

Intellectual Property Implications in the Metaverse

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As the Web3 economy grows—including cryptocurrency, non-fungible tokens (NFTs) and the metaverse—so do concerns regarding the protection of intellectual property rights. And these concerns have come to the forefront as more brands take action to enforce their rights.

One of the most prominent examples of an IP spat over digital goods is a lawsuit involving luxury brand Hermès and a digital artist. Here what happened:

- Mason Rothschild, in collaboration with Eric Ramirez, created fuzzy images of the Hermès Birkin bag and minted them as NFTs.
- Hermès initiated legal action against Rothschild after he sold the NFTs for \$23,500 in June 2021.
- Hermès alleged that the "NFTs infringed upon the intellectual property and trademark rights of Hermès and are an example of fake Hermès products in the metaverse." Hermès issued a cease and desist letter to Rothschild.
- In response, Rothschild stated that "[t]he First Amendment gives [him] every right to create art based on [his] interpretations of the world."
- Subsequently, Hermès filed a lawsuit against Rothschild alleging trademark infringement and dilution, asserting that it didn't give Rothschild consent or authorization to the commercialization of Birkin NFTs.
- Rothschild asserts this is his version of an artistic take or remix of an iconic image.

To understand the underlying arguments within this lawsuit, defining the key terms that are the crux of this debate may be helpful.

What are the metaverse, NFTs, and why does it matter?

VentureBeat reports that by 2026, 25% of people will spend at least one hour in the metaverse for work, shopping, entertainment and education. According to Gartner, Inc., a technological research firm, the metaverse is "a collective virtual shared space, created by the convergence of virtually enhanced physical and digital reality. A metaverse is persistent, providing enhanced immersive experiences." It is likely the metaverse will develop its own virtual sphere with an economy that has digital currencies and NFTs. Some speculate that in the not too distant future, people may be spending more time—and money—in virtual worlds than in physical ones.

NFTs represent digital assets of real world work like art, music and videos. Although NFTs originated in 2014, they've recently gained popularity. According to NonFungible.com, \$15.7 billion was spent on NFTs in 2021 alone.

NFTs are the digital assets, from shoes to art, that people will showcase while spending time in the metaverse—in much the same way we use physical goods in the physical world.

In light of the emergence of new technology, digitally oriented consumer behaviors, and the enormous amount of money at stake, it's important for brands to take steps to protect their IP in this new domain.

How do brands approach the nexus between the metaverse and trademark law?

The law is still catching up to the concepts of crypto, metaverse and NFTs. This doesn't mean small and large companies can afford to take a wait and see approach when it comes to protecting their brands and trademarks. All

companies, no matter their size, may need to review their existing trademarks and apply for additional protection in the metaverse. Currently, existing trademarks will likely cover physical goods, but may not necessarily offer protection for digital products and services (even if these virtual goods were derived from the physical goods). The Hermès lawsuit raises an interesting question of whether an image of a virtual handbag differs since it doesn't have the capacity to carry objects or if it is the same since it confers a similar level of status because of the Hermès name. These and other types of nuances and distinctions must be taken into account when evaluating IP protection in the metaverse.

While brands like Hermès are taking steps to stop alleged infringement in the metaverse, others are proactively filing separate trademark applications (such as with the United States Patent and Trademark Office) for using their brands in the metaverse. Corporations like McDonald's are seeking coverage for restaurants with actual and virtual goods and services, as well as protection for McCafe, which might feature concerts and entertainment. Panera Bread is also following suit. They are filing an application for "PANEREVERSE" that would likely cover food and beverages used in a virtual environment.

Applications for additional trademarks aren't just for the food industry. Nike, Walmart and Jay-Z have applications pending to cover goods and services in the virtual world.

Applying for a trademark is a good way for companies to ward off potential infringement since the trademark exists in the actual world, as well as the metaverse. It's important to note that an existing trademark, filed with the physical world in mind, may not cover a brand's use in the metaverse. Digital goods may need to be classified differently under the NICE classification system.

Some protections may still apply

Some legal basis, such as risk of confusion, likelihood of confusion, tarnishment may allow the trademark owners to claim protection, even if current filings do not include an application to the metaverse. However, many companies are not buying into this notion of presumption of ownership and are actively pursuing an application for trademark in the metaverse.

The Bottom Line

Still in its early stages, the metaverse is evolving, and the law is trying to catch up. However, many companies are taking preemptive measures and filing applications with different IP governing bodies around the world, including in the U.S., EU and Turkey, to make certain their bases are covered. With so much money potentially at stake as more people immerse themselves in digital environments, there are significant risks to not taking proactive, protective steps.

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