



TRADEMARK FILING AND PROSECUTION IN THE METAVERSE

A Partial Summary of Trademarks in the Metaverse: A Report from INTA

New Emerging Issues Sub-Committee of the INTA Emerging Issues Committee

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Introduction

The advent of the Internet in the 1990s sparked a revolution that touched on every aspect of modern life and opened doors for all manners of technological progress. At the same time, this revolution also led to new legal challenges across an equally broad spectrum. It gave birth to the phenomenon of “cyber squatters” and created new avenues for counterfeits and other forms of unfair competition, to name just a few issues. These challenges led brand owners to seek and devise new mechanisms to defend their rights and seek redress. Over time, legal practitioners developed new protection and enforcement strategies, and governmental and non-governmental entities responded with national legislation, treaties, and other forms of action to ensure the Internet could provide a stable environment for stakeholders and users alike. These challenges continue even as the Internet continues to evolve, including into new virtual environments and new forms of e-commerce. With the benefit of that experience, brand owners, legal practitioners, and governmental and non-governmental entities now have the opportunity to prepare for what may be the next revolution, or at least a new frontier—the metaverse.

While the metaverse is still in a nascent stage of development, it has the potential to revolutionize how we experience the Internet and interact with brands and each other. With that potential also comes the possibility of the same challenges arising that followed the rise of the Internet, perhaps as well as some new and unforeseen challenges. With that in mind, the International Trademark Association (INTA) published a white paper in April 2023 titled Trademarks in the metaverse to identify at least some of the diverse problems and potential best practices for brand owners who enter the metaverse.

This paper highlights the findings of that publication as they pertain specifically to prosecution and registration of trademarks for metaverse goods and services. Due to uncertainty about whether existing trademark rights and registrations for physical goods and services will translate into protection for their virtual counterparts, together with the proliferation of new brands that exist exclusively in virtual environments, trademark offices around the world have been inundated with applications for goods and services related to the metaverse. In turn, this development has led to competing paradigms over how to understand the relationship between physical and virtual offerings, resulting in different approaches to classification.

The Metaverse Raises Questions Over the Natural Zone of Expansion for Trademarks

The first question for brand owners with regard to trademark rights in the metaverse is whether, and to what extent, their existing trademark rights and registrations may protect their rights in new virtual spaces. Under the traditional “nature zone of expansion” doctrine followed in certain jurisdictions, trademark rights established for one type of good or service may extend to others that fall within the natural extension of their business activities. As an example, a restaurant chain may be expected to extend its product line from restaurant services to pre-packaged food goods, such as bottled sauces or frozen meals. By contrast, the doctrine may not apply if that same restaurant chain extended its product line to downloadable software.

The metaverse challenges that distinction insofar as physical goods may have virtual counterparts that consumers may treat as equivalent products although one exists only as non-downloadable software. While famous brands may rely on their fame to extend their rights between physical and virtual spaces, it is unclear whether a non-famous brand that operates only in the physical world can rely on its registration rights and goodwill to prevent the use of similar trademarks exclusively in the metaverse (or vice versa).

The issue was addressed in at least one prominent court case, namely *Hermès International, et al. v. Mason Rothschild*, 1:22-cv-00384-JSR (S.D.N.Y. May 18, 2022). In that case, a New York federal jury found that the artist Mason Rothschild infringed the trademark and trade dress rights of Hermès International by offering virtual designer bags under the name METABIRKIN. The fashion company successfully argued that the virtual goods infringed the company’s rights to BIRKIN and the Birkin bag design with respect to physical goods. Whether this decision sets a standard for future disputes between physical world and metaverse brands is to be seen. Moreover, as of this publication, the defendant in that case has appealed the decision to the U.S. Court of Appeals for the Second Circuit.

The Challenges and Opportunities of Trademark Applications Covering the Metaverse

The metaverse poses significant questions with regard to the territoriality of trademark rights. Traditional concepts of territorial boundaries and the territorial limitations of use began to blur with the development of Internet commerce. For example, a consumer in New Zealand could see branded goods on an Italian site bearing a trademark properly held by the seller in Italy but infringing the rights of a competitor in New Zealand. In many cases, this situation could be resolved by setting on the distribution and sale of the foreign products, thus preserving the geographic boundaries of each parties’ rights. As a result, a brand owner could still maintain some effective control domestically within their national borders and despite the borderless nature of the internet .

The metaverse however, takes the disregard for national borders to the next level. As envisioned by its developers, the metaverse consists of virtual marketplaces in which virtual goods and services are sold directly and without regard to the physical location of the users, to the point that untraceable cryptocurrency is often favored for financial transactions. Suddenly the metaverse presents an entirely new territory (or rather, territories) for brand policing, one in which traditional concepts of establishing and enforcing trademark rights may not easily fit.

While these issues may stymie brand owners or even deter them from entering the metaverse, it should be understood that the non-territorial nature of the metaverse has substantial upsides as well. As envisioned, the metaverse provides brand owners with limitless possibilities to expand into previously inaccessible markets. A person in the United States can build a level of brand recognition throughout Europe that physical geography may have once made impractical. Even now as the metaverse exists only in theory, taking steps to establish and expand trademark rights for virtual goods and services can lay the foundation for establishing goodwill and brand recognition that transcends geography.

Where and How to Establish Rights in the Physical World for Protection in the Metaverse

Until there is a solution tailored to virtual spaces, brand protection in the metaverse relies on establishing trademark rights in the physical world. In certain jurisdictions, such as the United States, trademark rights can be established through use alone (e.g. common law rights). While these rights may be limited in comparison with the rights that come with registration, it can provide an avenue for brand owners with smaller budgets to establish rights for enforcement purposes—that is, provided that the brand owners can meet the threshold requirements based on use of their trademarks in the metaverse (a topic explored more in the section on “Use of Trademarks in the Metaverse”).

For brand owners who will rely on registration by choice or necessity, the question is where in the physical world should they go? For example, will a brand owner be served as well with a registration in Egypt as in the United States when it comes to enforcing their rights in a non-territorial virtual space? What about Brazil or Europe? Three factors are worth considering in making these determinations: 1. how advanced is the national law in dealing with concepts of virtual branding and enforcement; 2. are relevant servers/metaverse service providers domiciled in the jurisdiction; 3. is there a large virtual community of customers of the virtual product in the physical jurisdiction. Until a new approach is developed for dealing with the metaverse as a transnational jurisdiction, brand owners should keep these considerations in mind in anticipation of entering or enforcing their rights in the metaverse.

The next question for brand owners relying on registration is whether their existing registrations (if any) may already cover virtual goods and services or if new filings will be necessary. Trademark offices have not shown a willingness to treat physical goods as equivalent to virtual counterparts for classification purposes, such as allowing “shoes” in

Class 25 to cover the virtual rendition of a shoe. Infact, at least the United SStates has specifically rejected this approach. Instead, many jurisdictions, including the United States, European Union, and WIPO, have relied on Class 9 for virtual goods (essentially equating all virtual goods with downloadable software) and Classes 35, 36, 41 and 42 for virtual services. This approach has led to criticisms that Class 9 has become overloaded with applications for virtual goods, making differentiation between brands difficult when the physical counterparts may be entirely distinct from each other. For example, an application to register “downloadable software” (in a jurisdiction where such broad descriptions are permitted) for similar marks would be in conflict even if one applicant offered virtual shoes and the other offered virtual tennis rackets, despite the fact that the physical world counterparts fall under two different classes (Class 25 and Class 28, respectively).

An alternative approach under consideration is to create a new 46th Nice Classification specifically for virtual goods and services. Although, critics of this approach note that it may simply move the problem of an overcrowded Class 9 elsewhere without addressing the underlying problem.

Since the publication of the INTA white paper, both the UKIPO and EUIPO have issued new guidance on the classification of virtual goods and services provided in the metaverse. Both documents reinforce the current status quo on the matter—that is, virtual goods properly fall under Class 9 regardless of their physical world counterparts. Both offices clarify that broad descriptions of “virtual goods” is insufficient without specifying the type of virtual good to be offered (e.g. “virtual clothing” or “virtual handbags”). The UKIPO guidance further reinforces that virtual services fall under the physical world equivalent; however, the UKIPO also acknowledges that certain services are not equivalent between the physical and virtual worlds, such as restaurant services in Class 43. Since “a metaverse avatar ‘consuming’ food and drink within the metaverse would not constitute a class 43 service”, the UKIPO explains, but would rather constitute “entertainment services” akin to a gaming service.

Whatever approach is ultimately taken across jurisdictions, the need for international uniformity is paramount. Unless and until a consensus forms on the way forward, brand owners will need to consider both the optimum jurisdiction to seek registration as well as the approach taken in that jurisdiction to classification when crafting an application for trademark protection in the metaverse.

Conclusion

Brand owners must keep in mind the differences between the physical world and virtual spaces when it comes to determining their trademark filing strategy for the metaverse. Traditional concepts of territoriality need not apply, and as such it is an open question where best in the physical world to establish trademark rights. While common law rights may be available presuming the brand owner can meet the “use” requirements under local standards, registration may still be the most reliable means of establishing rights. That in turn leads to questions as to where to file and the proper classifications to use.

The current trend among trademark offices is to rely heavily on Class 9 for virtual counterparts to physical goods, in addition to classes suitable for both virtual and physical services (such as financial transactions or retail store services). However, the over-reliance on Class 9 has pitfalls that call for a new solution. Brand owners should keep an eye on any developments in this area, as registration in the physical world may be the best means of protecting trademarks in the virtual world for the foreseeable future.