Navigating the Metaverse: Legal Challenges and Trademark Protection

Navigarea în Metavers: provocări legale și protecția mărcii

ABSTRACT

This study focuses on the emerging challenges related to trademark protection in the digital world. The rise of video games, where communities interact through avatars, has introduced significant obstacles to safeguarding brands in digital environments. This research provides an overview of the metaverse and explores strategies for protecting brands within this virtual space.

Keywords: trademarks; digital world; Metaverse; brand protection; virtual reality; trademark infringement; virtual goods.

REZUMAT

Studiul este dedicat noilor provocări în materia mărcilor, și anume protecția juridică a acestora în spațiul cibernetic. Apariția jocurilor video, în care o comunitate de oameni, folosind avataruri, interacționează între ei, au creat provocări majore ce țin de asigurarea protecției juridice a mărcilor în spațiul cibernetic. Prezenta cercetare explică în linii generale ce reprezintă Metaversa și care sunt modalitățile de protecție a mărcilor în acest spațiu.

Cuvinte-cheie: marcă; spațiu digital; Metaverse; protecția mărcilor; realitatea virtuală; încălcarea dreptului la marcă; bunuri virtuale.

Introduction:

The digitalization and internet opened the doors for all kinds of technological progress and for sharing information. However, it also created legal challenges on many fronts of everyday life. In recent years, various legal issues have arisen, particularly in the area of intellectual property law, which was heavily influenced by new technologies.
to an immersive, unified and persistent virtual world where users communicate and interact with other users and the surrounding environment and engage in social and commercial activities similar to interactions in the physical world. For brand owners, Metaverse can carve out a myriad of opportunities. It is a platform by which they can enhance their engagement with consumers by promoting events, creating virtual stores (sell virtual or physical goods), or by launching virtual products before their physical counterparts in order to increase influence on consumers. It is very attractive since brand owners can engage with a largely younger generation, without having to incur the costs of additional manufacturing facilities, production costs, and raw materials. Users are equipped with digital avatars, similar to those used in video games, that they can dress up with the latest fashion, or use them for attending musical or fashion week shows. In platforms such as Fortnight or Roblox, gamers can purchase purely digital goods such as accessories for their avatars, dance moves, items, or enhancing tools using real money.

Non-Fungible Tokens (NFTs), on the other hand, are essentially digital assets that can be used to represent unique, one-of-a-kind assets. The European Union Intellectual Property Office defined them in its 2023 Draft Guidelines as “unique digital certificates, registered in a blockchain, that are used as a means of recording ownership of an item such as a digital artwork or a collectible”. These are usually virtual but, in some cases, can also be connected to the real-world. The term non-fungible implies that something is not interchangeable, and at the same time, it means that it is one-of-a-kind, individual and not replaceable, which makes them very appealing to own. These can arguably be the reasons why it gained significant attention in recent years.

Turning to the protection of trademarks in the metaverse, considering that the metaverse is often based on user-generated content, nefarious actors can easily impersonate businesses or even sell fake virtual assets, thereby jeopardizing a brand’s reputation and identity. If an NFT contains a protected trademark and such use is not authorized by the owner of the trademark, this might constitute a trademark infringement, depending on what the NFT represents. However, due to the relatively new concept of the metaverse and the evolving legal system in this field, brand owners can face certain difficulties when protecting their trademarks.

Therefore, this paper aims to address the legal obstacles faced in safeguarding trademarks within the UK’s legal framework in the metaverse. It explores how established legal principles are applied in the unique context of metaverse. Part one of this paper will provide a brief overview of the UK’s trademark system and the requirements a claim for trademark infringement must satisfy. It will also address the legal challenges in relation to these requirements. The second part will illustrate the practical application of the legal principles of the English law in comparison to the US landmark *Hermes v Mason Rothschild* case. The methodology used will be a doctrinal one, exploring the legal framework of trademark protection in the United Kingdom.

Legal Challenges Concerning Trademarks Connected to NFT and Metaverse

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To begin, an issue to discuss in relation to trademark infringement in the metaverse is whether trademark protection related to the physical world is applicable also to the virtual world\(^5\). In this sense, there exists a fair amount of research, the main result of which seems to support the applicability of the same principles from the physical world to the virtual world\(^6\). However, this principles are subject to some limitations, taking into account the special character of the virtual worlds, which will also be discussed further.

While the specifics of trademark infringement components differ significantly across nations, there are several crucial elements that are commonly shared\(^7\). For example, the trademark owner does not have to show damage to his business and the state of mind of the defendant is not relevant to the question of infringement\(^8\). In terms of UK trademark law, any signs, including words, letters, designs, prints or shapes, that are capable of distinguishing one’s brand from their competitors’ may be protected (Art. 3 Trade Marks Act 1994 TMA), s 1(1)). They can either be registered and protected for renewable 10-year periods, provided that they can satisfy a series of absolute and relative grounds for refusal (TMA, ss. 3, 6, 42, 43), or remain unregistered, with varying levels of protection.

There are four scenarios that will amount to trademark infringement in the UK. For a successful claim, the claimant will have to show that either an identical sign was used in relation to goods or services identical to those for which the trademark is registered\(^9\), that an identical sign was used in relation to goods or services similar to those for which the trademark was registered\(^10\) or that both marks and goods are either identical or similar\(^11\). In the last two cases, there is an additional requirement of a likelihood of confusion between the marks. The last alternative way to claim trademark infringement would be a claim for trademark dilution, where unfair advantage is taken of a mark with high reputation or the use is detrimental to it\(^12\). For all four cases, the requirement that the defendant’s mark is used in the course of trade is mandatory.

UK courts have developed a structured analytical approach for each category of infringement, however, certain stages of analysis are common across all three categories\(^13\). First, it is necessary to establish the scope of the trademark owner’s property and to compare it with the defendant’s mark as registered (and the goods or services). Second, an unauthorized party must have been “used” this trademark: i) in the course of trade; (ii) in the United Kingdom, (iii) in a way that affects one of the relevant functions of the mark. Third, there is an additional requirement of a likelihood of confusion with the registered mark, which is necessary in all cases except where both marks and goods or services are identical. This is, in a sense, the major question that needs to be asked in all instances of possible infringement\(^14\).

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\(^9\) TMA 1994, s. 10(1)

\(^10\) TMA 1994, s. 10(2)(a).

\(^11\) TMA 1994, s. 10(2)(b).

\(^12\) TMA 1994, s. 10(3).


a) challenges relating to comparing the signs as registered and passing off

In determining whether a person infringes a mark, it is necessary to compare the sign as registered (and also in light of the use) with the sign used by the defendant (and they must be identical or similar). In order to do that, it is important that the claimant’s mark was registered and this was done properly and in relation to the correct class of goods and services they intended to protect the mark for. Unless a trademark can be shown to have a reputation, it is protected only in respect of goods and services identical or similar to those covered by the registration. Trademarks can also be encompass and be registered as shapes, colors and sounds, provided that they meet certain conditions and considerations determined by the court in the Sieckmann case.15

In the context of the metaverse, protection for trademarks will therefore flow from the registration of these marks in relation to the respective goods and/or services which proprietors intend to offer in the metaverse. In its 2023 Draft Guidelines, the EUIPO indicated that since virtual goods are regarded as digital content or images, class 9 of the Nice Classification is the appropriate category for them.16 The same view was expressed concerning the term “downloadable digital files authenticated by non-fungible tokens”, which were incorporated in the 12th edition of Nice Classification. However, the European Office pointed out that both terms of non-fungible tokens and virtual goods lack clarity, and they should further be specified by stating the content to which they relate, for example virtual bags.17 Section 34 of the 1994 Act provides that goods and services shall be classified for the purposes of registration according to a prescribed system of classification.18

Following the EUIPO 2023 Guidelines, also the United Kingdom’s Intellectual Property Office presented its recommendations for terms related to virtual goods and relevant services.19 The UKIPO classifies the “virtual goods” like the EUIPO in class 9. It also points out that the terms has to be specified and will otherwise not be accepted (ex. are “downloadable virtual clothing, footwear or headgear” and “downloadable virtual handbags”). As NFTs can not only be related to digital assets, but also be used to authenticate physical goods, the UKIPO states that the physical goods authenticated by NFTs will also be accepted in the appropriate goods class (for ex “handbags, authenticated by non-fungible tokens [NFTs] in class 16”). Moreover, concerning services related to virtual goods, the UKIPO categorises them respectively in different classes and so one can find in class 41 services such as “virtual reality game services provided online from computer network” and in class 35 “conducting virtual trade show exhibitions online”. Since more applications are registered within class 9, it is more likely that the class will become overcrowded, and the likeli-

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15 Case C-273/00, Ralf Sieckmann v Deutsches Patent- und Markenamt [2002], para. 55,


18 TMA 1994, s. 34.


20 United Kingdom’s Intellectual Property Office, Search UK trade mark classes, [https://www.search-uk-trademark-classes.service.gov.uk/searchclasses (access: 20 December 2023, search for “virtual”)].


22 [https://tmclass.tmdn.org/ec2/search/find?language=en&text=virtual+goods&niceClass=&size=25&page=1&harmonised=true&searchMode=WORDSPREFIX&sortBy=relevance]
hood of conflicts between similar trademarks or refusals by the granting authorities will increase. In that respect, the Report by the International Trademark Association has put forward recommendations, such as, when filing in Class 9, ensuring that the trademark appears on the digital token or the purchase screen, this is important, taking into consideration that the NFT itself cannot be classified in Class 9.

Since the metaverse is a relatively new concept, and some brands or entities operating within it may not have had the opportunity or faced obstacles in registering their trademarks, passing off could be an alternative claim for the protection of trademarks at common law in the UK. In order to succeed in an action for passing off in the UK, a claimant must establish that: i) the claimant has “goodwill”; ii) the defendant made a “misrepresentation” that is likely to deceive the public; and iii) the misrepresentation damages the goodwill of the claimant. Therefore, if a brand has gained recognition and consumer trust and another party creates a virtual presence that falsely represents a connection to it that deceives the consumer, passing off can be invoked. However, passing off actions have certain disadvantages, including that it is usually a time-consuming process since a lot of evidence to prove goodwill is necessary. Moreover, the test is to be applied from the viewpoint of the average consumer, and that the person will usually assess two signs globally, looking at the overall impression. In relation to similarity, “the tribunal should take account of the degree of aural, visual, or conceptual similarity, as well as inherent or acquired distinctiveness of the mark.” Determining the identity or similarity of goods or services might prove to be contentious in the context of metaverse. When it comes to the question of identity, along with looking at the relevant class of goods and services, the judges consider, above all, how the product is regarded for the purpose of trade in practice. Therefore, in most cases it is difficult to talk about identity of...

b) likelihood of confusion and requirements of identity and similarity

The likelihood of confusion test in accordance with Sec. 10 of the 1994 TMA Act involves the examination of various factors. A risk of confusion exists where consumers might believe that the products bearing a conflicting mark originate from the owner of the earlier mark. Such a risk can occur under UK law when the allegedly infringing mark is at least similar to the earlier mark and if the goods/services are identical or similar to the products the earlier mark was registered.

Determining the identity of the mark used in the virtual world to the registered trademark, it is useful to bear in mind the guidance of the European Court of Justice (“ECJ”), according to which the definition of identity implies that the two elements should be the same in all respects; however, the test is to be applied from the viewpoint of the average consumer, and that the person will usually assess two signs globally, looking at the overall impression. In relation to similarity, “the tribunal should take account of the degree of aural, visual, or conceptual similarity, as well as inherent or acquired distinctiveness of the mark.”

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25 Ibid.

goods or services in virtual world to those in the real world: avatar bags are definitely not identical to real bags; the virtual vehicle is not identical to the real car.

Deciding the issue of similarity of goods or services, it is necessary to look at the nature, purpose, their method of use, and whether goods or services are in competition with each other or complementary. However, the tribunal should also take into account “the distinctive character of earlier trademark, and in particular, its reputation” when determining the similarity. The use of an earlier mark with a strong reputation will more likely confuse a consumer, even when the similarity between the marks is not that evident.

Applying this principles to the metaverse, when comparing a digital and physical bag as an example, it can be observed that the nature of virtual and physical goods is arguably different. One is made of fabric or leather and the other exists merely digitally. The primary purpose of a physical bag is carrying and storing physical items. Depending on circumstances, it can be argued that the nature of virtual and physical goods and services is not in competition with each other for most intents and purposes, however, it may well be that a consumer chooses a virtual bag over a physical one in order to show a certain status or when feeling the desire to express a new style.

In this respect, the classification of virtual goods and services as similar or not very much depends on one’s perspective and is likely that a finding of similarity is likely to depend on particular facts of the case. To conclude, the finding of a likelihood of confusion is at the very least a possibility, with higher chances to find one in the case of an earlier mark with reputation.

c) use in the course of trade

According to settled case law, a sign is used in the course of trade where use occurs in the context of commercial activity with a view to economic advantage and not as a private matter. This distinction is particularly important in virtual worlds that allow third parties to upload user-generated content (UGC). Metaverse platforms such as The Sandbox, for instance, can be used to create digital avatars, accessories or other virtual items. Where users create digital assets for their own private use, their activities are likely to fall outside the scope of trademark law. However, the sale of such digital assets on Roblox under a recognisable brand may well be considered “in the course of trade”. Since trademarks function as convenient registers of social meaning critics may also use leading brands to critique sectors such as the luxury goods industry or fossil fuels using different kinds of expression. The 1998 Human Rights Act protects the freedom of expression which includes freedom of speech and freedom of artistic expression. In this respect, it is worth mentioning that creators of these digital assets could use the defence of “freedom of expression”.

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expression” in order to deny a “use in the course of trade” of the mark in the metaverse. However this will require a balancing exercise between the freedom of expression and trademark rights. When it comes to the freedom of speech at least, the protection of trademark rights can override it, as was clear from the Betty Boop case. This is especially the case when at stake are well-known trademarks.

d) use “in the United Kingdom”

Trademark protection is territorial, meaning it generally should be registered in each jurisdiction where it will be used to accord the proprietor the relevant rights provided by the laws of that jurisdiction. Due to the varied nature of the different platforms that currently make up the metaverse and the lack of national boundaries in the virtual world, the determination of the localization of infringement of trademarks might be challenging. In her Study for WIPO on the localization of IP infringements in the online environment, Eleonora Rossati concluded that the criteria and notions developed in relation to the existing Web 2.0 digital environment can be applied also to the Web 3.0 (the metaverse). Therefore the current UK’s legal system in relation to infringements in the digital environment should be analyzed. With regard to the online use of UK trademarks, “targeting” of online activity is crucial in determining where an act of infringement has taken place. In Lifestyle Equities CV v Amazon UK Services LTD (2022) EWCA Civ 552, the Court of Appeal provided the key principles governing the approach to and interpretation of targeting in the UK. The objective assessment of whether use has taken place of a trademark in a specific territory will require consideration of a number of factors including the perception of the average consumer, the intention of the party using the trademark, and the alleged complained of acts. In particular whether delivery and shipping are available to the relevant territory, what the language of the website is, what the currencies used on the website are, and what references are included to import duties. Therefore, all these factors should be taken into account also when it comes to infringement of a trademark in the metaverse.

e) use in a way that affects the relevant functions of the trademark

The sign must also be used in a way that can impact the main function of the trade mark. From the early 19th century, UK judges have assumed that the main function of trademarks is to indicate to the consumer the commercial origin of the goods. A customer can be misled and can mistake one trader’s goods for another even though they do not know the identity of either. A realistic possibility of consumers perceiving the sign as a source indicator will suffice. Similarly to the physical world, a trademark has the same functions in the digital world. Therefore, it can be argued that consumers can be also easily confused as of the origin of the goods in the metaver-
se in the same manner they are confused in the physical world.

3. Existing case law and principles applied

In a recently decided case, Hermes v Mason Rothschild, the intersections between NFTs and trademark law was considered\(^{46}\). In this case, a nine-person jury in the Southern District of New York has found that “MetaBirkin” NFTs violate Hermes International SA’s rights in its “Birkin” trademarks\(^{47}\). In 2021, Mason Rothschild created and sold 100 “metaBirkin” NFTs, which depicted iconic Hermes “birkin” handbags covered in colorful digital “fur” instead of leather\(^{48}\). The NFTs were priced at $450, plus, Rothschild received royalties on downstream sales\(^{49}\). Although Hermes successfully took down what was considered infringing digital products from the OpenSea NFT marketplace, Rothschild continued to market his NFT collection through Discord. He also argued, in respond to Hermes’s demands, that his works constituted artistic expression, fully shielded by the First Amendment under the Rogers v Grimaldi test. Hermes sued Rothschild, asserting trademark infringement and dilution, misappropriation of its BIRKIN trademark, false designation of origin and description, cybersquatting, unfair competition and injury to business reputation\(^{50}\). At the time of the infringement, Hermes owned a registered mark “BIRKIN” only for physical handbags and later filed a new application on an intent to use basis, both for physical and virtual handbags\(^{51}\). It based its arguments on the fact that the BIRKIN Mark was used without Hermes’ consent or authorization of use, including the sale and distribution of the Metabirkins NFTs in interstate commerce, which was likely to confuse and mistake the minds of the public leading to believe that the METABIRKINS NFTs emanate or originate from Hermes. The brand also argued that the defendant’s conduct was intended to exploit the goodwill and reputation associated with their mark, which resulted in Rothschild unfairly benefiting from Hermes’ reputation and causing substantial injury to the public and to Hermes’ goodwill\(^{52}\). The jury found for Hermes on all counts. It found that even though the “MetaBirkin” NFTs were at least in some respect works of artistic expression, Rothschild intended to confuse potential consumers and, therefore, the First Amendment did not shield him from liability.

This case shows that the strength of the earlier mark and the previous metaverse-related activity of their respective owners were clearly factors that influenced the finding of a likelihood of confusion between the physical Birkin and the “MetaBirkin” digital bag, although not completely similar. The court also made a balancing exercise between the Rothschild’s right of artistic expression and the rights conferred by the Birkin shape trademark and its reputation. It took into consideration the use in the course of trade of the “MetaBirkin,” since Rothschild sold the bags for a considerable amount of money for his personal benefit\(^{53}\). It also found that the sales of the bags were targeted to consumers within the United States\(^{54}\).

Although it remains to be seen whether the


\(^{47}\) Ibid.

\(^{48}\) Ibid., p.1., para.1.

\(^{49}\) Ibid., p.4., para.1.


\(^{51}\) Hermes Int’l v. Rothschild, document No.1, p.3., para. 2.

\(^{52}\) Ibid., p.35., para. 120-123.

\(^{53}\) Ibid., p.37., para. 134.

\(^{54}\) Ibid., p.5., para. 12.
courts from UK and other countries will decide along the same lines cases similar to this one, applying English law to the facts, it can be said that Hermes will be able to bring a claim for trademark dilution for its shape mark with high reputation under Sec. 10(3) of the TMA. To enhance the chances of protection, it will need to have a registered mark in accordance with the UKIPO classification guidance in class 9, specified as “downloadable virtual handbag”. Even if not registered, the mark will be able to be protected under the law of passing off, since it will be likely to show that its goodwill was damaged by the misrepresentation as of the origin of the bag. It will also most likely succeed in claiming that the infringing mark was used in the course of trade and the activity was targeted at the consumers within the UK in a way that affected the origin function of the goods. The defence relating to the freedom of expression will most likely not succeed, however, since the case involves a trademark with reputation.

4. Conclusion:

In conclusion, this paper has systematically examined the legal intricacies surrounding trademark protection in the context of the Metaverse within the framework of the UK’s legal system. The primary objective was to elucidate the legal challenges encountered in safeguarding trademarks and to analyze how established legal principles are applied in this distinctive virtual environment.

The inquiry has probed into the nuanced application of traditional trademark principles in the Metaverse, addressing questions concerning the seamless extension of trademark protection from the physical to the virtual domain. The examination of various facets of trademark infringement components underscored both shared and divergent elements across jurisdictions. The comprehensive review of the UK’s trademark law provided a critical foundation for understanding the legal complexities inherent in this evolving digital space.

Exploration extended to alternative legal avenues, such as passing off, offering insights into the challenges and limitations associated with this common law remedy. The likelihood of confusion, a pivotal consideration in the Metaverse, was scrutinized with a focus on identity and similarity, particularly in the context of virtual and physical goods. The classification of goods and services, notably virtual goods, emerged as a crucial consideration, drawing attention to potential challenges and overcrowding within specific classifications.

The paper further delved into the distinctive challenges posed by user-generated content, considerations related to freedom of expression, and the territorial nature of trademark protection in the Metaverse. Noteworthy case law, exemplified by Hermes v Mason Rothschild, illustrated the practical application of legal principles and the intricate balance required in navigating this dynamic digital frontier.

In essence, this paper has endeavored to unravel the legal complexities surrounding trademark protection in the Metaverse within the UK’s legal framework. By addressing the research question and scrutinizing the application of established legal principles, it contributes to the ongoing discourse on intellectual property rights in the transformative landscape of the Metaverse. The findings underscore the imperative for a sophisticated and adaptive approach, harmonizing traditional trademark principles with the unique challenges posed by this virtual realm.

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