

## Legal memo

---

Mexico City, July 18, 2022

### How the Metaverse is shaping Intellectual Property Rights

**The Metaverse is a simulated digital reality, that can be accessed through technological devices, such as computers and virtual reality glasses, where users have the possibility to interact. Intellectual property will play a fundamental role in a virtual world to which many of life's everyday activities will be transferred, such as buying clothes for avatars –fictitious digital representations of users– and collecting works of art.**

The Metaverse implies a new sales channel for products and works of art by converting them into Non-Fungible Tokens ("NFTs"). An NFT is a digital token that is created using Blockchain technology and is unique; therefore, it cannot be exchanged for another of the same kind, as is the case with cryptocurrencies.

Recently, the global investment bank Goldman Sachs predicted that the Metaverse could represent a business opportunity valued at \$8 trillion. In light of the relevant commercial and economic interests, multinational companies have begun to look for ways to protect their intangible assets in an immaterial world, which represents a great challenge.

The following are some of the legal implications that the Metaverse will have with respect to three of the main intellectual property vehicles.

- **Trademarks:**

The World Intellectual Property Organization has noticed that several multinational companies of the fashion, cosmetics, sports and entertainment industries, have started to file **trademark applications for downloadable virtual goods**, such as software, services related to virtual goods, entertainment services, NFTs, as well as for non-downloadable online virtual goods and for financial services, including digital tokens.

The boom in trademark applications to protect products and services related to the Metaverse is due to the fact that **companies have begun to take preventive measures with respect to possible infringement of their trademark rights** in view of the emergence of the first trademark infringement disputes.

In this regard, French luxury brand Hermès recently filed a trademark infringement and dilution lawsuit against Mason Rothschild, an artist who created and sold on OpenSea, a digital marketplace, "MetaBirkins," a collection of 100 NFTs that clearly represent the popular Birkin bag marketed by Hermès in the real-world marketplace.

In the lawsuit, Hermès claimed that Rothschild's MetaBirkin constitutes an unauthorized use of the Birkin trademark and the globally recognized trade dress of the bag, coupled with the fact that due to the consumer confusion the Metabirkin were sold at excessively high prices, just like the Birkin bags.



Another case is Nike, which filed a trademark infringement and dilution lawsuit against StockX, an online resale marketplace that initially sold only physical products. StockX ventured into the digital marketplace by creating NFTs of tennis shoes that prominently displayed Nike's trademarks without its authorization. Like in the previous case, these NFTs are sold at extremely high prices, which is attributed to the fact that consumers are somehow led to believe that these virtual assets are authorized by Nike or were created in collaboration with Nike.

Both the Hermès and the Nike cases raise concerns with respect to the trademark protection applicable in the real world: **can holders claim infringements related to virtual goods or services if such are not covered by their trademark registrations?** In view of current developments, companies should ponder expanding the scope of the protection of their trademark to virtual goods and services.

Other questions raised in this new scenario are: **how to determine if a distinctive sign confuses the consumers by making them associate it with a third party?** Who will be considered as an “average consumer” in the virtual world to determine whether there is the afore-mentioned risk of confusion? Should the value of the unauthorized NFTs be considered when determining damages for infringement of intellectual property rights? And who should be liable for such violations, the authors, the sales platforms and/or the buyers?

In view of the multiple concerns to be addressed, **opting for a preventive strategy**, as those being implemented by large companies, seems to be the most appropriate.

- **Copyright:**

As already mentioned, NFTs are intellectual creations that do not have a material support since they “exist” in a virtual reality.

One key concern surrounding these creations is that the **Metaverse can provide the ideal medium for copyright infringement**. This is because anyone can convert a protected work into an NFT, thus contesting the rights of both, those of the author of the original work and those of the creator of the NFT.

Additionally, there is another copyright protection complexity on **how to track the ownership of virtual assets** in the Metaverse to impose the corresponding sanctions.

Furthermore, from the perspective of the holder of an NFT, it is unclear what rights it has/acquires.

The generally accepted criteria by experts in the field is that an NFT does not transfer to its owner the copyright of the work. It only transfers the ownership rights of a virtual copy, just as in the physical world. As happens in the physical world, for example, the ownership rights of a compact disc are acquired, but not the copyright, moral and economic rights of a musical work.

This may not be apparent to collectors of NFTs; therefore, there is a latent risk of infringement due to lack of awareness of the law.

Consequently, **enforcement of copyright in the Metaverse should be a priority for authors**.

- **Patents:**



**Patent applications to be exploited in connection with the Metaverse** are starting to be filed. This is the case of a technology to track eye movements and facial expression of the users, in order for them to be transferred to their avatars in the virtual reality.

Like any patent to be exploited in the real world, Metaverse patents must meet the basic requirements of patentability: novelty, inventive step, and industrial application.

In this context, in case that avatars begin to create inventions in the Metaverse, many inquiries arise, e.g. should patent examiners exhaust their prior art searches to determine whether the invention to be protected already exists in both the real world and the Metaverse? Even more interesting is the question of whether the avatars who begin to create inventions in the Metaverse will be able to directly apply with the patent offices of the real world for protection of their inventions, and the question of whether the patent office can grant its protection to an entity that does not exist in the real world or whether these rights will correspond to the physical person represented by such an avatar.

In a virtual world where there will be no borders and where new tools will have to be created to ensure the legitimacy of the rights of the owners of intangible assets, the question arises as to which of the basic principles of intellectual property will have to evolve, such as, for example, the principle of territoriality, which means that intellectual property rights have legal effects only in the State that grants them.

As intellectual property disputes are settled, precedents will be set to shed light on whether there is a need for an international instrument to provide for and solve the loopholes in the Metaverse and its consequences. For now, it is certain is that this new reality is and will have a significant impact on the commerce, art, and, thus, law sectors, among others.

---

#### **TMT & IP Areas of ECIJA Mexico**

[socios.mexico@ecija.com](mailto:socios.mexico@ecija.com)

(+52 55) 56 62 68 40

[www.ecija.com](http://www.ecija.com)