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Legal, Contractual and IP Diligence in Implementing Trademarks in Metaverse

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ABSTRACT

The rise of the metaverse in a digital realm for business, socialising, and entertainment brings distinct difficulties and possibilities for incorporating trademarks. Ensuring legal compliance, thorough examination of contracts, and protection of intellectual property (IP) are crucial in this changing environment to protect the reputation of the business and avoid any violations. In order to prevent the exploitation or misuse of trademarks, which play a crucial role in identifying the source and quality of products in the physical world, it is imperative to exercise strict protection over them in the metaverse. This requires a comprehensive comprehension of both current legal structures and the unique challenges presented by virtual settings. An essential factor to consider is the creation of thorough contracts that take into mind the distinct characteristics of the metaverse. These agreements should incorporate explicit provisions concerning the utilisation rights, geographical extent, and means for enforcing trademarks in virtual environments. In addition, it is necessary to establish measures to address future conflicts, assuring the presence of effective and efficient channels for resolving them.

Conducting intellectual property (IP) due diligence in the metaverse involves a comprehensive evaluation of the likelihood of trademark infringement, counterfeiting, and unauthorised utilisation. Effective implementation necessitates a proactive strategy for monitoring and enforcing, utilising both legal and technical remedies. Ultimately, the incorporation of trademarks in the metaverse necessitates thorough legal scrutiny and diligence in contractual and intellectual property matters. Brands can secure their intellectual property and retain their reputation in the growing digital world by using strong protection and enforcement measures.

Keywords: *NFTs(Non Fungible Tokens), Metaverse, Trademarks, WIPO(World Intellectual Property Organisation).*

I. INTRODUCTION

In the rapidly expanding universe of the metaverse, where virtual worlds blur the lines between reality and digital space. The emergence of the metaverse signifies a fundamental change in the

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manner in which we engage, collaborate, and engage in recreational activities within virtual worlds. Human Intellect and creativity is adorable and admirable.² In the face of the increasing dependence on virtual platforms, the metaverse offers the potential for interconnected virtual realms where people can interact socially, economically, and creatively using their digital representations. Intellectual property refers to the products of human intellect that result from creative and innovative thinking. Intellectual property encompasses the highest level of human invention and innovation, symbolising the purposeful utilisation of intellectual labour to convert new ideas into real goods. Intellectual property primarily refers to the combination of knowledge and information. The rights connected with valuable insights are highly esteemed in our knowledge-driven culture. These rights provide as a vital incentive for innovators and inventors, inspiring them to actively explore and articulate their original concepts. Intellectual property rights have a pervasive impact on every aspect of human existence. It offers essential resources and safeguards, creating an atmosphere that promotes ongoing innovation and the progress of knowledge.

The use of intellectual property rights (IPR) is crucial in the quickly growing metaverse, as virtual worlds obfuscate the boundaries between reality and digital space. Metaverse is not new anymore. The word “**Metaverse**” was introduced 30 years ago by an American science fiction writer, Neal Town Stephenson, in his 1992 novel, “Snow Crash.” It was part science fiction – part speculation. Fast forward to 30 years after, this concept of an open virtual environment for everyone has become a reality. As companies and artists enter this immersive environment, every company is positioning itself in the digital sphere in an effort to draw in customers on a bigger scale. From the perspective of brands, the Metaverse serves as a digital platform for enhancing commerce, similar to the physical world. Trademarks are expected to help organisations in preventing misuse by their competitors. Registering trademarks for use in the Metaverse is not merely a concept, but a real possibility. Nike, a renowned global brand, submitted several Trademarks at the end of last year, indicating its plans to develop and market virtual footwear and apparel. This is the garment company's inaugural foray into the virtual realm. Nike's trademark registrations plainly demonstrate their strong desire to exploit the opportunities presented by the virtual realm.³

The system aids consumers in identifying and purchasing a product or service by evaluating its distinctive trademark, which reflects its nature and quality. Trademarks typically facilitate

²Sreenivasulu N.S, Law relating to Biotechnology 1, Oxford University Press, London, UK,(1st edn.,2016)

³ Kathryn Park, *Trademarks in the metaverse*, WIPO Magazine (Mar.2022)

Available at: https://www.wipo.int/wipo_magazine/en/2022/01/article_0006.html

international commercial operations by affording their proprietors financial benefits and visibility. The dynamic nature of the world necessitates the establishment of fresh legislation to protect individuals and businesses in response to emerging technological breakthroughs. Currently, the virtual world exists in a rudimentary state. However, rather than requiring new registration, many programmes allow users to access their accounts through alternative platforms such as Google or Apple.

Every business is keeping a watch on the metaverse, which is like a hub for people's attention. However, before venturing into this digital space, they must realize that, in order to safeguard their inventions, intellectual property, and innovations, they must negotiate a challenging landscape of legal, contractual, and other issues. When implementing intellectual property (IP) in the metaverse, it is necessary to take a comprehensive approach to legal and contractual diligence in order to guarantee the protection of virtual assets and ensure that they are used lawfully. Let's delve into the critical aspects of legal, contractual, and IP diligence required for successful implementation of IPR in the metaverse.

(A) What is that peerless word?

The term "metaverse" implies a collective virtual shared space that is the result of the convergence of physically persistent virtual reality and virtually enhanced physical reality. It comprises the internet, augmented realities, and virtual environments. Users can participate in a diverse array of activities, including social interactions, entertainment, business, and education, within an immersive and interactive digital universe. This concept is the foundation of the concept.

The metaverse is fundamentally a three-dimensional, interconnected environment in which users can generate avatars that serve as representations of themselves. These avatars are capable of interacting with other users, manipulating digital objects, and navigating a variety of virtual spaces. The metaverse is a seamless and immersive experience that combines a variety of technologies, such as blockchain, artificial intelligence (AI), augmented reality (AR), and virtual reality (VR).⁴

II. UNDERSTANDING METAVERSE

Thirty years ago, American science fiction author Neal Town Stephenson invented the term "metaverse" in 1992 book named "Snow Crash." It combined elements of science fiction and speculation. Thirty years later, the idea of an accessible virtual environment for everybody has

⁴ Legal Impediments of Intellectual Property Rights in Metaverse, (Aug., 29, 2022)

Available at: <https://amlegals.com/legal-impediments-of-intellectual-property-rights-in-metaverse/#>

come to pass. A metaverse is an online community made up of linked three-dimensional virtual worlds where users interact with each other using state-of-the-art immersive technologies to mimic real-world interactions. Many companies are currently working on creating the Metaverse or other types of mixed reality settings that use AI, blockchain, VR, and AR, among other technologies. Moreover, the metaverse is a worldwide platform that involves people from all parts of the globe.⁵

(A) Existence of metaverse in today's time:

Currently, the metaverse exists in a basic and undeveloped state. The metaverse currently exists in a basic or developing state. Some apps provide an option for users to log in using existing login details from other platforms, such as Apple or Google. This allows users to avoid creating a new account and effectively establishes their identity across many platforms. Conversely, there is a growing trend of free-to-play games that include microtransactions, allowing users to purchase clothing, accessories, equipment, and instruments for their avatars within the game. Extensive avatar customisation appears to be essential for the popularity of these video games and platforms. Undoubtedly, acquisitions play a crucial part in the company's model of the metaverse. The social and commercial interactions among users have gained significant popularity. Users have the option to invest in virtual property that may subsequently be rented out or sold. Notable recent metaverse events include successful concerts, such as the one held on Fortnite starring renowned artists Travis Scott and Ariana Grande⁶.

(B) Scooting in: intellectual property

IP encompasses a broad spectrum of creations, including patents, trade secrets, and trademarks. In the virtual world, protectable intellectual property assets may encompass a wide variety of items, such as copyrightable literary works, all trademarks, slogans, and design patent protection for various configurations. It is crucial to safeguard your intellectual property in the metaverse, as it can serve as a valuable asset to your organization. In addition to safeguarding their competitive advantage, organizations that possess robust intellectual property can generate substantial revenue through licensing and royalties.

Section 2(1)(m)⁷ of Trademark Act 1999, A mark is defined as a symbol that can consist of a device, brand heading, label, ticket, name, signature, word, letter, numerical, shape of goods, packaging, or a mix of colours or any combination of these elements.

⁵ Vaishnavi Joshi, Importance of Intellectual Property in the Metaverse, (Aug.,02,2022) available at: India - Trademark - Importance Of IP In Metaverse (mondaq.com)

⁶ International Trademark Association, *Report on White Paper Trademarks in the Metaverse* (April,2023)

⁷ The Trademark Act, 1999 (Act 47 of 1999)

Under Section 2(1)(i)(viii)(zb)⁸ in the Trade Marks Act,1999⁹ has been enlarged to mean, “a mark capable of being represented graphically and which is capable of distinguishing the goods or service of one person from others and may include shape of goods, their packaging and combination of colors and covers both goods and services”.

The Metaverse is an expanding digital realm that presents limitless possibilities for both corporations and individuals. In this rapidly advancing field, it is crucial to safeguard your intellectual property (IP) to optimise your prospective financial gains. Trademark infringement can occur during the purchase and sale of virtual products, similar to how it happens in the real world. Undoubtedly, trade secrets that are highly important in the metaverse are extremely vulnerable to being compromised.

The metaverse is swiftly evolving as a groundbreaking realm, erasing the boundaries between tangible and digital realms. In order to facilitate seamless operations and safeguard precious assets, it is imperative to have a strong legal framework as organisations and individuals increasingly embrace the digital realm. A thorough due diligence approach is crucial in this context.

This paradigm prioritises three fundamental areas:

- **Legal Diligence:** Analysing the legal framework of metaverse projects, including pertinent agreements, platform terms of service, and potential jurisdictional concerns.
- **Contractual diligence:** involves carefully examining contracts utilised in the metaverse, including those that govern the ownership of virtual land, the sale of digital assets, and user agreements.
- **Intellectual Property (IP) Diligence:** is the identification and safeguarding of intellectual property rights related to metaverse inventions, including as avatars, virtual settings, and in-world content.

III. LEGAL AND CONTRACTUAL CONSIDERATIONS OF TRADEMARK IN METAVERSE

For the Legal consideration of IP in the metaverse, it is important to note that the metaverse is still in its initial stages and still courts are trying to move swiftly with the evolving technology. It is not unexpected that firms in the entertainment, sports, fashion, and cosmetics industries are seeking to use their trademarks in virtual goods. The Internet is always evolving, and the metaverse has the potential to completely transform. Legal Diligence can involve the legal

⁸ The Trademark Act, 1999 (Act 47 of 1999)

⁹ The Trademark Act, 1999, India, available at: (ipindia.gov.in)

framework of metaverse projects, Platforms terms and service, and potential Jurisdictional concerns.

(A) Where to file applications in metaverse?

The metaverse, like to the Internet, is not limited by geographical constraints. Thus, when a brand is established in the metaverse, the brand owner effectively becomes a participant in global trade. This statement holds even more validity when considering interoperability as a fundamental characteristic of the metaverse, ensuring that its use is neither limited to a specific platform or reliant on a particular service provider. Trademark owners who are already active online may not need to start from scratch when it comes to their global strategy. Therefore, brand owners who are involved in the metaverse should pay attention to how they can enter new markets and deal with both consumers and pirates in the virtual world. This information could affect which jurisdictions are considered important for protecting their brand.¹⁰

(B) Does old nice classification works?

Brand owners may offer a range of goods and services in the metaverse, including digital versions of physical products, immersive virtual reality experiences, and new types of digital currencies for usage within the metaverse. As brand owners consider engaging in commercial activities in the metaverse, they are questioning if their current registrations for physical world products will apply to the metaverse or if they will have to submit new applications. If the latter is the case, individuals are curious about which categories they should categorise and classify, as well as the specific items and services that fall within those categories. WIPO has recently added class 9 for virtual products in nice classification that are verifies by non-fungible tokens Applications for metaverse goods and services have primarily been filed in Classes 9, 35, 36, 41, and 42 in certain IP Offices. In general, applicants commonly mention the following categories of items in each of these classes¹¹:

Class 9 refers to virtual products, specifically those that are verified by non-fungible tokens (NFTs).

Class 35 encompasses virtual goods, specifically including NFT exchanges. One notable example is the Open Sea platform, which is widely recognised for its auction services.

Class 36 encompasses the provision of services related to cryptocurrency exchange, as well as the tokenization and fractionation of tangible assets such as real estate or valuable artwork. It also includes financial exchange services related to virtual goods.

¹⁰ Supra note 5

¹¹ Supra note 5.

Class 41: Virtual Experiences

Class 42 provides services for coding the back-end of blockchain systems and acts as a supplier of third-party software¹².

(C) Jurisdiction

Metaverse is borderless in nature. Therefore, brand owners face a dual challenge. Initially, the utilisation of trademarks in the metaverse may encounter two interconnected yet opposing obstacles. Trademark use in the metaverse is not limited to a specific jurisdiction. Thus, trademark owners may lack the ability to customise the visual representation of their trademarks according to different jurisdictions. In contrast, trademark owners often customise their use of trademarks in the physical world based on jurisdiction, in order to align them with the registered versions in each jurisdiction. When trademark owners have registered various versions of their trademarks in different jurisdictions, they may encounter a challenging choice regarding which version of their trademark to utilise in the metaverse. This decision could arise due to marketing considerations, regulatory requirements, or the desire to prevent conflicts in specific countries.

Legal systems are founded upon geographical or territorial principles. However, in the metaverse, the circumstances are significantly unique, as there are no defined boundaries or specific locations for individuals or their potential interactions. In the metaverse, avatars from different parts of the world will have the potential to engage with one another. The concepts of time, location, and identity are not ideally suited for the metaverse. In this context, the legal concepts of habitual residence, domicile, and place of business of the parties lose a few of their significance.

Trademark owners ought to carefully consider the legal criteria imposed by each jurisdiction they are interested in to ensure they meet the requirements for establishing a presence. Factors to be taken into account may encompass the presence of the trademark owner in the jurisdiction, such as physical offices, employees, servers, etc., as well as the specific targeting of that jurisdiction, conducting business in the local language(s), and having customers in that jurisdiction.

Trademark owners should be mindful that operating in a specific country may include additional obligations that go beyond the basic requirements for acquiring trademark rights. For instance, venturing into a new market can give rise to distinct responsibilities, especially in regards to privacy, government oversight of specific product categories or content, and taxation. Once

¹² Supra note 5.

again, brand owners would gain advantages from receiving guidance from governments, trademark offices, and treaty organisations.¹³

Furthermore, platform providers can assist brand owners by supplying user data and other relevant information regarding the geographical locations of servers and other resources that may support a usage claim. As mentioned earlier, this is likely to create liability concerns for brand owners. They should thoroughly assess whether their involvement with a specific platform could subject them to taxation obligations or legal proceedings, based on the same principle of jurisdiction that trademark owners use to establish trademark rights.

(D) Licensing in metaverse:

Trademark licences usually specify the scope of the licence grant in terms of geography, which can be either global or limited to a specific part of the world. If the licence grant is not worldwide, it may be because the brand owner has chosen not to sell licenced goods or services in certain jurisdictions, or because it has already granted trademark rights to others in those jurisdictions. During the initial phases of the metaverse, brand owners must find a harmonious equilibrium between accuracy and adaptability. It is prudent for brand owners to identify the specific platforms on which their trademarks are licenced for use. However, they should also be prepared for new platforms and future interoperability among platforms. If a licensee already holds global rights to use a trademark for specific goods and services, the inclusion of the metaverse in the existing licence grant would depend on the nature of the goods or services in question. However, it is essential for brand owners and their licensees to engage in discussions to ensure that they are in agreement. Extending the rights of a current licensee, which are limited to a specific physical-world jurisdiction, into the metaverse appears impractical¹⁴.

IV. IP DILIGENCE: THE NEXT FRONTIER IN THE METAVERSE

As the digital ecosystem expands, it is increasingly important for companies and creators to exercise intellectual property (IP) diligence in order to safeguard their innovations and assets in this new environment. Within the metaverse, conventional intellectual property (IP) concepts like copyright, trademark, and patent rights encounter novel obstacles and prospects. Trademark protection in the metaverse necessitates meticulous deliberation. Brands must navigate a landscape in which virtual goods and services closely resemble their real-world counterparts. This encompasses the protection of brand identity from unauthorised usage and counterfeiting in virtual environments. For instance, a fashion brand must guarantee that its

¹³ Supra note 5, P-26

¹⁴ Supra note 5. P-59.

virtual clothing designs are not duplicated without authorization. The difficulty arises from the worldwide scope of the metaverse, which surpasses conventional jurisdictional limits, thereby complicating the enforcement of trademark rights. Companies must utilise advanced digital monitoring tools and engage in cooperation with platform providers in order to efficiently enforce and safeguard their trademarks.

The rise of non-fungible tokens (NFTs) as a method to demonstrate ownership of distinct digital assets adds complexity to intellectual property (IP) due diligence. Non-fungible tokens (NFTs) have the ability to contain different types of intellectual property (IP), ranging from digital artwork to virtual properties, which brings up concerns regarding the extent and enforceability of IP rights in virtual transactions. It is crucial to ensure that NFT creators possess the legal authorization to create and sell their tokens in order to avoid intellectual property disputes. Potential buyers and investors are required to conduct thorough research and investigation to confirm the genuineness and origin of NFTs in order to prevent acquiring unauthorised or fake assets.

Furthermore, the decentralised nature of the metaverse presents difficulties in terms of regulation and enforcement. Conventional intellectual property laws are created to be enforced through centralised mechanisms, while the metaverse frequently functions on decentralised platforms. This necessitates the establishment of novel regulatory frameworks and enhanced international collaboration to effectively combat infringements of intellectual property. Collaboration among stakeholders, such as governments, technology companies, and legal experts, is imperative to establish standards and optimal methods for safeguarding intellectual property in the metaverse.

Ultimately, ensuring intellectual property diligence in the metaverse requires a proactive and comprehensive strategy. Companies and creators should utilise advanced technologies, such as blockchain and AI, to protect their intellectual property rights. Concurrently, legal systems must adapt to tackle the distinct challenges of this digital realm. In order to promote innovation, safeguard creators, and establish a just and secure digital economy, it is imperative to conduct thorough intellectual property diligence as the metaverse continues to grow.

Thorough IP vetting is crucial to ensure that new virtual assets do not infringe on existing rights. This involves conducting IP searches and audits to verify originality. Platforms should have mechanisms to report and address IP violations, such as automated systems to detect infringing content.

V. ISSUES AND CHALLENGES TO ARISE BY ENFORCEMENT OF TRADEMARK IN METAVERSE

Once the metaverse and NFTs come into existence, intellectual property owners will inevitably encounter a multitude of challenges. Currently, it is not possible to prepare for the majority of these hurdles. Consequently, it is essential to assess NFTs, the emerging metaverse, and other innovative digital phenomena in accordance with the existing legal framework, which was established after significant discussions involving multiple nations and cultures. These rules have undergone rigorous testing in various scenarios and have consistently proven to be accurate over an extended period of time. In the near future, it is undeniable that specific modifications will be necessary to regulate human engagement in digitally interconnected realms. However, these alterations should only be implemented after gaining a comprehensive understanding of the underlying complexities.

Additionally, challenges will arise concerning jurisdiction, applicable laws, defences related to non-commercial and fair use, infringement, and the potential for trademark confusion inside the metaverse. Due to the inability to confine the metaverse within physical limits, there is an inevitable likelihood of uncertainty over jurisdiction and the applicable rules and regulations. Implementing a worldwide unified system may be necessary to effectively address these concerns and proactively prevent disputes. Users can easily generate and promote illegal digital replicas of real-world content, frequently adorned with trademarks from the physical realm, within the metaverse. While enforcing trademark protection in some jurisdictions may pose challenges, implementing a global framework to address infringers will provide brand owners with a reliable platform to pursue legal action and achieve favourable outcomes.¹⁵

(A) Trademark Infringement

Due to lack of jurisprudence this may amount to Trademark infringement has increased after the metaverse emerged since it is now easier than ever to copy virtual items. Companies fear that their trademarks will be utilised not only on tangible goods but also on the internet. Government policies that used to provide remedies for IPR violations over the virtual space are currently lacking. The growing interest in engaging in virtual markets has brought about a rise in sophisticated challenges related to brand protection and trademark infringement on a global scale. Currently, there are few ongoing controversies in India.

¹⁵ Nayantara sanyal, Amishi Vira Intellectual property rights in the Metaverse – Trademarks, Bar and Bench,(May.,29,2024,10:40am)

Available at: Intellectual property rights in the Metaverse - Trademarks (barandbench.com)

One of the most notable and continuing legal conflicts about trademark use and infringement in the metaverse is the matter of Nike Inc v. StockX LLC. Nike has filed a lawsuit against StockX. StockX, a platform for reselling trainers, has been accused of utilising Nike's registered logos and products to join the NFT market without obtaining any licence or authorization from Nike, the rightful owner of the brand. As a result, Nike took legal action against StockX for trademark violation. Conversely, StockX argues that the Nike-branded NFT serves only to monitor the ownership of the real Nike goods, which are safely kept in its vault, and does not constitute a violation of trademark rights.¹⁶

Another instance is the legal dispute between Hermes and Rothschild, One of the most famous case of Hermes v. Rothschild, of trademark infringement in the metaverse is the set instance of counterfeiting sell of NFTs of birkin bags by the accused in result courts in 2023, offered a damages of \$1,33,000 dollars to the Hermes in which the esteemed luxury brand Hermes has filed a lawsuit against an artist for producing and selling counterfeit products in the metaverse using NFTs. This act is deemed as both a violation of trademark rights and cybersquatting. The resolution of these conflicts will have a substantial impact on the formulation of worldwide regulations and guidelines regarding the treatment of third-party use of trademarks in the metaverse. This includes determining what instances can be deemed as fair use of trademarks in the metaverse, all with the ultimate goal of ensuring profitability for brand owners. Moreover, this will incentivize brand owners and companies worldwide to pursue the registration of their brand names or trademarks for downloadable virtual goods and online virtual services, so enhancing the involvement of a growing number of brands in the virtual realm.¹⁷

(B) Privacy and security issues

Given the expected amount of users, the metaverse platform is likely to gather large volumes of sensitive and personal data. As a result, the privacy statement of any AR-VR gadget will often declare that data about a user's biological traits, physical surroundings, and other sensitive information will be collected. Such collection and processing of personal data will bring various data privacy issues to the forefront, since personal data, especially sensitive personal data, is largely ungoverned in several parts of the world, including India.¹⁸

(C) Deception and counterfeit approval

The metaverse presents various trademark utilisation possibilities, but it also introduces the risk

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Supra note 3.

of fraudulent activities and unauthorised endorsements. Assessing the legitimacy of using a trademark in a fair manner is considerably more challenging in the metaverse compared to the physical realm. Another concern arises from the fact that experiences on metaverse platforms can constantly be customised to suit individual preferences. For instance, as a result of individual subscriptions, one user may be exposed to different brands compared to another user, based on their varying user privileges. In order to effectively manage this situation, it is imperative that the terms of use in the metaverse are stringent and clear-cut for the users.

VI. CONCLUSION

To fully utilise the metaverse, businesses will need to adopt proactive measures for safeguarding their trademarks both online and off. This will require them to negotiate this ever-changing digital landscape.

In conclusion, a robust global legal framework is essential to safeguard both the freedom of users to produce virtual digital material in the metaverse and the rights of IP owners, given the metaverse's enormous potential and complex hurdles. Global trademark offices should think about how the laws and regulations pertaining to trademarks may need to be changed to take into account how customers generally perceive and comprehend trademarks for virtual goods and services offered in the metaverse.

Closing the apparent gap between reality and the current legislation will require the creation of particular laws and regulations to guarantee trademark protection in the metaverse. It would be reasonable for legal frameworks to be comprehensive in order to bridge this gap, taking into account practical innovation, technological improvements in the metaverse .
