

Brand Protection in the Metaverse

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ABSTRACT

This paper, presented in conjunction with the *AIPLA 2023 Spring Conference* panel, “*Brand Protection in the Metaverse*,” will provide an overview of the challenges and opportunities to brand-owners afforded by the Metaverse, discuss both offensive and defensive intellectual property (IP) protection considerations relating to entering and taking advantage of the Metaverse while protecting against incursions that may harm one’s brand, and summarize some of the lessons learned from early high-profile cases relating to this topic.

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I. What Is the Metaverse and Why Should I Care About It?

A metaverse has been generally defined as “a virtual-reality space in which users can interact with a computer-generated environment and other users.” In a bit more detail, a metaverse is a large-scale spatial computing platform that can provide persistent and immersive digital experiences in a collective real-time virtual 3D shared space. This virtual world can act as an alternative to or a replica of the real world, and include the ability to engage in social interactions, entertainment and leisure activities, and commerce and trade. In the metaverse, humans may be represented by 3D avatars who can own digital property and possessions, take on appearances of our choosing, and interact with other avatars. A metaverse may have its own currency, digital assets, marketplaces, entertainment venues, workplaces, and social and entertainment venues.



In science fiction terms, examples of metaverse-like spaces include *Star Trek*’s Holodeck, *The*

“You know, I know this steak doesn’t exist. I know that when I put it in my mouth, the Matrix is telling my brain that it is juicy and delicious. After nine years, you know what I realize? Ignorance is bliss.” – The Matrix

Matrix, or *Ready Player One*’s Oasis.

Some perceive the experience as akin to uploading yourself into a video game, *Tron*-style, which is one reason some of the biggest early players are video game companies like Roblox and Epic Games.

Similarly, some of the early software tools being used to generate metaverse spaces, like Unreal Engine 5, have been born out of the video game sector.

The Gartner Group has predicted that, by 2026, 25% of people will spend at least one hour a day in the metaverse for work, shopping, education, social and/or entertainment. Gartner notes that “Vendors are already building ways for users to replicate their lives in digital worlds, from attending virtual classrooms to buying digital land and constructing virtual homes...,” and predicts that “the Metaverse will impact every business that consumers interact with every day.”

Questions such as whether the Metaverse has arrived, will ever arrive, what exactly it is, and how important a “place” it can and will be remains the subject of much debate. According to

Microsoft's CEO, Satya Nadella, "*The metaverse is here, and it's not only transforming how we see the world but how we participate in it – from the factory floor to the meeting room.*" NVIDIA's President, Jensen Huang, on the other hand, believes that it's not quite here yet, but when it comes it will be massively important: "The metaverse is coming. Metaverse is not only a place to game. Future worlds will be photorealistic, obey the laws of physics, and be inhabited by human avatars and AI beings. We will create a future in these metaverses before actually downloading the blueprints to be fab'ed in the physical world."

Epic Games' CEO, Tim Sweeney is also a believer: "*This metaverse is going to be far more pervasive and powerful than anything else. If one central company gains control of this, they will become more powerful than any government and be a god on Earth.*" Elon Musk, the mercurial CEO of Tesla and Twitter and SpaceX impresario, less so: "*I don't see someone strapping a frigging screen to their face all day and not wanting to ever leave.*"

Others are less sanguine. A number of media commentators, short on patience but long on the need to write a headline with a good hook, have taken to referring to the long-promised-but-not-yet-delivered Star Trek holodeck vision of the Metaverse as "the meh-taverse" with headlines like "Is the Metaverse Dead Already." These articles point out that the number of users in some of the leading metaverse platforms like Sandbox and Second Life remains low. They also note that other than changing its name from Facebook to Meta, Meta hasn't really done anything in that space to date and that Disney has already shuttered the Metaverse division that it started just a year ago.

The Gartner Group, for its part, agrees that it is early, but preaches patience: "The adoption of metaverse technologies is nascent and fragmented," and, "it is still too early to know which investments will be viable in the long term, but product managers should take the time to learn, explore and prepare for a metaverse in order to position themselves competitively."

II. Brands and the Metaverse

Against this exciting but uncertain backdrop, what is a brand to do?

Of course, strategies differ from company to company depending on the product or service being offered and that company's outlook regarding these digital spaces. While it may take some time before it reaches scalable mainstream use, if history is any guide and if we consider the technological advances in 3D rendering, graphics, gaming, and digital and online shopping and commerce, more fully immersive digital spaces of some sort do seem to be a next step in the evolution of the Internet and online spaces.

While it is uncertain as to whether “the Metaverse” will ever fulfill our science-fiction-inspired expectations, it seems inevitable that we will continue to spend more time in interacting in digital



spaces and that serious commerce will take place there. Indeed, there are already large-scale economies going on inside video games. As the technology improves, it is reasonable to expect that trend to continue. According to Forbes Magazine, “[t]he metaverse will allow people to showcase digital forms of art and property...Brands can start to create virtual representations of

their products now to ensure that they can be found by other people in this new universe.”

Stores can offer digital try-on features inside virtual showrooms and sell both real-world physical products, as well as digital products. Brands can offer digital counterparts to their physical products (i.e., so-called “phygital” or digital twins) to expand and onboard customers into digital spaces and expand into new markets:

- If you're a big Nike fan and buy Nike sneakers, maybe you'd want your online avatar to be outfitted in a pair of Nike digital kicks?
- If you're a Yankees fan, maybe you will want your online avatar to have a Yankees hat.

- If you're a Rihanna fan, maybe you can buy special access to a Rihanna concert in the metaverse where you can interact with the artist and other fans and be given special-edition digital goodies.

For these reasons, a number of brands are already making big bets on the Metaverse, and more are sure to follow.

A. The Fashion Industry's Role in the Metaverse

Fashion brands have long shaped markets and clothing trends, and it appears that this trend will continue as we move into the metaverse. Indeed several of the world's most sophisticated and successful luxury fashion giants are leading the charge into the metaverse in the fashion space, investing in and rushing to occupy the metaverse and to extend their brands into these spaces. From Louis Vuitton to Gucci to Nike, these leading brands are both leading the charge into the metaverse and defending their brands from incursions from it.

For example, in celebration of its 200th anniversary, in August 2021, Louis Vuitton released "Louis the Game", a new interactive phone app and video game on the scale of Epic Game's famous Fortnite game, in which the main character must collect 200 candles to celebrate Louis Vuitton's 200th birthday and can discover 30 embedded NFTs in the game. These digital collectibles are only available through the game and serve to encourage individuals to interact with the Louis Vuitton brand and products and further spread its brand.

Similarly, in May 2021, Gucci launched an interactive space in the metaverse in partnership with Roblox, a major game-building platform. Gucci continues to build on its virtual presence, raising brand awareness with a younger generation and an increasing market of consumers.

In an effort to promote diversity and equitable representation in the metaverse and using NFTs, L'Oreal launched an NFT campaign celebrating women by hiring female NFT artists and centering its marketing around the gender disparity in the NFT industry. To further increase diversity in web3 spaces, L'Oreal's subsidiary NYX is partnering with The Sandbox and People

of Crypto (POC), to launch an avatar collection with different color shades, ethnicities, sexual orientations, and gender identifications. This initiative seeks to represent various minorities and also demonstrates how important skin tones and makeup can be for web3 users to design their ideal avatar.

In addition to purchasing virtual real estate and creatively fusing the metaverse with reality, brands have also begun pursuing trademark registrations for use within the metaverse. This could have a number of implications in the metaverse and reality in terms of advertising and use of big brand products and can spark optimism about the projected profitability of engaging with brands virtually in video games and other metaverse spaces. For example, Nike and McDonald's are two major brands who have purchased trademark registrations in connection with use in the metaverse. The possibilities are broad – whether to increase brand awareness or to enable avatars in virtual spaces to enhance their wardrobe or to earn or purchase possessions linked to brands, like Nike's sneakers or a McDonald's Happy Meal.

Where big brands go, trademark skirmishes inevitably follow, and the metaverse and digital asset space appears to be no exception. Two high profile pending cases, *Hermes Int'l v. Rothschild*, S.D.N.Y., No. 1:22-cv-00384, and *Nike, Inc. v. StockX LLC*, S.D.N.Y., No. 1:22-cv-000983-VEC, have litigants grappling with trademark issues raised by the sale of third party NFTs (non-fungible tokens, i.e., ownership certificates for digital assets) that reference a brand's product.

In the *Hermes Int'l v. Rothschild* case, Hermes successfully argued that artist, Mason Rothschild, was infringing on its trademarked luxury Birkin handbag by selling NFTs of fur-covered handbags that he named "MetaBirkins." Hermes argued that the digital MetaBirkins NFTs were replicas of Hermes' luxury Birkin handbag, and that Rothschild's NFT product was causing consumer confusion. Notably, Hermes did not yet have an online web3 or metaverse presence and saw Rothschild's project as an incursion against their iconic brand. Having Rothschild get there first with his "MetaBirkins" was viewed as bad for the brand. For his part, Rothschild argued that his MetaBirkins were not actual handbags, but static digital images of fanciful Birkin bags – that is, artwork protected by the First Amendment. It was a hotly contested and very widely followed case. After the judge denied both sides motions for summary judgment, it went to trial and the

Southern District of New York jury sided with Hermes. The fight is not yet over, as Rothschild has appealed. But one reason that the case was so widely watched is that it is a data point and case of first impression that provides some guidance to brands on the need to protect their brand as it moves into digital spaces as well as provides guidance to artists and competitors about the need to carefully consider intellectual property issues like brand-holders trademark and copyright infringement when creating digital assets. As in the real world, the interplay in the digital world between the desire on behalf of brands to control their markets and protect against customer confusion and between the rights of competitors under the First Amendment and fair use principles will remain a critical one.

In the still-pending *Nike, Inc. v. StockX* case, Nike is seeking injunctive relief, damages, and declaratory judgment that StockX LLC (“StockX”) has infringed on Nike’s trademarks and has included a number of other causes of action, including false designation of origin/unfair competition, trademark dilution, injury to business reputation, counterfeiting, and false advertising. StockX, the operator of a market resale platform similar to eBay, represents that it offers authentication services of the various luxury goods, sneakers, apparel, electronics and other collectibles that its platform resells. Although historically StockX does not have its own inventory, StockX has begun marketing and selling a set of Vault NFTs (including pictures of Nike sneakers, bearing the Nike Swoosh trademark). Each Vault NFT corresponds to a physical pair of sneakers that StockX owns and keeps in its warehouses. Nike, on the other hand, alleges that StockX does not have the right to create and sell Vault NFTs of Nike’s products, because that trades on Nike’s brand’s value and constitutes trademark infringement. Nike argues that StockX’s marketing and selling of its new Vault NFTs has caused much confusion among consumers. Nike has further alleged that StockX’s actions threaten to dilute Nike’s brand and goodwill among its customers.

StockX, on the other hand, argues that its use of Nike’s images constitutes nominative fair use (a fair use doctrine that allows reference to a third-party brand when naming or referring to that brand). StockX asserts that its utilization of Vault NFTs are analogous to “major e-commerce retailers and marketplaces who use images and descriptions of products to sell physical sneakers and other goods [without confusion] every [] day.”

Now the court must decide which theory will prevail. Ultimately, while this dispute is still in the preliminary pleading stage, the issues presented in this case and others to follow will have the potential to shape the industry and to better define how the law will function at the intersection of trademark law and digital assets.

These early cases about where to draw the line between artistic expression and trademark infringement and about how we consider NFTs and digital assets vis-à-vis our trademark laws illustrate that the metaverse and NFTs can raise some difficult issues for brands. In addition, these disputes make clear that the strong and informed legal guidance on IP strategy and risks is critical to a brand's success.

B. Aligning IP Strategy and Metaverse Business Strategy

For brands to successfully extend into the metaverse, they will not only have to navigate a host of technology issues and business issues, but they will also have to be smart and strategic about legal issues, particularly in terms of intellectual property.

It is and always has been a fundamental best practice for companies to align their intellectual property (IP) legal strategy with their business strategy. The most successful companies and brands do this extremely well. Consider the IP portfolios of companies like Apple, Nike, or Disney. Each company's IP portfolio, whether comprised of patents, trademarks, trade secrets, and/or copyrights, protects the core commercially valuable products, services, and brands of the company that add value via differentiation as compared to the competition. Each entity's business and IP strategies, operationalized by various agreements that dictate how its IP can be used and by whom and in exchange for how much money, are tightly coupled together ensure that those core IP assets are well-protected and most effectively monetized.

This is true whether we are talking about brick-and-mortar companies that sell physical products in the "real world," or about companies that sell and license digital products and services in the online world. In fact, it is reasonable to believe that, in the emerging world of digital assets

and the Metaverse, it is even *more* important to have a robust understanding of intellectual property laws and to ensure alignment between IP strategy and business strategy.

We are creating more and more digital “stuff” every day, and we are spending more and more time in digital spaces. In a world in which digital items are proliferating at a blistering pace, and in which we are spending more and more time online and in virtual spaces, like video games and even Zoom meetings, assets that you can own and use in the Metaverse are becoming more and more attractive.

The value of a digital asset – or an online product, service, or experience – is fundamentally tied to how the underlying intellectual property can be leveraged. Whether you have a very limited or one-time right to display a digital asset in an online space or whether you have the rights to alter, modify, re-use and commercialize the asset in different spaces makes a massive difference in the value of that asset. And the rights that a user has vis-à-vis the underlying IP of a digital asset are completely customizable. For these reasons, in a more fully digital world, IP becomes more important, not less.

Still further, as I was fond of saying back in the old days before 3D printing became a reality, “in the future, when all you need is the digital design file to go home and 3D print yourself a pair of sneakers, the IP covering that digital design file is the most fundamentally – and really only – valuable thing to protect.” That, my friends, is the world we are very close to living in today.

III. IP and Business Primer for Metaverse Offerings

The nascent world of digital assets and the metaverse makes aligning business and IP strategy more important than ever.

Below, I outline four areas for brands and creators to focus on to best align IP and business strategy in web3. Considering these four areas will put brands and creators in the best position to set up their metaverse offerings for success.

A. IP Acquisition

Alignment of business and IP strategies begins in the IP acquisition phase. It is important to identify critical IP at the outset and to seek and obtain the strongest IP protections for that IP.

This could mean registering key copyrights and key trademarks or filing patent applications on the most critically important technological features of your system or platform.

While registrations are not necessary for you to have copyright or trademark rights, they do significantly strengthen those forms of IP protection. For copyrights, registration provides the holder with the right to sue for copyright infringement and also allows the holder to pursue statutory damages, which can be significant. For trademarks, registrations provide national rights and the potential for a mark to become incontestable and harder for an opposing party to challenge.

B. Choosing When to Enforce IP

Part of business strategy is choosing how, when, and whether to enforce IP.

IP Owners interests aren't always best served by always being as aggressive as possible in enforcing the IP. For example, MLB isn't best served by shutting down every Twitter user that does a breakdown of a baseball highlight, even though it may technically be copyright infringement, because those breakdowns make the sport more popular.

It's one thing to obtain IP. It's a separate thing to determine how to maximize its value.

C. Baking IP Strategy into Business Strategy - Agreements

IP strategy and business strategy are integrated in various types of agreements, including terms of service for software or digital assets, licenses, and sale agreements. In digital spaces, the products and services being provided are made up out of intellectual property, like copyrightable art, digital files, music, video, multimedia, and software. Accordingly, whether and how and what

rights users are provided with respect to this intellectual property in the metaverse is both incredibly important and incredibly flexible.

Different and flexible IP strategies may be employed depending on the business model and use case. A good illustration of this is in the NFT space. In many sales of NFTs associated with digital art, only very limited IP rights are conveyed to the buyer. For example, the buyer may merely purchase a limited license to display the digital art. In other situations, broader IP rights may be conveyed, which may make the NFT more valuable to a buyer and increase the price buyers are willing to pay sellers. For example, in Yuga Labs' Bored Ape Yacht Club, one of the most famous and pricey NFT collections, Ape buyers acquire all of the IP rights – including the rights to commercialize and create derivative works from the IP in the buyer's Ape – in the form of a Bored Ape movie or book or to be hired out for all manner of work for brands. Not surprisingly commercialization rights in the IP, in one form or another, are a feature of the priciest and most well-known NFT collections considered to be “blue chip,” including Gutter Cat Gang, Doodle's, and RTFKTS' Clone-X.

In the metaverse space, vibrant and large economies are being created inside of video games and other virtual spaces in the metaverse. These economies may include the buying or licensing of clothing, accessories, or digital real estate. There is great variability that can be provided to users in terms of the intellectual property rights involved with each of those offerings: Is there a limited license or more full rights? What rights are provided? Do you get the right to display what you have in one space or can you take across different platforms? Can you customize it and change it? Can you re-fashion it and sell it to others?

There are diverse available sets of IP strategies that could be employed. This needs to be thoughtfully considered on the business side and then well-implemented on the legal side.

D. Understanding and Addressing Risks and Trade-Offs

Finally, it is important to understand and recognize the repercussions of various IP strategic choices. Pursuing a particular IP strategy comes with trade-offs and risk-factors that should be understood and, if possible, addressed and mitigated.

For example, there are business and legal risks wrapped up in the decision to license IP vs. transfer it. One high profile example of this was revealed in the recent and ongoing lawsuit brought by Yuga Labs against artist/provocateur Ryder Ripps. Ripps, for lack of a better word, ripped off the Bored Ape Yacht Club collection, copying the various Apes in the collection identically and calling his collection RR-BAYC. Yuga Labs, however, only sued Ripps on trademark theories, not for copyright infringement, which would have been a far easier claim to prove. Why? Because Yuga Labs chose to pursue an IP strategy in which the buyers of the Bored Ape Yacht Club collection acquired copyrights in their Bored Ape, Yuga Labs is no longer the copyright holder and was left without standing to sue for copyright infringement. A smart, business-aligned IP strategy is designed to identify those tradeoffs and would examine, e.g., via a risk assessment, what options are available to protect the Bored Ape Yacht Club holders from being knocked-off.

As another example, there are pros and cons associated with the decision to allow users to take a brand's intellectual property (such as a logo or a mascot) and create derivative works with it. On the one hand, this could spur creative innovation and foster stronger customer association with the brand. On the other hand, brands that allow this need to consider the risks to giving up control of the brand, who will ultimately own any derivatives, and how to prevent and address misuse or harmful uses of the brand. If a brand creates and sells a number of avatars for use in its metaverse and those avatars are wearing accessories that bear the brands trademarks or logos, the brand may want to be thoughtful about allowing users to modify and create derivative works of the characters themselves, while maintaining total control of the trademarks and logos. In this example, it is important to carefully lay out these rights and exclusions in the underlying IP license agreement.

IV. Conclusion

Metaverses have the potential to be an exciting new market for companies and brands. In order to execute on that promise, brands will have to carefully consider a host of intellectual property issues on a strategic/business level and operationalize their IP strategy in a way that aligns with their business goals. In addition, as illustrated by the *MetaBirkins* and *StockX* cases, the metaverse is another market that brands will have to carefully police against competitors and it is important for both brands and competitors to obtain good legal guidance to address and prevent infringement issues.