



TRADEMARK LICENSING 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 trademark licenses in the metaverse, taking into account how existing frameworks can be applied and adapted to new technology.

How Should the Territory of the License be Defined?

Trademark licenses are typically either granted on a worldwide basis or restricted to certain territories. Territorial restriction is often sought because a) the licensor does not want to market licensed goods or services in certain jurisdictions; b) there is a potentially confusing use in a certain jurisdiction and the brand owner wishes to avoid infringement claims; or c) the licensor has already licensed rights to market the goods or services to another party in an excluded jurisdiction. These same real-world considerations may also apply to the virtual world; however, defining a territory in a non-physical space that exists on the global web is much more difficult. As metaverse platforms continue to proliferate and interoperability becomes more feasible, it is uncertain whether limiting licenses to certain platforms will be possible or even desirable. For the time being, balancing precision of where a brand owner wants to engage in the metaverse with flexibility and adaptability to new technologies will be key.

How Should New Trademark Licensing Contracts Define the Licensed Goods and Services?

Licensors should explicitly state whether the license encompasses both physical and virtual goods/services or excludes either “world.” Brand owners that prefer to define the scope of the goods and services for which a licensee can use a mark by Nice classes will have to grapple with the current reality that virtual goods and services are increasingly being placed in Class 9, while their real world counterparts may be classified in a wide array of Nice classes. These brand owners will either have to expand the license grant to Class 9 or use more general terms to cover the virtual counterparts of other real-world classes. As governments decide where metaverse goods and services fit into existing classification systems, it may be prudent to define terms specifically and with reference to actual goods and services rather than classes.

How Does the Metaverse Affect Limitations on Channels of Trade?

Many current license agreements restrict a licensee’s rights by channels of trade, e.g. one licensee may sell goods online while another can sell the same goods in brick-and-mortar stores. The metaverse, by its very nature, blurs the lines between the physical world and the online world. Can a licensee who is permitted to sell goods in brick-and-mortar stores buy a virtual plot of land, build a store, and sell real-world products through the virtual online storefront? Or would this encroach upon the rights of a second licensee who is permitted to sell the same goods online? What about limitations among platforms? This will be a challenge when there is full interoperability. As the field develops, we may see more metaverse-specific channels of trade incorporated into contracts and new channels of trade categories may be created. For the time being, communication among existing rights holders and grantors is paramount to prevent confusion and litigation.

How Does the Metaverse Affect Existing Trademark License Agreements?

One of the main challenges as the metaverse grows will be determining how existing legal arrangements apply to or need to be adapted for this new medium. As mentioned

previously, trademark licenses have historically been either geographically restricted or granted worldwide. How do these prior classifications apply to the virtual world? In the case of geographically restricted grants, it seems impracticable to extend those rights to the licensee in the metaverse. In the case of existing worldwide rights, whether those rights apply to the virtual world may depend on the nature of the licensed goods and services and whether the natural zone of expansion includes virtual reality. Regardless, for both worldwide and restricted license grants, presumptions should not be unilaterally made as to whether rights extend to the metaverse. The contracting parties should communicate and make sure that their understanding is aligned.

How Will Licensing Agreements Evolve in the Metaverse?

The emergence of the metaverse will affect not only the substance of trademark licensing contracts, but also the form of contracts. Smart contracts are self-executing agreements written in code, which automatically enforce the terms and conditions of the agreement. Using smart contracts for licensing trademark rights in the metaverse offers a promising solution to streamline and automate the licensing process. Smart contracts can facilitate the management and enforcement of licensing agreements by triggering predefined conditions, such as usage limits and royalty payments, ensuring that licensees adhere to the agreed-upon terms. Smart contracts may also help keep track of rights in a mark when the virtual good or service is transferred between metaverse platforms . Perhaps they will even be useful in preventing unauthorized use or transference to non-licensed metaverse platforms should a brand owner wish to limit a good's movement.

The promised interoperability of the metaverse poses a challenge in this respect. The technology is being developed to facilitate the free and easy movement of digital assets, and consumers may come to expect that virtual goods or services acquired on one platform will travel with them as they move between platforms. Licensors should therefore be prepared to find proactive solutions to restrict such movement when it would violate licensing terms, and also to manage consumer expectations accordingly.

What Does Quality Control Look Like in the Metaverse?

Although some brand owners will develop their own metaverse worlds and keep control of their virtual branding, others will resort to partnerships that leverage the expertise and infrastructure of third parties. As is always the case, brand owners need to ensure that they are not granting a “naked” license to their partners and maintain control over the quality and use of their marks. The metaverse offers both challenges and additional tools to exert control over marks' use. On the one hand, brands may need to make strategic decisions on how their marks will be altered in size and color due to resolution, color, and other technological limitations of platforms. On the other hand, brand owners may have even more control as they may provide some or all of the digital files necessary to display their marks and use smart contracting on a blockchain to enforce how and when they are displayed.

What Else Should Brand Owners Consider When Licensing Their Marks in the Metaverse?

As with existing agreements, parties will need to determine matters such as governing law and forum. Although the metaverse presents jurisdictional challenges, it would be sensible to choose jurisdictions with logical connections to the agreement or, if possible, those that have or are developing expertise in this novel field.

Unique to the metaverse, contracting parties have a built-in third party, the metaverse platform operator. Parties will need to consider the rights granted to the platform operator via its terms of service and whether they are acceptable to the brand owner or affect the license grant in any way. Parties should pay careful attention to the terms of service and any obligated intellectual property rights granted therein.

Conclusion

The metaverse provides ample opportunity for new brand recognition, use, and growth but it also comes with novel risks and many unknowns. Proactive communication, flexibility, and adaptation will be required in the coming years as this new legal frontier develops.