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IP Metaverse: Brands are Plugging in and Cashing in

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Trying to understand the current buzz around the “metaverse”? The trick is conceptualizing something that is in the process of becoming, and that has no one single meaning. To be meta about it, there are as many definitions of “The Metaverse” as there are applications in the metaverse.

What, if any, steps should brand owners and creators be taking now to protect their valuable intellectual property in this new frontier? Regardless of whether you’re a ready player, one reality that can’t be denied is that we live in a world where the right to claim an a .JPG of an ape as your own can sell for over a million dollars. With the metaverse market projected to hit double-digit growth in the coming years, reaching \$800 billion by 2024, it is not surprising that there is a growing list of Fortune 500 companies now taking real steps to protect their intellectual property in the metaverse—intangible rights in an intangible world.

Protecting Trademarks and Copyright in Virtual Goods and Services

For consumer-facing brands and content creators, copyright and trademark are proving to be two of the most important areas of development in this emerging

area. An explorable digital universe opens new avenues for branded spaces and experiences. Digital technologies facilitate potentially infinite reproduction with minimal degradation—the millionth image of a digital butterfly will appear as good as the first. How does one assess whether a digital visual work (whether art, an avatar’s clothing, or virtual restaurant) is “authorized” or “unauthorized” by the rights holder? What if that work is branded? Has a “real world” counterpart? How could rights holders balance the need to control the character and quality of their digital goods (if they are even “goods” at all) with the reality of user interactivity? Is there even a “doctrine of exhaustion” in the metaverse?

With the frenzy and semantic baggage attached to the metaverse, it can be easy to forget that, from a macro perspective, everything online could be considered a “metaverse”. The term itself is trendy and sexy—but to an extent, it’s everything we are already doing in online digital environments. There is a collective reflex to reference online video games that have existed since the early 2000s to help frame the current thinking about the metaverse. Consider *Second Life*, *The Sims*, *World of Warcraft*, *Pokemon Go*, and *Minecraft*—all part of a multi-billion-dollar industry that existed before this recent surge of interest in the metaverse. Game developers and brands are familiar with product

placement, branding, partnerships, licensing, and trademark infringement within this context. What has changed in the digital landscape? Why are companies like Nike, Balenciaga, Dolce & Gabbana, Gucci, Louis Vuitton, Converse, Coca-Cola, Hyundai, Lamborghini, and Wendy’s taking steps to position themselves at the forefront of branding and trademark protection in different applications of the metaverse?

The metaverse is being shaped now from the primordial soup of the existing Internet. No VR headset can show us the final product. The path forward may be clearer for digitally native brands—like Facebook re-branding as Meta and making acquisitions to position themselves at the forefront of this new industry. But it is just as important for trademark owners in traditional industries to consider their position within the metaverse—their potential opportunities, and the related risks associated with “sitting back” and getting in early. Like any emerging industry, the first movers always have the advantage of shaping mass thinking. The first companies to think about the role of branding in a virtual world and take concrete steps will likely have the loudest voices and biggest opportunities in the metaverse. We are already seeing companies across industries keeping pace with new monetization strategies, expansion of brand portfolios, and thinking proactively about trademark protection in an NFT marketplace.

Ownership and Rights to NFTs

Still unclear as to what is actually being bought and sold in the metaverse? Sticking with the example of online games in the

early 2000s, players in those virtual worlds could buy or earn items for their character (or “avatar”)—a sword, a car, or an outfit. Twenty years ago, the value of that good only existed within the game: players have traditionally “purchased” items within the game via points earned through play or have paid real funds to convert into usable tokens within the game—for example, “Linden Dollars” in Second Life. Now, technology has evolved to remove the “middle person”. Players can purchase items directly with state-backed fiat currencies or blockchain-based cryptocurrencies (like Bitcoin and Ethereum), with ownership recorded on the blockchain, including as an NFT. Plus, more and more goods are branded!

One common misconception is that ownership of an NFT gives the holder the right to do anything with the tokenized “thing”—whether an item, a work of literature, or an art piece. It doesn’t. Like traditional media, copyright and NFT ownership remain separate rights. Likewise, simply having physical ownership of an item does not grant a right to convert that “item” into a saleable NFT. Traditional intellectual property rights remain. For example, in early 2021, an NFT of a drawing by the artist Jean-Michel Basquiat was pulled from auction after his estate confirmed the entity selling the NFT, although it may have owned the physical work, did not have a license to reproduce or otherwise deal with copies of the work.

Disputes in the Metaverse

We are already seeing high-profile brand owners taking enforcement action against “metaverse”

infringers. For example, Hermès International and Hermès of Paris, Inc. (Hermès) the French luxury brand has brought an action for trademark infringement and trademark dilution against Mason Rothschild, a California-based digital artist that created and sold the “MetaBirkin”, a collection of 100 NFT’s depicting faux-fur iterations of the iconic Birkin bag. Physical Birkin bags can easily retail for six figures. The “MetaBirkin” NFTs were sold on digital marketplaces for between USD\$13,000—\$65,000. In its claim, Hermes asserted that Rothschild’s “MetaBirkins” constitute unauthorized use of “Hermès federally registered trademarks”, including the “globally recognized” BIRKIN word mark and trade dress.

Another brand owner, Nike, recently launched its own metaverse-related lawsuit for trademark infringement and dilution. Nike’s action is against StockX, an online resale marketplace that previously sold only physical goods, Nike claims that StockX created (or “minted”) NFTs of shoes that prominently display Nike’s trademarks without Nike’s authorization. The NFTs are then sold at “heavily inflated prices to unsuspecting consumers who believe or are likely to believe that those “investible digital assets” (as StockX calls them) are, in fact, authorized by Nike, when they are not.” Nike alleges that while StockX’s physical good business caters to buyers and sellers of goods originating from various companies, nearly all of the NFTs minted to date are Nike-branded.¹

Both the Hermès and Nike cases raise novel questions with respect to trademark law in virtual environments. For example, how might the purely virtual nature of the goods at issue affect

the “likelihood of confusion” test used to assess trademark infringement? How does one assess “the hurried consumer” in a strictly digital realm? Who is the “average consumer” of these digital assets? Can brand owners rely on trademark registrations that do not strictly cover NFTs, blockchain, or digital assets to enforce their rights in the metaverse? Will courts treat NFTs as inseparable from the “thing” to which it is tied, or will they simply be treated as mere “titles”, with intellectual property rights remaining separate and subject to a traditional consideration of chain of title / licensing from the owner? Adding to the complexity is that NFTs are sold on the open market, through auction houses and specialty websites/platforms. The value of an NFT is readily realizable for sellers. In March 2022, an NFT of a digital artwork by Beeple, “Everyday: The First 5,000 Days”, sold at auction for USD\$69 million, the highest price paid to date for an NFT.

Companies are recognizing that the metaverse represents a new frontier for commerce, much like the Internet in the early 2000s. Luxury clothing brands, fast food chains, real estate corporations, and auction houses are all eager to partner with existing metaverse-operative platforms or are looking to create their own. Nike is currently building its own metaverse Nikeland, through a partnership with Roblox, an online gaming platform with over 50 million daily users and over \$1.3 billion generated in revenue over the last four quarters, and recently acquired RTFKT, a digital design studio that creates digital sneakers. Brands are also taking steps to expand their trademark portfolios to capture their metaverse-related goods and services. For example, McDonald’s

has filed a series of trademarks for a virtual restaurant that will deliver food in person and online.

Counterfeiting and Royalty Calculations in the Metaverse

What remedies will be available to brand owners and rights holders dealing with counterfeit digital goods connected to NFTs is also an emerging area. Injunctions may well play a part in preventing the sale of unauthorized NFTs on marketplace platforms. There is also a real possibility that the parties subject to liability, and thus who would pay damages, could be expanded. Traditionally, it has been difficult to trace ownership of goods to their source. NFTs hosted on the blockchain theoretically make a chain of title traceable—they function as an ownership ledger and cannot be destroyed, although they can be sent to a “burn” address to remove it from circulation. NFT sale transactions are thus easily accessible, making it easier to calculate the total transaction value associated with that NFT over the course of its existence. Should damages be based on the total resale value of the unauthorized NFT? Should each subsequent owner be subject to liability? How will courts apportion liability between

creators/minters, sale platforms, and purchasers?

On the flipside, the traceability of NFT ownerships also opens potential new revenue streams for creators and artists and has the potential to simplify royalty calculations when works are used. For example, NFTs can be programmed so that the creator receives a royalty every time it’s sold.

Conclusion

The metaverse represents a new frontier for brand owners and creators to explore and exploit. The anticipated purely virtual and highly interactive nature of this next iteration of the Internet puts new gloss on age old questions about the purpose and reach of copyright and trademark, further highlighting the centrality of these intangible rights within an intangible world. Practical minded players are already taking steps to position themselves within this new realm—filing for expanded trademark rights and monitoring for unauthorized use and reproduction of their works and brands. Many are also exploring what role blockchain technologies may play in ensuring the character and quality of their digital goods and tracking chain of title in the works they sell and make available. While what is the “metaverse” remains to be seen, there

is no doubt that it will have a significant affect on commerce.

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1. Nike Preliminary Statement, 2022.02.03 NIKE v. StockX DRAFT Complaint—Filing

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