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**COUNTERFEITING CANNABIS:  
NOT A VICTIMLESS CRIME**  
*WHAT IT IS AND WHAT CAN BE DONE  
ABOUT IT*

Produced by the CCIA Intellectual Property  
Committee

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# COUNTERFEIT CANNABIS: NOT A VICTIMLESS CRIME

## WHAT IT IS AND WHAT CAN BE DONE ABOUT IT



### UNDERSTANDING COUNTERFEITING

In its most basic form, a “counterfeit” is an imitation of a branded product made with the intent to deceive. Counterfeit products are often of inferior quality and produced to take advantage of the superior value, reputation, and goodwill of the target brand. Counterfeiting is a widespread issue that affects various industries such as clothing, apparel accessories, handbags, makeup, and even pharmaceuticals. Not surprisingly, the cannabis industry is not immune from counterfeiting, and as the industry continues to grow, it becomes more attractive to knock-off the products of successful cannabis brands.

It is important to note that, unlike many other consumer goods, cannabis goods themselves -- especially extracts -- often lack visual distinctiveness. Because packaging typically plays an outsized role in identifying and distinguishing cannabis goods, counterfeiters can focus on duplicating the appearance of that packaging, rather than the material inside.

The actual material on the inside is whatever cheap cannabis or cannabis-like substance that the counterfeit trafficker can access. This material is always untested and is often highly contaminated -- sometimes with contaminant concentrations thousands of times the legal limit.

### HEALTH RISKS OF COUNTERFEITS

In August 2019, the Kings County Department of Health issued a public warning about unlicensed vape pens sickening people with Severe Acute Respiratory Distress Syndrome, with some victims requiring intubation and mechanical ventilation to save their lives. [Link: <https://www.countyofkings.com/home/showdocument?id=20469>] Consumers had purchased cannabis oil vape pens of various brands from unlicensed sources. Instead of clean cannabis oil, the pens contained various additives, cutting agents, and possibly even synthetic compounds -- all unfit for human consumption.

Since that time, investigations are still underway, and numerous other cases of pulmonary illnesses (now termed “Vaping-Associated Pulmonary Illness” or “VAPI”) are attributed to illicit and counterfeit cannabis vape products containing undisclosed additives of various kinds as well as high pesticide levels. Researchers from the Mayo Clinic who were examining patients with VAPI (the majority of whom had reported consuming vapes purchased from illicit sources) found lung damage that was similar to a “chemical burn” or “...poisons like mustard gas.” [Link: <https://www.nytimes.com/2019/10/02/health/vaping-illnesses.html>]

## **WHAT TYPES OF GOODS ARE BEING COUNTERFEITED?**

Cannabis companies can spend enormous resources, developing a positive brand identity. Counterfeiters typically target successful brands, like Heavy Hitters, Kingpen, and Jungle Boys.

Vape oil cartridges were the first category of cannabis products counterfeited, followed by cannabis flowers and edibles. Counterfeit testing labels bearing the marks of state-accredited testing facilities are available across all product types. Because counterfeiters typically focus on copying the packaging, rather than the actual product, essentially any cannabis product produced can be counterfeited.

## **HOW IS THIS HAPPENING?**

The counterfeit supply chain typically involves: (1) Packaging manufacturers (often, but not always, in China), (2) Online commerce platforms (in China, the U.S., and elsewhere), (3) Unlicensed cannabis sources, and finally, (4) Unlicensed retail sellers.

1. Cannabis packaging, like that for most consumer goods, is typically easy to copy. Whenever a brand changes its packaging, it usually doesn't take long before the counterfeiters update their imitations.
2. Online commerce platforms such as Alibaba, DHGate, Taobao, and eBay make it easy for illicit packaging manufacturers or middlemen to sell the imitated packaging. The sellers on these platforms make little attempt to hide their intentions, even using phrases such as "identical packaging" in their listings.
3. The counterfeit packaging is then filled with whatever illicit cannabis flower, cannabis oil, or other material the counterfeiter can access. While details are understandably difficult to verify, it appears that most counterfeit

cannabis products were never part of the licensed cannabis production stream, and were therefore never subject to state safety and health requirements. Although no product type is immune, because visual and olfactory inspection provides little useful information about the contents of vape cartridges, they may be particularly susceptible to counterfeiting, and can even include "gutter drugs" that bear no resemblance to the stated ingredients.

4. The retail sellers of counterfeit cannabis range from unlicensed dispensaries and delivery services (who are inherently unable to obtain or sell licensed products), to online platforms (such as OfferUp.com and Craigslist), to underground sales (for example, "secret seshs" or "pop-ups").

## **WHAT CAN BE DONE?**

To combat counterfeiting, brand owners should employ all available tools. Examples include: (1) Obtaining trademark registrations both in the U.S. and in China, (2) Engaging with U.S. & Chinese customs officials to stop counterfeit packaging shipments, (3) Actively submitting notice and takedown requests through online platforms selling the counterfeit packaging, and (4) Working with local law enforcement officials to shut down unlicensed retail operations.

Just because a business serves the cannabis industry does not automatically disqualify the brand from federal or state trademark protection in the U.S. While brand owners cannot register federal trademarks in connection with products that are banned by the Controlled Substances Act, they can get protection for ancillary services, such as providing online information or education about cannabis. (Moreover, some particularly innovative trademark lawyers have employed creative strategies to obtain trademark coverage that may automatically expand to cover cannabis if and when federal

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descheduling occurs.) Additionally, with the passage of the 2018 Farm Bill, brands that cover certain products that are made from or contain cannabinoids derived from “hemp,” *i.e.*, contain less than 0.3% THC on a dry weight basis, may qualify for federal registration.

Federal trademark registrations can be used to combat counterfeiters in a couple of ways. First, if a counterfeiter registers a domain name that contains an identical or typosquat version of your registered trademark, you can initiate a Uniform Domain-Name Dispute Resolution Proceeding with the World Intellectual Property Office, which can shut down the website advertising and/or selling the counterfeit products and have the domain transferred to the trademark owner.

Federal trademark owners can register their marks with the U.S. Customs & Border Protection (“CBP”) to assist in its efforts to prevent the importation of goods that infringe the registered marks. The CBP officers monitor imports and can access the trademark recordation database at all 317 ports of entry in the U.S.

Similarly, brand owners can register their marks in China both for the actual products as well as for the product packaging. Unlike in the U.S., there is no requirement that the mark be used in Chinese commerce prior to registration. Once the registration is granted,

the brand owner can then record the registration with the General Administration

of Customs of the People’s Republic of China (“GAC”). The brand owner can notify the GAC of authorized factories and/or exporters so as not to disrupt its natural business operations. When dealing with China, it is strongly advised to engage with a local liaison that is experienced and knowledgeable about Chinese laws and practices. (Note: It is advisable for brands to register their trademarks in China before a Chinese counterfeiter does so in bad faith).

Trademark registrations can also be leveraged in takedown procedures with sites that sell counterfeit packaging such as Alibaba, DHGate, Taobao, eBay, and OfferUp.com. Each of these sites host instructions for owners to submit links to infringing material, and typically the websites promptly remove the infringing links. While a brand owner can submit the takedown requests without owning a trademark registration, it is much easier to prove infringement if you can point to the documentation that supports your ownership in the mark. (Note: There are “IP protection and monitoring” services that brands can use to automate much of the work of finding trademark violations and issuing takedowns against them.)

Finally, although a state-licensed cannabis brand invariably faces hurdles when enforcing its trademarks in federal court, those hurdles may be overcome in fact-specific circumstances. Moreover, even when federal enforcement actions are unavailable, state remedies may provide some relief. This document is not specific legal advice; you should obtain legal advice from your counsel.

## **CONSUMER EDUCATION**

One of the most important tools against counterfeit cannabis products is consumer education. A dangerous misconception held by uninformed consumers is that other than price, there is little difference between counterfeit and authentic cannabis products. It falls on all stakeholders to let consumers know about the dangers of these counterfeits, what they often actually contain, and how to avoid them. Brands can track down fakes, have them tested, and then publish the test results. Licensed retailers should highlight the significant testing that products must go through before they even reach their shelves.

The good news for consumers is that despite counterfeiters' best attempts to confuse consumers with look-alike packaging, it is relatively easy for consumers to avoid them. Lawfully producing, distributing, and selling cannabis and cannabis products requires licenses, and the licensed stream of cannabis is fundamentally secure from seed to sale. Consumers can be sure they are buying safe, tested, authentic products by only purchasing cannabis from licensed outlets while avoiding all illicit channels.

Consumers have several resources to find licensed shops in their area, including listing services such as Leafly (<https://www.leafly.com>), public sector sources (for example, the Los Angeles Department of Cannabis Regulation (<https://cannabis.lacity.org/resources/authorized-retail-businesses>), and the state's [www.CaPotCheck.com](http://www.CaPotCheck.com)). (Note: Unfortunately, some online platforms place

profits above safety and openly accept business listings from unlicensed retailers. As long as such companies feature contaminated and untested products on their websites & mobile apps, consumers should avoid them.)

## **ENFORCEMENT AGAINST COUNTERFEITS AND THOSE TRAFFICKING THEM**

In addition to the consumer education and intellectual property actions mentioned above, the acute threat to public health of having falsely labeled products sold to consumers compels law enforcement and cannabis regulatory agencies to prioritize counterfeit investigations. Affected brands and consumers can do their part by reporting suspected counterfeit trafficking to all applicable agencies from the Bureau of Cannabis Control to local law enforcement. As of this writing, several investigations into counterfeit activity are underway.

It is worth highlighting that the crimes committed by counterfeit cannabis traffickers should not be considered "cannabis" crimes per se, and they are not subject to the usual legal defenses afforded those involving cannabis (e.g., Prop 215 and Prop 64). Instead, counterfeit violators can be charged with a range of serious offenses in the California Penal Code and Health & Safety Code, including H&S Section 11144 for the manufacture, sale, delivery, hold or offer for sale of any drug or device that is misbranded.

## **CIVIL REMEDIES**

The primary goal of most counterfeited brands is typically to keep counterfeit products out of the commercial market, where they compete with licensed brands and threaten consumer health. Depending on the unique circumstances surrounding specific instances of counterfeiting, brands can seek to have counterfeits blocked from importation, ordered not to be sold or distributed, and even seized and destroyed.

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Although no federal court is likely to award monetary damages to a counterfeited brand to compensate it directly for the profits it loses to counterfeits, monetary compensation can nonetheless be available. Both federal and

state courts may be willing, under a variety of legal theories, to force a counterfeiter to disgorge its profits -- or even its gross income -- derived from illicit sales. The most significant limitation on the ability to obtain compensation is often the difficulty in identifying counterfeiters, not the lack of legal theories on which to pursue them.

### CONCLUSION

It is easy to dismiss counterfeit cannabis products as just another form of the illicit commercial cannabis activity dominating the state. However, because these fakes represent such great potential harm to public health, it falls on all stakeholders to aggressively fight them. For its part, the CCIA and its member companies are using their resources (including this white paper) to promote awareness of the problem and promulgate solutions to relevant parties. We encourage anyone who becomes aware of such activity to report it immediately. As exemplified by this summer's spread of morbidity and mortality associated with counterfeit vapes, selling fake products as authentic is not a victimless crime.

### CONTRIBUTORS

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The purpose of this information series is to highlight the problem of counterfeiting in the cannabis industry, and illustrate how each sector, from manufacturers, testing labs, and distributors to the end user, is affected by this very real problem. By the end of this series, the CCIA IP committee hopes to have provided some best practices to help legitimate businesses protect themselves from "counterfeiters and brand pirates."