The Legal Challenges of the Metaverse: Business Trademarks

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Abstract: The Metaverse is emerging as a hotbed for brand promotion as well as a platform for creating and using intellectual property rights including trademarks. The avatars (users) can create digital objects to sell to other users. Lenders and investors are seeking opportunities to capitalize on new Metaverse markets and digital assets as is the named NFT (not-fungible token) that is the unique data coding that can be visually represented by a digital asset, for example, a virtual handbag.

Currently one of the real-world lawsuits involving trademarks and NFTs is the dispute between fashion house Hèrmes vs NFT creator Mason Rothschild. Hèrmes makes the exclusive line of Birkin handbags and Rothschild started selling NFTs in the form of digital images he named MetaBirkins which are the virtual reproduction of the Hèrmes product. Therefore, the fashion house filed a trademark claim for unauthorized use of their trademark and design.

From the above-mentioned lawsuit raises a set of fascinating issues at the intersection of intellectual property law and digital technology. For instance, the unauthorized trademark use in Metaverse, but what, in our view, is the most important challenge is: Can you have a trademark right on an NFT? Trademark owners should be aware of the opportunities and challenges to their brand in virtual worlds.

The possibilities for a Metaverse are currently limitless and the investments being made in new Metaverse-related technologies and platforms have grown enormously. Investors and companies are spending purchasing digital land in popular Metaverses to create virtual business spaces where consumers are sold goods, services, or entertainment.

1. INTRODUCTION

Since the origins of recorded history, businesses have been using trademarks to identify and distinguish their products or services from those of the same kind and quality. Traditionally, because of the importance of trademarks for trade and industry throughout the world, most countries have adopted legislation to enforce their rights against real-world infringers. In the 21’s century, however, the trademark owners must be aware of Metaverse world infringers.

A type of platform has been recently reborn and this time it is called Metaverse. Over 14 years ago I wrote a law review article about “The Challenges of Trademark Law in virtual worlds such as Second Life (SL)“. The article discusses the use of trademark rights and Intellectual Property rights over creations developed in the virtual worlds.

SL is described by its creators as a “3D online world with a rapidly growing population from more than 100 countries around the globe, in which the residents themselves create and build the world,”

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which includes, homes, vehicles, night clubs, stores, landscapes, clothing and games. SL residents are online persons, called avatars created by their users that produce and build virtual businesses that participate in a real economy” (Lastiri Santiago, 2008). It is a very similar concept that the Metaverse currently has, in fact, SL has been one of the first metaverses that have existed.

I remember everyone who read the article was surprised and couldn’t understand why people would pay exorbitant amounts of money for land in Second Life. And now, in 2023, I find myself writing about it again. Except this time, it’s not such a foreign topic for everyone. Ever since in October 2021, Facebook announced its pivot to virtual reality when it rebranded as Meta. The goal this time is “to be seen as a metaverse company” and not merely a social media brand. After that announcement, the plots of land in the metaverse have grown by as much as 500% in just the last year. Since then, there has been a movement by platforms and brands to embrace the metaverse, along with non-fungible token (NFT) (Chambers et al., 2022a).

Is Metaverse the new big thing? Is it now? We should remember what happened with SL that went from being the boom to being forgotten. In this sense, while some commentators suggest that the metaverse is over-hyped, the switch to remote working and virtual social events intensified by the restriction of physical movement and public spaces during the pandemic, has undoubtedly accelerated people’s reliance on digital experiences. We have increasingly relied on the Internet for education, industry, art, and social activities. The last big thing was the Internet of all things which boasted and touted the interconnectivity of all things. In 2023, it’s the metaverse, which also promotes interconnectivity but in a whole different realm.

The purpose of this article is to provide the subjects that Trademark Law must deal with in digital transformation, specifically in the Metaverse, which at the very least obliges companies to renew themselves and take new measures to successfully protects their rights over their brands. Accordingly, this article will give an overview of the current legal questions that may arise in relation to trademarks lay field. This perspective is of interest since any regulation of trademark law needs to take account of the overall economic impact.

2. WHAT IS THE METAVERSE?

Taken from the prefix ‘meta’, meaning beyond or transcending, the idea proposes the digitization of our physical lives such that we work, learn, and socialize within a 3D virtual reality (Caleb & Brown, 2021). There is no unique definition of the metaverse. The truth is that by now, no one knows what exactly is. There is a general feeling of what it can do.

According to Facebook Founder the Metaverse is the “next version of the Internet that allows users to immerse themselves into real-time rendered 3D virtual worlds”. However, can be understood as a 3D version of the Internet, accessed using a virtual reality headset or glasses. But it ranges from a fully immersive, virtual reality world to a layering of digital content over the real world, where people will socialize, shop, do business, buy real estate, and learn (Chambers et al., 2022a).

\footnote{In 2007 it was corroborated that 830 residents make more than US 1,00 a month in SL. Some resident’s SL business activities have been successful enough to replace their real-life income. The virtual real estate market in SL has created market with a collective value estimated to be in the hundreds of millions of U.S. dollars, and the economy in this platform was, at that time, hundreds of millions of U.S. dollars. Time magazine reported that $ 6,8 million changed hands in June 2007 on LindeX (SL coin) and that U.S. Congress was looking into whether to tax this commerce.}
In such a digital environment, businesses can replicate the products and services that exist in the “real” world to create exciting, interactive virtual products and services, and boost revenues in the process (Chambers et al., 2022a). This notion is just like the one we can find in the Second Life metaverse. The difference between the technological advancements in the space of augmented reality (AR), virtual reality (VR), artificial intelligence (AI), blockchain and the existence of NFT are diving into the transition from our current usage of the internet to the metaverse. That said, we can conceive this universe as a set of technologies that come together, that give rise to what we are calling the metaverse.

The metaverse will integrate all these technologies so that interactions between the real and virtual worlds are as tight and seamless as possible. This scenario allows individuals to interact with one another within virtual worlds or spaces through digital or augmented reality technologies that have an online economy. The Metaverse is not a solitary online space, but instead, multiple metaverses operated by distinct entities. In this sense, Tim Sweeney (Epic Games CEO), sees the metaverse as a potential “multi-trillion-dollar part of the world economy” which, like the internet as we know it today (web 2.0), would not be owned by any specific corporation (Canavesi, 2022a).

2.1. Metaverse Platforms Categories

2.1.1. Centralized Metaverse

As its name indicates centralized metaverse is controlled by a central entity. They have their internal servers and own policies that regulate each virtual world. The users of this kind of centralized Metaverse are restricted within the set-controlled parameters. The users can interact and share experiences, but their freedom is restricted. They cannot own pieces of the digital environment or have the freedom to control it. Fortnite and Roblox are the best examples today (Shubham, 2022).

The main peculiarity of this type of Metaverse is that they can determine the Terms and Conditions which can include Intellectual Property Rights Protection and, for instance, established privacy and data protection rules, among other issues. The abovementioned matter is important if we take “Meta” as an example. The company’s business model revolves around data. The company then uses the gathered data to allow third parties to show Facebook’s users targeted advertising, and it also shares the data directly with other technology firms, including Amazon, Apple, Microsoft, Netflix, and Yandex.

A Meta-controlled metaverse consisting of virtual reality experiences like Horizon Worlds, Venues, and Workrooms accessible via Meta’s Oculus Quest headsets would present an infinite number of opportunities to analyze all user activity, including what virtual content users interact with and for how long. “Meta” could then use the collected data to transform its metaverse for the benefit of advertisers and its business partners (Shubham, 2022).
2.1.2. Decentralized Metaverse

The difference in this Metaverse category has to do with control, creation and governance. This kind of Metaverse is built and established by communities (the more decentralized the digital world, the more the users have a full government of the project). It is an open-sourced platform where users enjoy the freedom to control everything.

Decentralized Metaverse also has a control that lies within the community. Users govern the control. They also have a lot of individual control over their assets. They can buy and sell as per their wishes (Shubham, 2022). Blockchain and cryptoassets technologies are key components of decentralized metaverses. The reason for this affirmation is that the abovementioned are transparent and traceable methods for conducting transactions and interacting with each other.

The most prominent representative of the decentralized metaverse is Decentraland, a fully decentralized world on the Ethereum blockchain, controlled by a Decentralized Autonomous Organization (DAO) made up of individual players who can vote to change the policies that determine how the world behaves. Decentraland has its own cryptocurrency, MANA, and this cryptocurrency can be freely exchanged on cryptocurrency exchanges for other currencies (Canavesi, 2022a).

Other representatives of the decentralized metaverse include The Sandbox and Somnium Space. Together with Decentraland tokenize in-game assets and land parcels to give players the ultimate control over the world they inhabit and help create - the same control they enjoy over their real-world possessions. The Decentralized Metaverse is merging hand in hand with blockchain projects (Canavesi, 2022a).

3. HOW METAVERSES ARE CONNECTED TO TRADEMARK LAW WORLD: NFT’S

The Metaverses offers a new means of brand promotion as well as a new platform for creating and using intellectual property rights and, consequently, for possible trademark infringements (WIPO, 2007).

The so-called Non-Fungible Tokens (NFTs) are one of the main tools that make conceivable the connection between tangible and intangible worlds. This is because the NFTs can represent both physical and digital assets, and in both cases allow for verification of authenticity, origin and ownership.

NFTs are non-fungible, therefore they can’t be exchanged for another asset of the same type because each NFT has some unique qualities known commonly as attributes. Since NFTs are stored on various blockchains, they can’t be endlessly replicated and shared. The non-fungible tokens are cryptographic assets on a blockchain with unique identification codes and metadata that distinguish them from each other. All NFTs have two key properties that separate them from cryptocurrencies like bitcoins and traditional digital assets:

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4 From the first known NFT, called Quantum, was created by Kevin MacCoy and Anil Dash in May 2014, there has been an endless stream of NFT-related headlines, often featuring an obscenely large sum of money that some paid for the privilege of ownership. The best example is the most expensive NFT sold so far. It is a unique digital artwork called The Merge. Created by a renowned artist who goes by the pseudonym Pak, this fragmented piece of art was sold for $ 9.8 million to 28,983 collectors. In addition to artists, NFT collections are being minted by growing list of celebrities and brands including the NBA, Formula 1, Coca-cola, Taco Bell, among others.
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1) They are non-fungible and
2) They are scarce (Block, 2021; Canavesi, 2022b).

The NFTs work as follows:
1) an NFT refers to unique crypto tokens that are managed on the blockchain. A blockchain acts as the decentralized ledger that tracks the ownership and transaction history of each unique NFT. The main difference between NFTs and another traditional cryptocurrency like Bitcoin is interchangeability (or lack thereof). One bitcoin in a digital wallet is interchangeable with another bitcoin in a different wallet because each bitcoin has the same value and use. NFTs, in contrast, are coded to have unique identifications and other metadata that no other token can replicate. This gives NFTs the attributes of originality and scarcity that make them so attractive when coupled with digital media (Mahmood, 2021).
2) NFTs are written with software code called smart contracts that govern actions such as verifying the ownership and managing the transferability of the NFTs. Like any software application, NFTs can be programmed beyond the basics of ownership and transferability to also include a variety of other applications and functionality, including linking the NFT to another digital asset. For example, a smart contract could be written to automatically allocate a portion of the amounts paid for any subsequent sale of the NFT back to the original owner, thus giving the owner the ability to realize the benefits of the secondary marketplace (Mahmood, 2021).

Thus, when someone builds an NFT, they are writing the underlying smart contract code that governs the qualities of the NFT and adding those qualities to the relevant blockchain on which the NFT is managed (Mahmood, 2021). Therefore, three technologies are fundamental to the NFT ecosystem; blockchain, smart contracts and metaverse

3.1. Blockchain

Blockchain is a storage technology where thousands of computers act together to record transactions in a ledger. This technology can be used to record transactions that are guaranteed by the blockchain to be unchangeable. An example of a transaction stored on the blockchain is a transfer of funds from one account, or “wallet” to another.

The blockchain has some fundamental applications since it offers possibilities for brand protection and registration as evidence, either at the registry stage or in case of litigation. For instance, evidence of creatorship and authentication, registering and clearing trademark rights; controlling and tracking the distribution of (un)registered trademark; providing evidence of genuine and/or first use in trade and/or commerce; digital rights management establishing and enforcing licenses or exclusive distribution agreements through smart contracts; and transmitting payments in real-time to trademark owners. Blockchain may be also used for authentication and provenance purposes in the detection and/or retrieval of counterfeit, stolen and parallel-imported goods (Clark, 2018).

3.2. Smart Contracts

This term can be confusing because they are non-contracts in the legal sense, instead, smart contracts are small computer programs that are executed to record transactions in the blockchain. Typically, the computer program of a smart contract will check various conditions and, if
the conditions are met, it will create new transactions on the blockchain. In a few words, smart contracts are digital contracts stored on a blockchain that are automatically executed when predetermined terms and conditions are met (Sheldon & Vandsburger, 2021).

3.3. Metaverse

An NFT is a data code that allows a physical product or service to become digital and visible in the Metaverse. Thus, one of the most important properties of the metaverse is data. In this sense, data continuity as core property of the metaverse is an essential issue, because enables users to seamlessly move between virtual worlds, taking their digital possessions with them in the same manner people take their physical goods with them when they move to a different place. NFTs allow for all virtual items in the metaverse to be uniquely identifiable, purchasable, and exchangeable on the NFT marketplaces.

4. FACING A NEW CHALLENGE IN A TRADEMARK LAW WORLD: METAVERSE

4.1. The First Lawsuits Regarding Metaverse and Trademarks

The popularity of NFTs has brought with it numerous lawsuits, as companies and creators look to navigate the volatile market for such digital tokens, and in many of the interesting cases to date, the intellectual property issues that have come hand in hand with the use of the relatively novel technology. In this regard, these cases provide some guidance to describe the main legal issues related to trademark law in connection with Web 3 focused World.

As usually happens in the realm of new technologies, the key lawsuits over Metaverse regarding trademarks that have been filed in the United States of America (USA):

4.1.1. MetaBirkins Case

In January 2022, Hermès sued Mason Rothschild (Hermès International v. Mason Rothschild, 2022a) in the Southern District of New York for trademark infringement, federal trademark dilution, false designations of origin, false descriptions and representations, cybersquatting, injury to business reputation, misappropriation, and unfair competition for the creation and sale of a unique collection of 100 individual “MetaBirkins” bag NFTs that resemble fur-covered versions of the Hermès iconic Birkin bag. The complaint claims that in furtherance of his sale of the NFTs, Rothschild simply:

“rip[s] off Hermès’ famous BIRKIN trademark by adding the generic prefix ‘meta,’” which refers to “virtual worlds and economies where digital assets such as NFTs can be sold and traded.”

In response, the defendant pushed for a dismissal of Hermès’ lawsuit based on the so-called Rogers Test (Rogers v. Grimaldi, 1988) asserting that “fanciful depictions of fur-covered Birkin bags and the identification of his artworks as ‘MetaBirkins’ are artistically relevant and do not explicitly mislead about their source or content,” and thus, are protected as artistic expression under the First Amendment.

Hermès opposed (Hermès International v. Mason Rothschild, 2022b) alleging that the Polaroid factors (Polaroid Corp. v. Polarad Electronics Corp, 1961) should apply, instead of the Rogers
Test in order to assess likelihood of confusion. Accordingly, the court denied Rothchild’s motion to dismiss, concluding that while there may be an “artistic aspect” to the images tied to the MetaBirkins NFTs (making the Rogers test applicable), Hermès has, nonetheless, sufficiently set out allegations that Rothchild’s use of “MetaBirkins” was not artistically relevant or was explicitly misleading and therefore, failed to meet the Rogers test (Chakrabarti et al., 2022).

In December 2022 the US Judge Jed S. Rakoff denied both parties’ motion of summary judgment on whether Rothchild’s use of the Birkin bag image in his art caused consumer confusion and infringed on Herme’s trademarks. The jury trial will begin in the US District Court for the Southern District of New York on January 30, 2023 (Poritz, 2022).

4.1.2. Nike Case

In February 2022, Nike sued online reseller Stock-X marketplace in New York Federal Court (Nike, Inc v. StockX LLC, 2022a), alleging trademark infringement and dilution, as well as unfair competition, in connection with its offering up of NFTs tied to images and physical versions of Nike footwear albeit without receiving its authorization.

Additionally, Nike claims that the defendant is “selling those NFTs at heavily inflated prices to unsuspecting consumers who believe or are likely to believe that those ‘investible digital assets’ are, in fact, authorized by Nike. Consequently, hurts Nike’s business reputation because StockX is building NFTs that use Nike’s trademark, capitalizing on Nike’s goodwill.

In response (Nike, Inc v. StockX LLC, 2022b), StockX argues “fair use”, stating that this is “no different than major e-commerce retailers and marketplaces who use images and descriptions of products to sell physical sneakers and other goods, which consumers see (and are not confused by) every single day”. By the same, the defendant continues to depict Nike’s Complaint as nothing more than a “baseless and misleading attempt” to interfere with a new technology that Nike does not understand, which has opened up a secondary market for the sale of StockX’s sneaker and other goods.

Later, Nike amended its complaint to add counterfeit and false advertising claims. The defendant responded by denying the claims asserting that the “lack merit, disregard settled doctrines of trademark law… and show a fundamental misunderstanding of the various functions NFTs can serve” (Dolmestsch, 2022). Also, Stock claim that the NFTs at issue are little more than “claim tickets” or “digital receipts” used to “track ownership of a specific physical Nike product that StockX has purportedly authenticated using its ‘proprietary, multi-step authentication process’” – putting the sale of the sneakers (and corresponding NFTs) firmly within the realm of the First Sale Doctrine (Dolmestsch, 2022).

Regarding Nike’s counterfeit allegations, StockX responded in June 2022 stating that Nike itself has previously praised them: “In the past, Nike has sought to collaborate with StockX and has communicated confidence in the StockX authentication process”. We will see how this legal battle ends. However, what we must emphasize is that this conflict starts over NFTs enterprises looking for its entry into the metaverse and its trademark law divergences.

The difference from the Hermès case is that StockX argues that its Vault NFTs are not “virtual products” or “digital sneakers”. Rather, each Vault NFT is to a specific physical good that has already been authenticated by StockX, including “styles of shows originally manufactured and sold by Nike, Adidas, and Puma”. It further described its Vault NFT collection as simply the “key” to access the underlying stored item in the vault, with no other form of intrinsic value.
4.1.3. Yuga Labs Case

In June 2022, Yuga Labs, the creator of the famous Bored Ape Yacht Club, (BAYC) sued the artist Ryder Ripps and other groups of defendants in California Federal Courts for trademark infringement, false designation of origin, cybersquatting, conversion, unjust enrichment, violations of California Business and Professions Code, intentional interference with prospective economic advantage, and negligent interference with prospective economic advantage for creating and selling NFTs that bear the very same trademarks that Yuga Labs uses to promote and sell the authentic BAYC NFTs (Zerbo, 2022).

In furtherance of his alleged quest to “devalue the Bored Ape NFTs by flooding the NFT market with his own copycat NFT collection using the original Bored Ape Yacht Club images and calling his NFTs ‘RR/BAYC’ NFTs,” Yuga Labs argues that the defendants have obtained a big profit from these sales, all while simultaneously using its trademarks to promote “the imminent launch of an entire NFT marketplace called ‘Ape Market’ solely to sell the RR/BAYC NFTs alongside authentic Yuga Labs NFTs” (Zerbo, 2022).

4.1.4. Quentin Tarantino Case

In November 2021, Miramax sued Quentin Tarantino for copyright infringement, trademark infringement, and unfair competition. In addition to arguing that Tarantino is likely to confuse consumers about the source of the Pulp Fiction-linked NFTs, Miramax alleges that Tarantino is on the hook for breach of contract, as his “narrowly-drafted” Reserved Rights (as distinct from Miramax’s “broad, catch-all rights,” which include “all rights . . . now or hereafter known. . . in all media now or hereafter known”) do not extend to his offering up of used excerpts of the screenplay as NFTs.

In response the defendant has pushed back, asserting that Quentin Tarantino’s contract is clear: “he has the right to sell NFTs of his hand-written script for Pulp Fiction and this ham-fisted attempt to prevent him from doing so will fail.” In this sense, also argue that the trademark infringement claim fails because Tarantino’s rights to the screenplay include the “Pulp Fiction” title (Miramax LLC. v. Tarantino, 2022).

In September 2022, the Filmmaker and the studio have settled the lawsuit over this NFT. A new court filing indicates the sides requested to dismiss the suit in and they offered a joint statement (Robertson, 2022).

5. UNCERTAINTIES OVER TRADEMARKS PROTECTION IN THE METAVERSE

From the above-mentioned lawsuits raises a set of fascinating issues at the intersection of trademark law and Metaverse. For instance, non-consensual use of the brands in the virtual world brings questions as does current trademark law applies to brands that get into the Metaverse? How licenses of these rights can be treated it? Regarding the legal obligation to use a trademark otherwise the owner may lose his rights will what we do in the metaverse be valid as proof of use? Can brands acquire notoriety from the metaverse? Can you have a trademark right over an NFT?

Currently, there are more questions than answers, however, this time we will refer to those questions that initially have to be considered by those brand owners who wish to enter into the world of the metaverse.
5.1. Specialty Principle and the Delimitation of Products and Services; 
A Trademark Strategy

It is necessary to highlight at this point that the function of a trademark is to serve as an indicator of origin, allowing consumers to distinguish the goods and services of a company from the ones of its competitors in the market. Therefore, trademark law grants an exclusive right and confers protection to a sign or logo in relation to the goods and services designated in the application.

In order to provide answers to the questions raised, we must start from the root of the trademark law in force in most jurisdictions. This kind of right stands on two fundamental principles, one of them is the principle of specialty and the other is the territoriality principle. Both are going to be fundamental issues in the metaverse.

In most jurisdictions, the initial phase to protect a brand must have distinctiveness and the protection extends to registration or use (depending on the country). In the case that the law of a specific country requires the registration to obtain an exclusive right over the mark the specialty of the trademark is demanded as one of its essential conditions.

The brand is special in the sense that it only applies to the category of products or services for which it has been created. From here arises the general rule, according to which the trademark cannot be registered to protect, indefinitely, any merchandise, since the scope of ownership of a trademark is limited to the protection of the products for which it was registered. This means, in principle, that the same trademark can be registered by any other person to distinguish products of another class.

The classification of goods and services is performed following the Nice Classification of Goods and Services. Notwithstanding, the first question that brand owners currently face is whether they can simply rely on existing trademark rights when it comes to enforcement in the metaverse and thus, avoid lodging separate applications for virtual goods and services? That is if the protection given by current law and the classification system would apply to the Metaverse.

For many companies, a strong brand portfolio in the real world is likely to be valuable in the virtual one. The products existing in the Metaverse, like clothing, shoes, or objects, are just the virtual appearance of the real product. They are represented by utilizing NFTs as well as services. Regarding the latter, there is a concern that is becoming common to have enterprises selling their products in the Metaverse, which can be purchased both for the avatars, but at the same time for real life. An example of this is McDonald’s, which is developing a system to offer real-life delivery with an order placed in the Metaverse (European Innovation Council and SMEs Executive Agency, 2022).

The brand owner must protect figurative marks that may appeal to digital artists, as well as word marks and logos. Nevertheless, the uncertainty that arises with the blurring of the physical and digital space and the fact that still no clear decision in the ongoing infringement cases in the U.S. in which companies rely on their “real world” trademark rights to claim infringement in connection with NFTs and early iterations of the metaverse, has caused an increase of trademark applications for marks that companies are using, or planning to use, on virtual goods and/or NTFs across the world (Johnson, 2022).  

In the U.S. 4,049 “NFT-related” trademark applications for registration and 2,717 applications for virtual
In the beginning, to address this situation, trademark owners have had to resort to their creativity in the applications they have filed with the national offices, trying to adapt the Nice Classification system to their needs. This is to make sure that goods and services designated in their trademark applications are classified correctly namely as virtual products.

In 2022, the U.S. Patent and Trademark Office (USPTO) is starting to work its way through the throngs of metaverse-centric trademark applications. Part of that process has seen the trademark office issuing Notices of Allowance – preliminary green-lights of sorts in response to an array of intent to use applications, which are looking to use marks “downloadable virtual goods” (in Class 9), “retail store services featuring virtual goods” (Class 35), and/or “entertainment services, namely, providing on-line, non-downloadable virtual [goods],” etc. (Class 41), “Operating virtual services business featuring actual and virtual goods; and delivery in the real and virtual world• in order to cater to consumers in the virtual world (TFL, 2022a).

In the European Union in an attempt to provide some initial guidance as to the approach that it is taking for classification purposes, the European Union Intellectual Property Office (EUIPO) informed that:

“The 12th Edition of the Nice Classification will incorporate the term downloadable digital files authenticates by non-fungible tokens in Class 9. NFTs are treated as unique digital certificates registered in a blockchain, which authenticate digital items but are distinct from those digital items. For the Office, the term non fungible tokens on its own is not acceptable. The type of digital item authenticated by the NFT must be specified.”

This new edition of the Nice Classification enters into force on January 1st, 2023. This twelfth edition includes several changes and definitely will give a worthy idea of what direction to take in meta-trademark applications. Unlike the aforesaid trademark systems, there is the China Classification that does not provide any description that would fully fit goods and services for trademarks used in the metaverse”. The description must be chosen from those available in the Chinese Classification system which is strict formalism in the selection and designation of goods and services from a classes/subclasses structure with rigid description (TFL, 2022b).

For all the above, it is a fact that the marks related to the metaverse must be registered, for the time being, as separate marks from those of real life. We must be aware of the solutions issued by the courts in the litigation that is currently being settled: the system can lead to disputes if a third party is commercializing them, without the right holder’s authorization or can constitute a misleading for consumers to think that the digital product ant the real one has the same commercial origin.

It is more straightforward to demonstrate that a mark has been infringed when you can point to identical goods/services, as opposed to merely similar goods/services. For similar goods/services, there must be a likelihood of confusion (as to the source of the goods/services) in order to prove infringement.

The degree of similarity of goods and services in the “real” world to their digital counterparts will be a question of fact. Advisory services, whether provided in a virtual meeting room or
a physical office are arguably the same, regardless of the delivery mechanism. In contrast, the pair of branded sneakers you wear in the physical world is arguably an entirely different product (footwear) from the digital representation of those branded sneakers that you purchase for your avatar (data and software). In the case of dissimilar products or services, only brands with reputations will be protected (Chambers et al., 2022a).

5.2. Unregistered Rights. The Trademark Right That Is Obtained with the Use (Without the Need for Registration)

Unregistered rights are less readily understood by potential infringers than registered rights, less certain and the protection they confer differs widely between jurisdictions (Chambers et al., 2022a). Accordingly, in contrast to the countries where registration is necessary to obtain the trademark right, in jurisdictions such as the U.S.A, the right can be relied on the fact or nature of use or for example, companies like Hermès that don’t want to use its brands in the metaverse; can it establish its marks are famous and thereby protect them from meta uses? In this case, Hermès might well be able to argue that unauthorized meta-use tarnishes the unique brand that is Hermès. But other less well-known brands might have a much tougher legal road. They might have to rely upon the likelihood of confusion analysis that is the basis of a trademark infringement claim. In that circumstance, the owner of the trademark could face an adverse decision; a court might narrowly focus on whether the respective good and services, virtual and real, are similar, or on very different channels of trade, as might a trademark office when considering opposition to an application for virtual goods. Trademark owners may need to estimate whether they should also argue for false advertising, as well as claims at common law, such as misappropriation and passing off (Park, 2022).

5.3. The Applicable Law: Principle of Territoriality

The principle of territoriality means that the trademark affects the territorial area where its registration has been requested or in the case of use, where the use has been asked (in the entire national or regional territory). Consequently, an additional fundamental question arises: who has control of the metaverse, and which jurisdictions are relevant? With regards to control, the more control an organizing entity has in the case of the centralized metaverse, the more likely policies, such as notice and takedown mechanisms, will be in place to enforce trademark infringement. In contrast, as it happened in decentralized metaverse platforms, such as Decentraland, which is owned by users and governed by a decentralized autonomous organization (DAO’S) it will be difficult to formulate and enforce policies that allow brand owners to participate while also ensuring that their intellectual property is protected (Fält et al., 2022).

Also, we have to refer what would be the applicable law? In this sense, the factors that the courts take generally into account when assessing whether a website targets consumers (offering goods or services for delivery to a certain country, the use of the top-level domain names, the language of the website, etc.) may be more complex in the metaverse since these kinds of platforms have their cryptocurrencies and be hosted in a decentralized way, with real-time translation of content. However, we are not in unknown land if we remember what has already been done when the Internet arrived, applying the WIPO recommendations taking into account the changes that the metaverse implies (WIPO, 2022).7

7 WIPO. Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, On the Internet (with Explanatory Notes). Adopted BY THE assembly of the Paris Union for the protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO) at the Thirty-Sixth Series of Meeting of the Assemblies of the Member States of WIPO.
5.4. Use in Commerce

As mentioned, to maintain a trademark right, these must be used. Likewise, trademark infringement requires use in commerce. In this regard, the Courts have said that there is use in economic traffic when the use is made in the context of economic activity, for profit-seeking and that is not for strictly private purposes.

As an example, we can mention the Hèmes case where the Metabirkins NFTs were sold for 23,500 euros. In that event, it seems that the economic context in which it was carried out and the profit motive constitute commercial use. Nevertheless, it is unclear whether a private individual making an NFT of, for example, Nike trainers to be worn by their avatar in the metaverse may constitute a trademark infringement, although it is likely to qualify as a type of passing off (similar to fraudulent registration of domain names for famous brands) (Chambers et al., 2022b).

6. CONCLUSION

We have already witnessed on several occasions that small technological innovation is enough to render numerous legal rules useless. Technological advances provide new opportunities for trademark owners but also hinder the ability of incumbents to control their exploitation. The metaverse is the new reality to face.

Even though widespread discussion would make it seem like the metaverse is a fully formed experience that is ready for use by any trademark owner at any time, this is not the case. The virtual, augmented reality, video, social media, and the web that is being devised as the metaverse is still far from fully coming into execution. Even so, the migration of activity from the physical world to online spaces has been around for a long time ago. Therefore, it seems that the current trademark law applies to the metaverse, for instance as long as the goods and services are correctly classified as virtual products.

Trademark Law has had to improve at the pace of technological advances that have been developed, considering that evolution brings with it change and therefore the restructuring of those rights that no longer deal so effectively with the reality of legal traffic. The new realities, like the metaverse, no longer disconcert, they simply motivate us to create the path that best responds to the world in which we live. Trademark owners should be considering how to construct their virtual space with appropriate trademark registrations or use their brands properly, they need to build a robust policing strategy.

This article would exceed the limits set by the space granted to us if we expanded to consider in its entirety each of the questions that can raise the metaverse in the world of trademark law. Problems such as infringers; trademark licensing terms and centralized metaverse terms and conditions remain pending. As a result, it might be useful to adapt the trademark legislation and to include specific references to the Metaverse in the law. In the near future, some enterprises will only have their commercial interests in the digital world and therefore they might seek protection for their goods and services only there.
References


Polaroid Corp. v. Polarad Electronics Corp., 287 F. 2d 492 (2d Cir. 1961)


