

Intellectual Property in the Metaverse Non-Fungible Tokens

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Introduction

THE METAVERSE: A GENERAL OVERVIEW

Although it may seem that the Metaverse is a new catchphrase, which is further emphasised and made more popular in the technology space with the rebranding of Facebook as Meta, the original version of the Metaverse was created as far back as 2003 by Philip Rosedale and was called “Second Life”¹, a befitting name for an alternative universe or even better, an extension of our world as we know it. Simply put, the Metaverse is an autonomous non-physical universe where users are able to carry on various day to day activities such as purchasing digital assets and interacting with other users through the use of avatars (i.e., digital persons).

The Metaverse is set to invade various spheres of the human experience. The way people work, play, socialise or experience activities such as buying art, will no longer be the same. One of the main beneficiaries of the Metaverse is the gaming industry. The Metaverse has greatly changed the outlook of the gaming industry, as users of gaming platforms such as Roblox, Fortnite and Minecraft are now able to create their own virtual worlds, interact with other users and purchase gaming add-ons with digital currency.

More interestingly, such gaming platforms are now entering into partnerships and collaborations with other companies to enhance the virtual experience of their users. An example of such collaboration is between Nike Inc. (Nike) and Roblox. Nike – the multinational corporation engaged in the manufacturing, worldwide marketing and sales of sportswear, recently created ‘NIKELAND’, a bespoke world within the Roblox virtual space, this innovation is building on Nike’s goal to turn sport and play into a lifestyle². The idea of a virtual universe is an unusual and somewhat strange concept, in the traditional sense of things, however, the Metaverse is an inevitable part of the future of technology.

¹ Sharma, B., 2022. [Online]

Available at: <https://www.msn.com/en-in/news/techandscience/original-metaverse-from-2003-second-life-is-making-a-comeback-soon/ar-AASLH6P>

² Nike, 2021. [Online]

Available at: <https://news.nike.com/news/five-things-to-know-roblox>

WHAT ARE NON-FUNGIBLE TOKENS (NFTS) AND THEIR CONNECTION WITH THE METAVERSE

With the growth of the Metaverse comes along the ownership of digital assets such as NFTs and cryptocurrency, amongst others. NFTs are created and traded, using blockchain and smart contract technology, which gives each NFT a digital certificate of authenticity and ownership. The blockchain system allows for recording of digital transactions, which provides a ledger and a record of ownership of each NFT. Furthermore, 'smart contracts'³ are an integral feature of blockchain technology, and in turn a crucial aspect of NFTs as they assign ownership and manage the trading and transferability of the NFTs⁴. Smart contracts contain details of the underlying digital or physical asset to which the NFT relates, and the rules and rights that attach to the NFT. For example, a rule that the original creator of the NFT gets paid a percentage of any subsequent resale value. NFTs are digitally unique as each NFT is different from the other. NFTs can digitally represent real life items, such as social media posts, videos, audio files, collectible items, art, signatures, paintings, documents and so on. The interest in NFTs has increased significantly over the years.

The most expensive NFTs of all time, were sold in the year 2021. Most notable of such sales was the first tweet ever by the former chief executive officer and co-founder of Twitter, Jack Dorsey, which sold for \$2.9million⁵. The tweet, which simply said, "*just setting up my twttr*", and was published in 2006, has been likened to historical works of art such as the Mona Lisa painting.

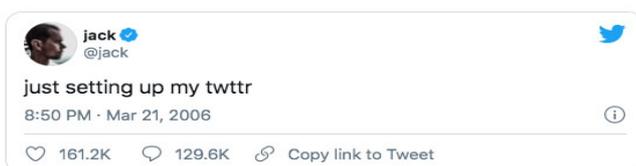


Image: [Twitter](#)

Africa is not left out of the frenzy as the sale of NFTs are slowly but surely becoming a source of revenue generation. In November 2021, Nigeria's art fair, ArtX, partnered with Superrare to exhibit NFTs in the form of digital art from creators and artists around the continent. One of the most notable sales was by Nigerian artist, Prince Jacon "Osinachi" Igwe, who sold NFTs worth \$75,000 at the art exhibition⁶.

On 28 March 2022, an NFT created from Nelson Mandela's original arrest warrant was sold for \$130,000⁷ in an auction aimed to fund a heritage site that documents South Africa's struggle for democracy. The proceeds from the sale will go toward the Liliesleaf Museum Heritage Site which received the original document in 2004 as a donation.

On 31 March 2022, Nigerian Musician and Lawyer, Folarin "Falz" Falana, announced that he released his first collection of NFTs on Binance NFT Marketplace and the average bidding amount on each NFT is approximately \$6,000⁸.

³ IBM, n.d. *IBM NEWS*. [Online]

Available at: <https://www.ibm.com/topics/smart-contracts>

⁴ Ethereum, n.d. *Ethereum*. [Online]

Available at: <https://ethereum.org/en/nft/>

⁵ Benveniste, A., 2021. *CNN*. [Online]

Available at: <https://edition.cnn.com/2021/03/23/tech/jack-dorsey-nft-tweet-sold/index.html>

⁶ Rotinwa, A., 2021. *The Art Newspaper*. [Online]

Available at: <https://www.theartnewspaper.com/2021/11/05/art-x-lagos-puts-nfts-by-african-artists-in-the-limelight>

⁷ Zimwara, T., 2022. *Bitcoin*. [Online]

Available at: <https://news.bitcoin.com/nft-of-nelson-mandelas-arrest-warrant-raises-130000/>

⁸ Binance Africa, 2022. *Binance Africa*. [Online]

Available at: <https://www.binance.com/en-NG/blog/all/nigerian-musician-folarin-falz-falana-to-launch-exclusive-nft-collection-on-binance-nft-marketplace-421499824684903628>

INTELLECTUAL PROPERTY CONSIDERATIONS IN NFTS

NFTs present opportunities and potential risks for individuals and businesses. The significant increase in its popularity and that of the Metaverse, has raised a number of legal issues especially as it relates to intellectual property (“IP”), particularly as to how best a business or individual can control its IP and commercialise it.

NFTs are digital assets which means they can be bought, sold, or licensed just like physical assets. Furthermore, they can be protected by IP Rights, which aim to protect a rights owner (or the owner of an asset, be it tangible or intangible), from unauthorised use by a third party. When purchasing an NFT, it is important to understand what rights are being transferred to the buyer and the scope or limitations of such ownership.

NFTS AND COPYRIGHT

Copyright gives the owner of an artistic, literary or cinematographic work, the right to publish, distribute, sell or reproduce the work. However, the purchase of an artistic, literary or cinematographic work does not automatically mean that the copyright vested in the work has been transferred to the purchaser. For instance, when one purchases a work of art, the purchaser has simply purchased the physical work of art and the right to enjoy it; the artist retains the copyright, unless it has been specifically assigned to the purchaser. The same principle applies to NFTs. When an NFT is purchased, the buyer does not own the IP rights vested in it or in the underlying asset, unless otherwise assigned or licensed in a written agreement. This means that any IP rights remain with the creator of the NFT and any unauthorised use of the underlying asset by the purchaser, may amount to an infringement of the IP rights vested in the same, as prescribed in the Copyright Act⁹.

NFTS AND TRADEMARKS

French Luxury Brand, Hermes, brought an action of trademark infringement against Mason Rothschild, the creator of the MetaBirkins (non-fungible tokens that depict renderings of Hermes’ famous and most exclusive Birkin bag)¹⁰. Hermes claimed that Mr. Rothschild infringed on their trademark, more specifically the brand name and trade dress by using both the name as well as the design of the bag without due authorisation.



Figure 1 -The Birkin Bag



Figure 2 -The MetaBirkin

This potential infringement matter is particularly interesting as it has also led to the discussion of brand dilution. The average price of a Birkin bag is approximately \$20,000; however, some of these bags have been sold for as high as \$500,000, thus adding to the exclusivity of the bag, which ironically, makes them highly sought after. The first MetaBirkin, the ‘Baby Birkin’, was sold for \$47,000, higher than the average price of a Birkin, thereby diminishing its value in the view of Hermes’ customers, as argued by Hermes in its infringement claim.

Another recent case on NFTs and trademarks, is the case between online sneaker reseller, StockX and the sportswear brand, Nike. Nike instituted an action for trademark infringement against StockX, with respect to the sale of virtual Nike-branded sneakers on its website. As with the Hermes case, Nike claims that StockX has

⁹ Copyright Act, 2004, Section 15(1)

¹⁰ Hermes International and Hermes Paris Inc. v Mason Rothschild, 2022.

created NFTs using Nike's trademarks without due authorisation or approval, thereby creating a false association between the two brands and in turn, diluting Nike's globally recognised trademarks¹¹.

Trademark infringement may also arise where an unauthorised party mints an NFT linked to the underlying asset, without the asset owner's permission, and advertises, offers for sale and/or sells the NFT using the asset owner's registered trademarks. Minting, in this regard, is the process of taking a digital asset and converting the digital file into a digital asset stored on the blockchain.

In light of the above and with the awareness that owners of IP rights in real life can claim such rights where the same has been infringed in the Metaverse, there has been an increase in the filings and registrations of virtual trademarks to prevent the infringement of registered trademarks in the Metaverse. However, (particularly with the above cases being undecided), it is still unclear whether such registrations are necessary or have had any effect in preventing unauthorised use of trademarks in the Metaverse. For example, Johnson and Johnson recently included virtual band-aids, in a recent trademark application, in an attempt to protect its mark in the Metaverse¹².

MONETISATION OF IP RIGHTS IN NFTS

NFT traders can create more revenue streams by monetising the IP rights vested in the underlying assets in the NFTs by licensing or assigning the IP rights or by receiving royalty payments from each sale.

Licensing of IP rights in the underlying asset of an NFT is a popular method of monetising such rights. A licensor of such rights can restrict the use and the term of the rights, for a fee, which will be paid by the licensee. The terms of this license are typically stated in a smart contract or in any other transactional document.

Some NFT creators may choose to transfer the rights vested in the underlying asset as well as the NFT, in a sale, thereby granting the buyer unlimited rights to the NFT. However, the transfer of such rights is only valid, if it is clearly stated in a smart contract or in a written agreement between the buyer and the seller of the NFT.

Although a developing area, NFT creators can receive royalty payments from each sale of the NFT. The use of blockchain and smart contract technology as highlighted above, allows the NFT creator to track each owner and monitor such royalty payments as at when due. Royalty payments schemes are attractive to NFT creators and serve as a further incentive to be innovative and foster creativity in the Metaverse, as they allow for reoccurring and guaranteed income.

NFT creators must consider an IP Strategy as early as possible, to determine how best to manage the assets within the NFTs as well as the IP rights therein. Furthermore, an IP Strategy is crucial to determine how best to monetise the IP rights vested in the NFTs. In developing an appropriate strategy, NFT creators may consider how much control they wish to have over their assets as well as the sort of revenue they wish to generate from the exploitation of such assets.

Purchasers of NFTs must be mindful of the terms and conditions of sale when purchasing; more specifically, purchasers must be aware of what rights have been transferred (if any) and the conditions of such transfers.

REGULATING THE METAVERSE - BRIDGING THE GAP

The various legal issues arising from creation and ownership of NFTs has also led to the issue of regulating the Metaverse as a whole. Like almost every other aspect of the economy and the human existence, there is a need for regulations in order to prevent anarchy. There are currently no Metaverse- specific laws and the scope of regulations, as it relates to the Metaverse, are currently limited to IP rights, protection of fundamental human

¹¹ Nike Inc v StockX LLC, 2022.

¹² Anon., 2022. *JUSTIA*. [Online]

Available at: <https://trademarks.justia.com/973/07/band-97307619.html>

rights and data privacy. However, this begs the question of whether real life laws will be sufficient for the Metaverse.

The Metaverse is unravelling, and the expectations are limitless, the novelty of the entire subject makes it difficult to provide regulations coupled with the fact that the Metaverse is yet to reach its full potential. Another foreseeable difficulty which regulators are set to face in providing adequate regulations for the Metaverse is the strive to achieve a balance between protecting the rights of participants of the Metaverse without stifling technological advancement.

To adequately regulate activities in the Metaverse, an experiential understanding of the Metaverse is necessary. In addition, it is pertinent to stay several steps ahead of innovation taking place in the Metaverse in order to ensure that activities in the Metaverse are adequately regulated. Notwithstanding the lack of adequate regulations, the expectation is that similar to the regulation of social media platforms, companies involved in virtual reality or augmented reality will have regulations and terms of use for not just the protection of users but also their own protection.

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