

Fashion forays in the metaverse

Luxury fashion brands are expanding aggressively into the metaverse, drawn in part by its marketing potential as well as the need to guard their intellectual property in a new frontier.

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If I can't get on the wait list for the Hermes white Himalayan crocodile Birkin bag, I can now get my hands on a MetaBirkin NFT. Perhaps. But it is not cheap.

Before the Covid-19 pandemic, the fashion industry global revenue was estimated between US\$1.7 trillion (S\$2.4 trillion) and US\$2.5 trillion. The brand valuation of luxury fashion brands Louis Vuitton and Hermes are estimated to be US\$36.8 billion and US\$21.6 billion respectively.

These brands, and many others like Gucci and Burberry, are aggressively expanding their forays into the metaverse to capitalise on the public obsession with non-fungible tokens (NFTs) and Massively Multiplayer Online Role-Playing Games.

The metaverse is a new name for an existing idea, and it is a befuddling concept. It is fundamentally the combination of aspects of social media, gaming, augmented and virtual reality, and the Internet that forms an immersive digital world.

In this virtual space, people from across the world may socialise, work, play, learn, shop and innovate. Market research firm Gartner predicts that by 2026, 30 per cent of organisations worldwide will have products, such as apparel, automobiles, artwork and other goods, in the form of NFTs, available in the metaverse.

Indeed, there is much money to be made in the metaverse, but many legal issues are unresolved.

This week, Meta and law firm Rajah & Tann have teamed up to co-present a conference on law, policy and practice at the National University of Singapore.

Copyright and trademark laws at present stand in the way of a seamless metaverse where one can purchase an NFT, and then freely use the object associated with it in any game or online social space. The two key issues are: (i) whether there is infringement in a particular use of a trademark in a third-party launch of an NFT or use of the mark in an online game; and (ii) whether an artistic use, such as parody or satire, excuses the infringing behaviour.

INFRINGING I.P. RIGHTS IN THE METAVERSE

In December last year, the artist Mason Rothschild launched his furry colourful digital renditions of a Hermes Birkin at Art Basel in Miami – 100 digital collectibles created on the Ethereum blockchain – and sold them on the OpenSea NFT marketplace.

The first MetaBirkin NFT sold for a cost of 10 Ether or over US\$42,000. Unsurprisingly, Hermes sued for infringement of its trademarks. The frequency with which brands' trademarks was being used on the virtual goods in the Second Life ecosystem without their authorisation led to metaverse-related lawsuits. Due to swift settlements or the defendants' failure to turn up in



Gucci Garden is a virtual world on metaverse platform Zepeto, which the French brand used to reach out to consumers. Many other brands, such as Burberry, are also aggressively expanding their forays into the metaverse. PHOTO: NAVER Z

court, these lawsuits provided little insight into how courts would treat trademarks – and claims of trademark infringement – in the metaverse.

Generally, when one purchases an NFT which is essentially a crypto token on a blockchain, one is buying a certificate of authenticity, not the intellectual property (IP) rights relating to the underlying artwork or even the digital artwork itself, unless the sales agreement explicitly states so.

A notable and rare exception are the NFTs issued by Bored Ape Yacht Club which grant to the buyer “a worldwide, royalty-free licence to use, copy, and display the purchased Art, along with any extensions that you choose to create or use” for a number of purposes that include “as part of a

third party website or application that permits the inclusion, involvement, or participation of your Bored Ape” and “use of the Art to produce and sell merchandise products (T-shirts etc.) displaying copies of the Art”.

The fashion brands are more protective of their IP rights. The truth is brands will likely be able to rely on existing trademark rights (in physical products and retail services) in order to bring enforcement actions, and may not need to file new applications for virtual goods.

Nonetheless, there is a trend by fashion brands to rush to register a panoply of trade marks in three categories: “downloadable virtual goods” (Class 9); “retail store services featuring virtual goods” (Class 35); and “entertainment services, namely, providing online,

non-downloadable virtual footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories for use in virtual environments” (Class 41).

In order to succeed in a trademark infringement lawsuit, brands have to prove that there is a similarity of marks and similarity of goods that result in a likelihood of consumer confusion. This means it is more difficult to prove confusion if the brand is not commercially active in the metaverse.

It would appear that Gucci was prescient in the use of its marks in the metaverse, whether in issuing NFTs or collaborating with online game platform Roblox, even though it may be slow to register them in the relevant classes.

But, for a special category of famous marks well-known to the public at large, arguably brands like Hermes, Chanel and Rolex, they have the benefit of commencing an action in dilution by blurring or tarnishment, even without registering their marks for use in the class of downloadable virtual goods.

The Singapore Trade Marks Act also extends protection to such marks whether or not the trade mark has been registered in Singapore (section 55).

CAN PARODY OR SATIRE SAVE YOU?

A trademark is as symbolic as it is functional: It does much more than designate the source or origin of goods. The United States Supreme Court has commented that trademarks make up the expression of everyday life, and US courts have allowed parodies and satires of trademarks – as well as copyrighted works – to be excused from infringement liability.

Often characterised as providing “entertainment conveyed by juxtaposing the irreverent representation of the trademark with the idealised image created

by the mark's owner”, a parody or satire must invoke or copy a significant proportion of the original trademark in order for it to be effective, poking fun or mocking these familiar brands and the values that they signify. It would be impermissible if the mark was used merely to promote or sell goods and services.

Therefore, trademark law protects parodies such as Aqua's Barbie Girl song and Haute Diggity Dog's Chewy Vuiton toys for dogs, but frowns upon parasitic behaviour which are perceived to be infringing legal rights.

But it is often not easy even for lawyers to draw a clear distinction between the two, because a parody can still be confusing to customers and therefore infringe a trademark. Real world laws will ultimately have to apply to similar humorous uses in the metaverse. Unfortunately, there has yet to be a dispute before the courts in Singapore that would provide clarity in this area of law.

Rothschild admittedly created the MetaBirkin NFTs as an experiment to see if he could generate the same kind of illusion that the Hermes Birkin handbag has in real life as a digital commodity. Based on the astronomical prices, he has probably succeeded, but is it an acceptable playful parody or impermissible parasitic practice? The New York district court has preliminarily ruled that the case should proceed to trial, and it is the earliest decision of any court on a trademark dispute arising from NFTs. The final decision will no doubt be an important precedent.

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