabis, a cannabis accessory, a service related to cannabis or any brand thereof”.

In essence, that covers word and design marks, decorative packaging and advertising elements, advertising slogans and unique colour combinations that are either ornamental or intended to designate the source of the goods.

Sections 26 and 27 of the Cannabis Act set out general prohibitions on the packaging and labelling of cannabis and cannabis accessories. Under these sections, it is prohibited to sell cannabis or a cannabis accessory in a package or label that, among other things:

- is appealing to young persons (generally defined as anyone under 18 years old);
- sets out an endorsement or testimonial;
- depicts a real or fictitious person, character or animal; and
- evokes a positive or negative emotion about a way of life, such as glamour, recreation, excitement, vitality, risk or daring.

Only two brand elements are permitted on the principal display panel (i.e. the front) of a cannabis package. One must be a brand name. Therefore, only a single additional

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brand element, or trade mark, may appear. In addition to the general prohibitions above, both brand elements must also adhere to both size restrictions (they must be smaller than, and in contrasting colours to, the standardised cannabis symbol and prescribed health warnings) and colour restrictions (e.g. no metallic lustre and no fluorescent properties). Additionally, brand elements cannot be so close to the standardised cannabis symbol, shown in Fig.1, as to be likely mistaken for it.



Figure 1 The standardised cannabis symbol

There are numerous applications for trade marks that on their face appear not to comply with the Cannabis Act and Regulations, for example, because they depict an animal, evoke a positive way of life, or depict the cannabis leaf arguably resembling the one found in the standardised cannabis symbol. Nevertheless, applicants are filing for these marks.

The same reasons that motivate other businesses to seek registration for their marks apply equally to the cannabis industry, such as confirmation of exclusive rights, notice to third parties, and augmenting the value of the business by creating a “portfolio” of intellectual property assets. However, there are other factors that are unique to the cannabis industry.

1. Amendments to the Trademarks Act will finally come into force on 17 June 2019. One of the most significant changes is that use will no longer be a condition for obtaining a registration. Applicants will still have to have used their mark or have an intent to use the mark before filing; however, proof of use or any declaration to that effect will be unnecessary. Leaving aside, for now, what will qualify as an “intent to use”, this change has already resulted in a significant increase in both filings and the length of goods/services descriptions.
2. During the prosecution of an application, the Trademarks Office does not examine for legal compliance with federal law. This means that even though a cannabis mark might offend the Cannabis Act or Regulations, it will not be rejected for those reasons during examination. Some have speculated that non-compliance might be

relevant in opposition proceedings—but it will take some time before judicial precedent confirms that.

3. Cannabis marks are likely to be invulnerable to summary non-use cancellation proceedings that apply to other registrations. On the third anniversary of a registration and thereafter, registration normally becomes vulnerable to non-use cancellation if there are three consecutive years of non-use, unless the registrant can provide the date of last use and evidence of special circumstances to excuse non-use. The Cannabis Act has a “saving” provision for cannabis marks subject to a non-use challenge. Specifically, s.136(2) states that the absence of use of a trade mark as a result of compliance with the Cannabis Act constitutes special circumstances that excuse non-use for the purposes of the Trademarks Act. In other words, cannabis registrants prevented from using their registered marks because of Cannabis Act or Regulations restrictions may be able to maintain registrations indefinitely.
4. Recently proposed use requirements for enforcement may not apply to cannabis registrations. Additional amendments to the Trademarks Act, in Bill C-86 introduced in October 2018, will limit the ability to enforce registrations in the first three years following registration unless there is use of the mark in Canada, “or special circumstances to excuse non-use”. As set out above, non-use due to compliance with Cannabis Act or Regulations brand element restrictions is a special circumstance excusing non-use. While other legal remedies, such as passing off, depend on “use”, a registrant may be able to enforce its cannabis registration, for example, in an infringement action, even without any Canadian use. The Cannabis Act and Bill C-86 saving provisions seem to create a unique class of registrations that might not be lawfully be used, but at the same time are immune from cancellation, and can be enforced.
5. Legislation is subject to change, and current restrictions on brand elements could be lifted. While it is entirely reasonable for the Cannabis Act and Regulations to be restrictive while the waters of legalisation are being tested, in time they may become more relaxed. For example, the state of Colorado, where the recreational use of cannabis is also legal, has more relaxed

labelling laws. In other words, marks that may contravene the law now may be permitted in the future.

6. With the number of cannabis filings increasing exponentially, creating increased competition for appealing brands, including from companies with no clear plan to use their marks, it makes good sense to be the first to file and carve out desired brands. For all trade mark applications filed before the formal legalisation date (17 October 2019), the filing date will set priority rights between competing applications. While “use” remains relevant for priority, the elimination of use requirements under the amended Trademarks Act will mean that filing dates will usually set rights.
7. Keep international trade mark rights in mind. Many licensed producers of cannabis have both Canadian and foreign operations. One of the many significant amendments to the Trademarks Act in force in June is adherence to the Madrid Protocol. For Canadians, a national application is required before international extension rights are available. That may encourage more Canadian cannabis companies to file in Canada to take advantage of cheaper

international rights, and will also open the door to more international applicants in Canada, and thus more competition for cannabis brands.

While there are many reasons to commend trade mark filings to support brand development and promotion, brand owners need to prepare for several years of uncertainty. Delays in Trademark Office examination, combined with thousands of new trade mark applications, means that it is not yet possible to have a good idea how the Trademarks Office will apply the tests of confusion. For example, there has already been significant investment in cannabis industries by companies in the pharma, alcohol and cosmetic industries. Yet, it is not clear whether the market connection will influence confusion analysis by the Office, or impact on opposition practice. Further, by 17 October 2019, edibles, topicals and extracts will be new classes of cannabis permitted for sale. Given that these new cannabis products are not yet on the market, it is unclear whether, for example, a mark for alcoholic or non-alcoholic beverages will be considered confusing with a mark covering beverages containing CBD and/or THC, or whether a mark covering skincare products will be considered confusing with a topical cream containing CBD and/or THC. Finally, the strict controls on brand choices and display would seem to force those in the cannabis industry to work harder to build goodwill and reputation.