

WHAT TRADEMARK RISKS DO BUSINESSES FACE IN THE METAVERSE AND HOW CAN LEGAL FRAMEWORKS EFFECTIVELY ADDRESS THEM?

GEMAWAT, ADVIKA

Common Law LLB, College of Social Sciences

ABSTRACT

The emergence of the metaverse as a digital frontier for commerce presents novel challenges and opportunities for businesses. Among these, trademark protection stands out as a critical concern, raising important questions about the implications for brands operating in this expansive virtual space. This article explores the potential trademark issues that may arise in the metaverse, including risks of counterfeiting, unauthorised use of brand assets, jurisdictional complications, and the evolving nature of digital ownership. By analysing industry perspectives and leveraging both primary and secondary research, the article highlights the pressing need for businesses to proactively safeguard their trademarks in this dynamic environment.

The article explores practical measures to address emerging threats, including registering digital trademarks, educating consumers, and monitoring virtual platforms. In doing so, it emphasises the importance of adaptability in trademark management to ensure brand integrity in both physical and virtual domains. By bridging gaps in existing literature, this article aims to equip businesses with the tools and awareness necessary to navigate the metaverse's legal and commercial intricacies.

INTRODUCTION

The metaverse is a virtual space where users interact with each other and digital environments through avatars, blending real-world and digital experiences. This evolving virtual environment has opened new avenues for businesses to connect with consumers in immersive and interactive ways by enabling companies like Puma and Nike to engage consumers through virtual storefronts and digital goods reflecting physical counterparts. This technology raises critical questions about the impact on brands from a trademark perspective, as existing Intellectual Property (IP) laws, originally designed for physical goods, may not fully address the unique challenges of virtual environments. Practical challenges that arise when applying traditional legal frameworks to a borderless digital space could be ownership verification of digital assets and cross-border law enforcement due to the global scale of the platform. Protecting IP in virtual spaces is paramount as challenges like digital counterfeiting, brand dilution, and unauthorised use can erode brand reputation and consumer trust. As businesses increasingly explore the metaverse, the interplay between traditional IP laws and this emerging digital landscape raises critical questions about their adaptability and relevance. This article examines the impact of the metaverse on business trademarks, exploring key trademark issues, industry perspectives, and practical strategies businesses can adopt to mitigate risks in this evolving virtual landscape.

BACKGROUND AND CONTEXT

To fully understand the challenges, it is essential to first examine the nature of the metaverse and how businesses operate within its unique virtual ecosystem. The 'metaverse' broadly refers to virtual worlds operated through avatars, extending beyond Meta Platforms, Inc., to include platforms like Fortnite, Roblox, and Decentraland. Companies like Nike and Adidas have launched virtual stores or digital products, including exclusive virtual sneakers and clothing, offering users the chance to buy virtual items for their avatars, such as armour and swords. This shift highlights how the metaverse is becoming an increasingly important space for brand engagement and consumer interaction. For example, Ralph Lauren recently collaborated with Zepeto, a popular metaverse platform home to a younger demographic of users who are likely to influence future digital trends (Swant, 2021). By offering virtual clothing lines, Ralph Lauren is aligning itself with modern digital culture and appealing to consumers who value virtual self-expression as much as physical style. This represents an exploration of new revenue streams and marketing strategies while also pushing the boundaries of what luxury fashion can represent in a digital environment. Hence, as brands establish their presence in the metaverse to cater to an increasingly digital and interactive consumer base, they mark a significant shift in brand engagement and intellectual property protection in this virtual realm.

Stores are also advertising and selling real products, such as a physical bottle of Dior's famous perfumes through the VR store, displaying a virtual IP of the physical products (Emperia, 2024). Further, companies are also using the metaverse to sell virtual versions of a product that can also be bought in their physical form (Digital Twin Model), such as a virtual McDonald's store selling a virtual burger. However, the customer could also purchase the same burger in its physical, edible form, delivered to their doorstep through the 'virtual restaurant' simultaneously operating home delivery services (Coin Bureau News Desk, 2022). Digital assets representing famous branded products, such as the virtual Ralph Lauren polos or Big Mac advertised in the virtual McDonald's restaurant, are protected through intellectual property laws, essential for preserving creativity, brand identity, and the economic interests of businesses.

In the physical world, these laws grant creators and brands exclusive rights to their works, from product designs and logos to written and artistic content. Additionally, copyright laws protect original works of authorship, such as art, literature, and software code, while trademarks safeguard brand names, logos, and other identifying symbols that distinguish products and services. Similarly, IP protection is crucial for businesses entering the metaverse, as unauthorised use of trademarks and copyrighted content can lead to consumer confusion, tarnished brand reputation, and lost revenue. While existing IP laws offer some level of protection, the unique nature of digital assets exposes them to infringement, unauthorised sale, and manipulation. The Hermès 'MetaBirkins' case shows this issue, where the creation and sale of NFT-based Birkin bags led to legal disputes over trademark infringement and brand dilution (Brittain, 2023).

Several studies (Müller-Peltzer, 2022; Cheong, 2022) have explored a range of potential issues on this platform, including global data protection and non-commercial concerns such as civil torts between avatars. Hence, it is imperative to closely examine how businesses can adapt to trademark challenges in a virtual context. Building on this foundation within the realm of commercial law, this article focuses specifically on the impact of trademarks on brands in the metaverse. For example, how will trademark rights, which are inherently jurisdictional, be applied in a global platform like the metaverse?

KEY ISSUES

Classification of digital assets as 'goods'

Among all challenges, trademark classification is crucial in defining the scope of protection. It decides where and to what extent a business' branding elements, and subsequently, their products, are protected. As Fukuoka (2022, no pagination) states, 'when registering a trademark, an applicant must designate the goods or services category within which they are seeking protection. Once the trademark right is registered, the holder of the trademark may only prohibit the use of the trademark by others within such category's scope'. However, trade classification becomes particularly intricate in the metaverse, where digital assets challenge traditional boundaries and definitions. Applying trademark protections to digital assets presents challenges in classifying digital assets like avatar clothing or virtual real estate, which are intangible software code as traditional classification systems were designed for physical, tangible goods, which makes it difficult to define digital assets within the existing legal categories precisely because the level of precision in the application defines the scope of protection in the longer run.

Out of all the potential issues in the metaverse, classification systems are likely the most manageable. Jurisdictions differ in their classification systems as some offer expansive lists, while others are more basic. However, most businesses mitigate this by including multiple classes in their trademark applications. Current systems can sufficiently adapt to digital assets as far as classification systems are concerned because businesses are filing trademarks under terms such as 'software codes' or 'downloadable files' (Intellectual Property Office, 2023). With the advent of the digital world and the increasing representations of brands in the virtual forum, many jurisdictions, such as the Nice Classification, have created more specific categories for enhanced protection, such as 'online virtual guided and 'downloadable virtual clothing' (Nagindas, 2023). However, additional costs need to be incurred by businesses to add extra classification codes to their trademarks since the process is expensive and needs to be renewed after a certain period of time. Brands are forced to update or file new trademark classes to cover virtual goods, services, and other metaverse-related categories, as seen with Victoria's Secret filing for virtual clothing and McDonald's for virtual food, drinks, and restaurants (Petranyi et al., 2022). This is detrimental to businesses since they will have to incur more costs for brand protection, either by paying more for enhanced trademark protection during application filing or for a lawsuit in the event of a trademark infringement.

Ownership and verification

Assuming that trademark classification in the metaverse has been resolved, decentralised platforms and user anonymity pose a challenge in confirming ownership, tracking unauthorised use, or preventing digital counterfeiting. Physical counterfeits

often reveal poor manufacturing, but digital replicas lack such tell-tale signs. Another risk involves hackers infiltrating official brand accounts or other avatars' accounts to steal virtual goods or create cheat codes to illegally download the software behind the virtual items. Such concerns also open up a broader question on what 'ownership' truly means on a digital platform. Metaverse transactions often resemble software licenses, limiting true ownership akin to subscription models like Microsoft 365. As Cheong (2022, p.491) posits:

Ownership in the metaverse is nothing more than a form of licensing or provision of services. In such instances, true ownership still lies with the owner. This may mean, for example, that the buyer cannot sell the item without permission from the true owner.

Such understandings of ownership can be problematic for both businesses and avatars as it creates challenges in trademark protection for businesses and limits avatars' ability to freely use, sell, or share virtual assets.

Potential solutions to manage customer expectations regarding counterfeiting issues could include clarifying that digital assets represent licenses, not ownership, and outlining the associated limitations, such as restrictions on resale and recovery, to set consumer expectations from the outset. It would also be beneficial to offer optional insurance plans that protect users from financial loss in case of hacking or platform errors, similar to warranties for physical goods. For example, users could be compensated with in-platform credits or replacements for lost digital items. As Ilnitskaya (2022) states, 'Roblox is reportedly working on its own in-platform anti-counterfeiting detection system to help tackle counterfeit items on the platform'. While the detection system offers a proactive measure against counterfeiting, its success will largely depend on the precision with which it identifies infringements. If the system is overly broad or prone to false positives, it could inadvertently disrupt legitimate user activity. As such, careful calibration and regular updates to the system will be necessary to balance effective enforcement with user satisfaction and fairness.

Jurisdictional and cross-border enforcement

While detection systems can provide support with enforcement strategies within the platform, the metaverse's global nature complicates IP enforcement due to differing national laws, such as U.S. and EU discrepancies in software protections. Different IP laws across regions add to the issue; for instance, the European Union does not protect software as 'artistic work' under copyright, whereas U.S. law provides broader protections. These discrepancies complicate IP enforcement and raise questions about which jurisdiction's laws should apply to the metaverse for businesses and user grievances. This issue reflects the overarching conflict with creating and running a multi-jurisdictional platform. Many businesses conduct practices in a manner that may be different or completely unacceptable in other jurisdictions. For example, Amazon's aggressive pricing and market dominance have led to antitrust investigations and legal actions in regions like the European Union, where such practices are seen as unacceptable (European Commission, 2020). A potential solution could be each jurisdiction running its own version of the platform under an overarching structure, for example, 'Douyin' in China and 'TikTok' in other jurisdictions. However, that restricts and separates users of different jurisdictions from enjoying a combined experience, thereby limiting opportunities for businesses to engage with global audiences and build integrated communities. Additionally, metaverse platforms may host content created by political or commercial actors, raising concerns about potential conflicts of interest in shaping regulatory frameworks.

On the plus side, businesses have been following this procedure since the advent of multinational corporations and multi-jurisdictional presence, with businesses catering differently to different target audiences globally when marketing and selling products. So, a similar approach to the metaverse might be a familiar and acceptable option to them. However, this solution assumes that the creators of metaverse will be open to creating separate platforms for audiences on the basis of countries, which would be a massive undertaking. Assuming creators endorse this strategy for its engagement benefits, it may result in anti-competitive practices and business exploitation by developers.

The Apple vs. Epic Games trial highlights how dominant platforms can exert disproportionate control over digital ecosystems, limiting competition and shaping emerging technologies like the metaverse (Cross, 2021). This raises significant concerns for businesses, which may face restrictive terms, revenue-sharing mandates, and barriers to market entry, with limited control over their intellectual property. Platforms like Roblox, which cater to a global audience, including a substantial under-13 demographic, prioritise safety by employing over 3,000 moderators worldwide to screen for inappropriate content (Cross, 2021). While this is reassuring for guardians, it highlights potential risks for creators and businesses. In a scenario where a heavily moderated metaverse becomes the dominant platform for entertainment and commerce, creators may find their content judged inappropriate or excluded, leading to restricted opportunities and uneven playing fields. This could further exacerbate concerns about anti-competitive practices and the exploitation of businesses by platform developers. Hence, the challenge for IP enforcement lies in balancing regional adaptability with the need for a cohesive, fair, and inclusive digital ecosystem that fosters innovation while protecting rights across borders.

Industry Perspectives

Industry perspectives highlight the practical challenges faced by businesses and potential solutions. Many businesses must navigate a patchwork of national laws, making global enforcement challenging and costly. One might argue that creating a unified international framework is necessary to create consistent IP protections, which would reduce enforcement costs and clarify obligations for multinational corporations operating in the metaverse. Without such a framework, businesses face heightened risks of IP infringement with limited recourse. Self-regulatory measures, such as licensing agreements and IP enforcement protocols, offer a potential interim solution while legislation catches up. The *Hermès v. Rothschild* case, involving MetaBirkin NFTs, set a precedent for applying traditional trademark protections to virtual assets, using familiar tests like consumer confusion from conventional trademark law (Mumraz, 2023). This case, though ongoing, has indicated that well-established legal principles can still be applied to digital spaces, albeit with new challenges, reflecting industry perspectives on how traditional IP law can adapt to the evolving metaverse landscape.

Industry experts such as Petranyi et al. (2022) strongly recommend that companies venturing into the metaverse take a proactive approach to safeguarding their IP. To secure their valuable creations, copyright and trademark owners are urged to mint their own NFTs representing protected products, services, and works, effectively blocking unauthorised tokenisation and resale. Additionally, metaverse platform providers are encouraged to tighten up their legal frameworks by integrating provisions into their terms and conditions, filling the gaps where the law is still catching up. The law, as Petranyi et al. (2022) point out, is still evolving to catch up with digital environments like the metaverse. However, these voluntary legal measures may not always be sufficient. Without a universal and binding framework that applies across all platforms, gaps will continue to exist, allowing businesses and individuals to circumvent rules or operate in spaces where IP laws are ambiguous or underdeveloped. Thus, while proactive measures are undoubtedly necessary, the long-term solution may lie in stronger, more standardised international regulations that ensure a cohesive legal landscape in the metaverse rather than depending solely on the self-imposed policies of individual platform providers.

POTENTIAL LEGAL SOLUTIONS

Given the current legal landscape, international treaties, private international law, the laws of the user's country, and platform operator regulations present potential frameworks for regulating the metaverse. Supplementary legislation tailored to digital IP rights could address challenges like digital asset inheritance and cross-border enforcement while complementing existing frameworks. Some real-world examples of this could be the recent Artificial Intelligence Act by the EU. Businesses would benefit from having supplementary legislation specific to the digital realm since it would make it easier to contest cases because the legislation would cover problems and remedies specific to the realm. Businesses and courts would not need to interpret every different legislative piece from a digital sense, saving time and creating clarity. However, the idea of supplementary legislation inherently relies on jurisdictional boundaries, which creates issues in terms of the appropriate regional laws to be followed. As Müller-Peltzer (2022) rightly mentioned:

If the metaverse operates on the principle that a company's location determines applicable law, this could undermine the traditional approach of applying the law of the region where goods and services are offered. Given that the virtual world does not align with physical state territories, it would be impractical to enforce legislation based on territorial boundaries.

Furthermore, the concept of territorial boundaries becomes even more problematic when considering the multitude of virtual platforms that operate independently from one another, often without a central regulatory body.

Hence, it is argued that an international treaty could unify IP protection, though harmonising diverse laws is challenging. Müller-Peltzer (2022) identified that:

Treaties under international law tend to be less suitable, as they only directly bind the contracting states and rarely the companies or private individuals' resident in the country. Moreover, the legal options for dealing with non-compliance with an international treaty are limited and not particularly effective. However, a separate legal regime for the metaverse would make it easier to handle, clearer, and more user-friendly.

Creating a separate body similar to the World Intellectual Property Organisation or World Trade Organisation seems to be the most realistic and effective solution. Müller-Peltzer (2022) offers a convincing argument that 'the agreements on which the WTO is based create an effective and uniform legal framework for global trade'. Despite the potential benefits, creating such a body would require substantial international collaboration and a comprehensive agreement among countries, businesses, and other stakeholders. While this may seem an ambitious goal, the rapidly growing metaverse and its economic significance make it clear that such an effort could be indispensable in protecting intellectual property in the virtual world.

CONCLUSION

In conclusion, given the evolving legal landscape, companies cannot afford to remain passive; they must adopt flexible and forward-thinking strategies to manage intellectual property effectively in both the physical and virtual realms. Failing to do so will leave them vulnerable to the risks of an increasingly digital economy. At this stage, a separate legal body seems like the most appropriate option to govern the metaverse. Unlike existing frameworks that must be altered to address metaverse issues, a dedicated body could focus exclusively on the unique characteristics of virtual environments. A metaverse-specific legal body could harmonise IP protections, ensuring businesses and consumers thrive in this evolving digital space.

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