



NON-FUNGIBLE TOKENS (NFTS) AND TRADEMARK INFRINGEMENT: REAL-WORLD IP RIGHTS IN THE VIRTUAL SPACE: ART, TECHNOLOGY, AND THE LAW?

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From the Bored Apes collection to Jack Dorsey’s auctioned Non-Fungible Tokens (NFT) of his first-ever tweet, “just setting up my twttr”, which sold for over US\$2.9 million, the creation and sale of NFTs is one that took the world by storm, generating millions for its owners, and establishing a whole new branch of blockchain exchange; and in turn, a legal system for its protection. As in the words of John F. Kennedy, “Change is the law of life. And those who look only to the past or present, are certain to miss the future”. It is however pertinent that for the proper dissection of this topic, the true meaning of NFTs, how they operate, and what they entail should be studied. NFTs are blockchain-based units of value or “tokens”, with a unique ID linked to an underlying asset. The blockchain most frequently used for NFTs is Ethereum. However, it should be noted that NFTs can be held on other blockchains. NFTs comprise of software code in the form of “smart contracts”. These smart contracts consist of the details of the central digital or physical asset to which the NFT relates, and also the rules and rights attached to the NFT (for example, a rule that the original creator of the NFT gets paid a percentage of any subsequent resale value). The blockchain, an innovative technology, has established itself as a crucial component of modern technology. NFTs are one of these innovations and the subject of this article. NFTs are one-of-a-kind digital certificates registered on a blockchain, that represents ownership of a given virtual or tangible item such as a work of art, real estate, music, books, memes, or videos.¹ Examples of NFTs are digital artworks, fashion accessories, avatar customization, sports highlights and memorabilia, music, etc. Impressively, the NFT market has gained so much popularity in Nigeria.

According to a poll on Finder.com in 2021, Nigeria was ranked sixth among twenty countries for NFT adoption.² NFTs represent virtual verification of proprietary rights and guarantee authenticity, thereby making them easy to trade on the blockchain network. The ownership of an NFT can only be attributed to one owner at a time and can exist in varying forms, including but not limited to clothing for avatars in the metaverse. However, as is frequently the case with novel ideas, a plethora of legal problems arise. Particularly, the question of Intellectual Property (IP) related issues such as trademark infringement through NFTs. In the

¹Louis Denicola, ‘What to know about non-fungible tokens (NFTs) — unique digital assets built on blockchain technology’ (2022) <https://www.businessinsider.com/personal-finance/nft-meaning?r=US&IR=T> accessed 15 March 2023

² Richard Laycock, “NFT Statistics 2021”, Finder.com available at <https://www.finder.com/ng/nft-statistics> assessed on 14/03/2023

light of this, this article aims to address the relationship between IP and NFTs; particularly where IP rights could be infringed upon and lastly, remedies in the event of such infringement, as in the words of the US Supreme Court Justice, Oliver Wendell Holmes Jr., “your right to swing your arms end just where the other man’s nose begins”.

On the other hand, a trademark refers to any recognizable insignia, mark, phrase, word, or symbol that depicts a specific product and legally differentiates it from all other products of its kind.³ A trademark solely recognizes a product belonging to a particular company and identifies the company as owner of the brand.⁴ Thus, trademarks are generally considered as a form of intellectual property that may or may not be registered.⁵ In Nigeria, trademarks and their components are governed and regulated by the Trademark Act.⁶

A person who lists an NFT for sale or who purchases one must make sure they are not infringing on Nigeria's laws protecting intellectual property (IP). Generally, trademark infringement may occur when a person without the consent of the proprietor, uses a mark similar or identical to another person’s trademark on similar or identical goods in respect of which the mark is registered, thereby causing consumer confusion.⁷ The law has always been faced with the exigent task of moving with the times and developing in line with modern technologies. It is equivalent in the discourse of NFTs, as with the advancements of NFTs, the need for its protection likewise grows. It must then be noted that the topic of NFTs has not been addressed by the requisite legislation in Nigeria. However, principles regulating it can be drawn from existing IP laws. For example, Section 36(a) of the Copyright Act 2022 states that Copyright is infringed by any person who without the authorization

of the owner of the copyright —

(a) does or causes any person to do an act, which constitutes a violation

of the exclusive rights conferred under this Act.”⁸ Hence an NFT cannot be sold by a seller who does not have the intellectual property right over it or has infringed upon the right of another person or organization. Furthermore, Section 25 of the Cybercrime (Prohibition, Prevention, etc) Act 2015⁹ prohibits intellectual Property infringement on the Internet. The aforementioned act bans the deliberate utilization of a trademark belonging to another on the internet without the given authority of the owner. This seller of an NFT thereby becomes liable to conviction for breach of these proprietary intellectual property rights where the particular seller uploads for sale, an NFT which he does not possess the requisite proprietary rights for. Hence,

³ A STUDY OF INTELLECTUAL PROPERTY RIGHTS AND ITS SIGNIFICANCE FOR BUSINESS

⁴ The Entrepreneur at Thurgood Marshall Library

⁵ Trademark Definition, What It Protects, Symbols, Example By CARLA TARDI
www.investopedia.com/terms/t/trademark.asp

⁶ Trademark Act Cap T 13 LFN 2004

⁷ Section 43(4) Trademark Act

⁸ Ibid

⁹ Cybercrime (Prohibition, Prevention, etc) Act 2015

acquiring protection for one's NFT brand with a trademark filing will ensure that the owner of such can continue to build on the brand and keep others from using names that are close to or similar to it.

The corroboration of digital goods' ownership is mostly done through NFTs. One could understand NFTs as a certificate that proves the unalterable authenticity of digital goods. An example can be given from when a person purchases a digital art piece, the validation and verification of ownership and authenticity of the artwork is done through the NFT. An analogy with respect to the physical world is the engraving of the artist's signature issued by original artist, on a painting, to serve as an autographed copy and a certificate of authenticity. The use of NFTs also expands beyond the digital world, to its usage in connection with many applications and in other industries. Luxury fashion brands are delving into the NFT market, some selling only "digital fashion," while others also sell physical versions of digital items. The forgeries and fraud in the events and ticketing industry make NFTs a useful tool to phase out black markets, scalpers, and, ticket fraud. The common question of ownership of copyright after the purchase of an NFT is also a pertinent point of discussion. The answer, however, is one that should be explained for better understanding. An important part of this is the component of the smart contract that confers the purchaser's rights to the digital asset. In comparison to the purchase of a physical painting as in the analogy given above, although the purchaser has acquired the right to display the work, and to resell it, ownership of the copyright is not automatically conveyed to the purchaser. The artist owns the copyright unless the artist assigns it to the purchaser,¹⁰ as the purchase of such NFT does not automatically confer the ownership of the copyright (right to reproduce or make copies) on the purchaser, but only the right to ownership or resale of such NFT. In other words, although the buyer now owns the NFT, the buyer does not have the right to reproduce and sell copies of the artwork associated with the NFT, or to display images of the artwork on T-shirts, hats, or the like without the permission of the artist who owns the copyright. Therefore, if a buyer purchases an NFT based on a copyrighted work, he or she can sell such NFT but would need to obtain permission from the copyright owner for certain activities such as reproduction and sale of copies made from the original. Copyright law grants the original author of an artistic work the reproduction rights to create derivatives, distribute copies, publicly perform, and publicly display the work. In that regard, the author retains the copyright even if the original or a copy of the work is sold. The retailers of NFTs can also decide to sell the intellectual property rights to the purchasers; however, unless the sales documents license or smart contract assign such rights to buyers, they will remain with the sellers.¹¹

¹⁰ Trademark and copyright considerations for NFTs
By Sharon Urias

¹¹ Trademark and copyright considerations for NFTs
By Sharon Urias at www.reuters.com/legal/legalindustry/trademark-copyright-considerations-nfts-2022-05-02/

The purchase and sale transaction of an NFT does not always confer the underlying trademark in the work to the purchaser.¹² The proprietary rights obtained from these intellectual properties, remain with the creator of the work except in cases where the NFT is explicitly sold with such rights. The rights obtained by the owner of the NFT¹³ are dependent on the contract's terms as provided by the creator and holder of the IP rights. NFTs present interesting and novel questions for trademarks as well. Contrary to copyrights, that protect works ranging from original literary, musical, and artistic works, trademarks on the other hand are intellectual property rights that consist of words, phrases, symbols, or designs that identify goods and services. Some examples of famous trademarks include "Samsung," "Adidas" and "Alibaba." Numerous brands are exploiting blockchain technology to aid with the creation of an authentication system for their customers. Serial numbers have now been implemented as a medium by exclusive luxury brands as proof of the authenticity of their products, by using NFTs. NFTs provide these brands with the opportunity to authenticate unique items and identify fake goods in the market, which is an important hurdle to be tackled by trademark owners in quality control. It is also noteworthy that numerous companies venture into the release of NFT packages to include brand licenses and trademarks, creating different original streams of revenue and increasing brand awareness. An example is the entertainment sector, where musicians, producers, and artists alike are increasingly licensing their trademarks in connection with the release of exclusive digital content for their fans.¹⁴

As there has been a phenomenal growth in the NFT market, so has there also been a sharp increase in the number of lawsuits arising therefrom. As seen in a recent lawsuit, Nike, Inc. instituted proceedings against a company known as StockX LLC, a Detroit-based online sneaker retailer, stipulating that the company infringed on its trademarks by minting NFTs that incorporated Nike's trademarks without the company's permission. Nike claim is that StockX sold the digital assets at exorbitant prices to naïve consumers who believed, or were likely to believe, that the digital asset was authorized by Nike. While responding, StockX asserted that its NFTs are not "virtual products" or "digital sneakers." StockX maintained, each NFT is "effectively a claim ticket or a 'key' to access the underlying Stored Item," i.e., a specific physical good authenticated by StockX that purchasers can either leave in StockX's climate-controlled high-security vault or take possession of, at which time the NFT is removed from the customer's digital portfolio and permanently removed from circulation. A major matter of contention is whether the NFTs are original, distinct products that seek to profit on the trademark owners' marks or whether conventional trademark legal doctrines, such as the first-sale doctrine, protect a

¹² Uzoamaka Emerole 'The convergence of intellectual property and non-fungible tokens' (2022) <https://businessday.ng/news/legal-business/article/the-convergence-of-intellectual-property-and-non-fungible-tokens/> accessed 15 March 2023

¹³ Non-Fungible Tokens (NFT) and Intellectual Property Law by Amica Law LLC

¹⁴ Trademark and copyright considerations for NFTs

By Sharon Urias at www.reuters.com/legal/legalindustry/trademark-copyright-considerations-nfts-2022-05-02/

seller, such as StockX.¹⁵ As a result, buyers of NFTs must do their due diligence to determine who owns the asset, and must then seek assignment or licensing of the intellectual property rights before attempting to reproduce or profit from the asset. Such assignment or licensing can be effected by drafting a contract agreement that will govern the transaction of NFTs, or by conventional means like text contracts, website terms of use, or deeds of assignment.¹⁶ Intellectual property infringement may also arise when an unauthorized person makes an NFT in relation to a particular asset, where the prior given consent of the owner of such asset, has not been obtained. Recently, there has been a wave of complaints from people and businesses that have had their work fraudulently converted to NFTs and then sold for profit. One noteworthy example is the case involving the creator of NFT- MetaBirkins, Mason Rothschild, who was sued by the French brand for creating NFTs linked to digital images depicting a handbag resembling the brand's iconic Birkin bag.

As brands start to consider the consequences of NFTs on their creations, this case tackles the budding question of whether “real world” trademark rights extend to the virtual world. ‘Hermès asserted that Rothschild¹⁷ was seeking to profit off their “real life” trademarks, by swapping them for virtual rights.’¹⁸ The question the court sought to answer was whether the NFTs were creating ‘consumer confusion’. That is if the public was misled into thinking that the NFTs were associated with Hermès. To this, Judge Rakoff noted in his judgment that, “Individuals do not purchase NFTs to own a “digital deed” divorced from any other asset: they buy them precisely so that they can exclusively own the content associated with the NFT.”¹⁹ The court found that Rothschild²⁰ intended to associate the sign “MetaBirkins” with the notoriety of the “Birkin” trademark of Hermès.²¹ A total of \$133,000 was awarded to Hermès, and Rothschild was found liable for “trademark infringement, dilution and cybersquatting.”²² This case demonstrates the existence of trademark rights and their infringement in the virtual space. It

¹⁵ Ibid.

¹⁶ Aisha Morohunfa ‘The Relationship Between Non Fungible Token (Nft) And Intellectual Property (Ip) Under The Nigeria Law’ (2022) <https://www.linkedin.com/pulse/relationship-between-non-fungible-token-nft-property-ip-morohunfola/> accessed 15 March 2023

¹⁷ Art, Technology & the Law: NFTs and Trademark Infringement – Real-World IP Rights in the Virtual Space? By Rasmeet Mohar

¹⁸ Eliane Ellbogen, Rasmeet Mohar And Genevieve Shemie ‘Art, Technology & the Law : NFTs and Trademark Infringement – Real-World IP Rights in the Virtual Space?’ (2023) <https://ip.fasken.com/art-technology-the-law-nfts-and-trademark-infringement-real-world-ip-rights-in-the-virtual-space/> accessed 15 March 2023

¹⁹ Hermès International v. Rothschild (1:22-cv-00384), Order, February 2, 2023, p. 14) <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.140.0.pdf> accessed 15 March 2023

²⁰ In the bag (for now): Hermès survives motion to dismiss in MetaBirkin NFT lawsuit

²¹ Hermès International v. Rothschild (1:22-cv-00384), Order of May 18, 2022, p. 14) <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.50.0.pdf> accessed 15 March 2023

²² Hermès International v. Rothschild (1:22-cv-00384), Order of February 14, 2023, p. 1) <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.145.0.pdf> accessed 15 March 2023

especially emphasizes the growing importance of brand owners registering their marks for use on virtual goods and services, or “metaverse classes.”²³

The Judgement of the Court of Rome in Tribunale di Roma, delivered on 20. July 2022, ref. 32072/2022).²⁴

The judgement of the court states in principle, that there could indeed be trademark infringement in the usage of NFTs. As stated by the court, the NFT playing cards usage for profit-oriented purposes without obtaining the prior authorization of the football club, Juventus, constituted unfair competition and also an infringement on the trademark rights resulting from the unfair exploitation of the advantages associated with them (Juventus was also active in the sector at issue through its merchandising activities), including the use of the trademarks without prior given consent. The court further held that the authorization given by player depicted on the playing cards was not sufficient to justify the use of the trademarks. The use of player’s image rights could be used after obtaining the consent of the players, but this does not extend to the use of Juventus’ trademark rights. The adaptation of the NFTs for profit-oriented purposes also required the consent of Juventus as the trademark owner.²⁵

The Court also considered the enormous size of the club as being the most successful Italian football team and a very popular brand in the international football market, with a huge number of fans in Italy, Europe, and beyond the continent, and therefore, having a well-known and recognized trademark. Owing to this status as “well-known trademarks” and the wide coverage of protection this status enables, it was therefore not necessary to consider whether they were registered in relation to “digital objects” or even “digital objects certified by NFTs”. Notwithstanding, it was also highlighted that the Juventus trademarks were registered for “digital downloadable publications” as in Class 9 of the Nice Classification. Therefore, the similarity in the goods in question was present anyway. The scope of protection of a trademark (in particular with regard to class 9) as emphasized by the decision extended to goods not included in the Nice Classification, but were intrinsic to the goods listed in the respective class. Therefore, downloadable digital files which are verified by NFTs are also included in Class 9. The decision of the court further differentiates the reproduction of digital content of a trademark from the digital certificate. The digital certificate and the digital content were each to be considered as being a trademark infringement in the case at issue. In the words of the court, NFTs had their own legal status, which should be assessed separately from their content.²⁶

²³ Eliane Ellbogen, Rasmeet Mohar And Genevieve Shemie ‘Art, Technology & the Law : NFTs and Trademark Infringement – Real-World IP Rights in the Virtual Space?’ (2023) <https://ip.fasken.com/art-technology-the-law-nfts-and-trademark-infringement-real-world-ip-rights-in-the-virtual-space/> accessed 15 March 2023

²⁴ Trademark infringement through NFTs - Intellectual property enforcement in the virtual world by Hogan Lovells

²⁵ Trademark infringement through NFTs - Intellectual property enforcement in the virtual world by Hogan Lovells

²⁶ Trademark infringement through NFTs - Intellectual property enforcement in the virtual world by Hogan Lovells

In the United States, the applications received by the United States Patent and Trademark Office ("USPTO") have increased from entities seeking to register trademarks for the use of their brand in virtual reality.²⁷ While these brand owners may have already obtained their rights to the intellectual property in the 'real world', they are looking to do so for virtual goods and services they plan to provide in the metaverse. This will guarantee their rights being recognized in a virtual space such as the metaverse. In Nigeria, section 4 of the Trademark Act provides that "a trademark must be registered in respect of particular goods or classes of goods, and any question arising as to the class within which any goods fall shall be determined by the Registrar, whose decision shall be final."²⁸ As a result, the protection provided to the owner is typically restricted to the classes of goods for which the trademark was registered. In classifying trademarks, Nigeria adopts the NICE classification scheme which contains 45 trademark classes. Although this classification does not specifically provide for the Metaverse, brand owners may seek to register under Class 9 as a 'recorded and downloadable media', Class 35 as 'Advertising on websites', or Class 38 as 'Telecommunication services; chatroom services.'

Recommendations for Trademark owners

As the relevance of NFTs continues to expand, companies should consider implementing the following in order to prevent infringement.

1. Companies should subscribe to a Trademark watch service. This service aids trademark owners to detect potential infringement by monitoring the market, both those filed at the registry and online, to locate identical or similar marks. Companies should also engage counsel to review reports as they are submitted, in order to ensure that the infringement is actionable and quick response should issues arise.
2. Companies should seek to register brand names to prevent usage in the metaverse. Such registrations should include goods and services for use in the virtual space (online). For example, a registration under class 9 or any other class as stated above.
3. For companies who seek to protect their trademark consisting of a well-known invented word, may acquire a defensive trademark as in Section 32(2)(a) of the Trademarks Act which states that "the registered proprietor of a trademark- (a) may apply for its registration in respect of any goods as a defensive trade mark notwithstanding that it is already registered in his name in respect of those goods otherwise than as a defensive

²⁷ David Oturu, Agbola Dosunmu, 'The Metaverse – Considering Trademarks and Brand Protection for Virtual Goods & Services' (2022) https://www.aalex.com/the-metaverse-considering-trademarks-and-brand-protection-for-virtual-goods-services/#_ftn8 accessed 15 March 2023

²⁸ Section 4 Trademark Act

trade mark.²⁹ The trademark may nevertheless be granted, even if the proprietor does not intend the trademark to be utilized in connection with the particular goods.³⁰ For instance, The Kering Group (proprietor of Balenciaga) may acquire a defensive trademark preventing the use of "Balenciaga" in the Metaverse even where the group has no intention of operating in the Metaverse.³¹

4. In conclusion, owners of brands may give some thoughts to creating a presence in the metaverse. A metaverse presence provides the opportunity to keep an eye on activity and might even help stop trademark infringement.

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²⁹ Section 32(2)(a) of the Trademarks Act

³⁰ The Role of National and International Intellectual Property Law and Policy in Reconceptualising the Definition of Investment by Pratyush Nath Upreti

³¹ The Metaverse – Considering Trademarks And Brand Protection For Virtual Goods & Services
Davidson Oturu and Agboola Dosunmu