

# Non-Fungible Tokens and Intellectual Property Rights

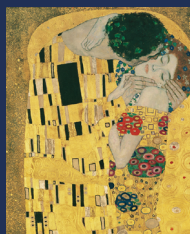
## Can the use of NTFs lead to IP infringements?



### WHAT IS AN NFT?

A non-fungible token (NFT) is a unique digital identifier that is recorded on a blockchain and is used to certify ownership and authenticity of a piece of art. Any artwork can be converted to an NFT, including photographs, videos, audio files, books, games, paintings, logos and other forms of art. Even tweets can be converted into NFTs. The only requirement is that the artwork needs to be in digital format. An NFT essentially turns a piece of art into a digital asset that can then be sold on one of the NFT marketplaces.

#### 1 Pick an underlying piece of art



The Belvedere Museum in Vienna fractionalised a digitised image of Gustav Klimt's 'The Kiss' into 10 000 NFTs

#### NFT MINTING (process of creating an NFT)

#### 4 Upload the artwork

Each NFT marketplace has guidelines on how to upload digital art and convert it into a marketable NFT.

#### 5 NFT is created



For instance, the museum asked for EUR 1 800 for each pair of NFTs.



#### 2 Set up a crypto wallet

A cryptocurrency wallet is a device or programme that stores cryptocurrency keys and allows the owner to access their coins. Among the most popular crypto wallets for NFTs are [Metamask](#), [MathWallet](#), and [AlphaWallet](#).

#### 3 Select an NFT marketplace

The crypto wallet needs to be linked to one of the NFT marketplaces. The most popular NFT marketplaces are [OpenSea](#), [Coinbase NFT](#), [Rarible](#), [Nifty Gateway](#), [Magic Eden](#), and

#### 6 Set up the sales process

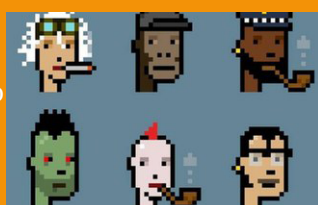
Decide on the price and how to sell the created NFTs.



### Raising popularity of NFTs

Although NFTs have been around since 2014, they are gaining notoriety now because they are becoming an increasingly popular way to buy and sell digital artwork. NFTs give artists an opportunity to monetise their creations more efficiently and to reach a wider audience. However, this also creates a platform for criminals to steal the artwork and sell it in the form of an NFT without the author's knowledge or consent.

CryptoPunks, a 10 000-piece collection of 8-bit portraits that are widely considered to be the first NFTs, are worth hundreds of thousands or even millions of US dollars each.



Six examples of the CryptoPunks

### NFT domains

While NFTs are primarily associated with art, they are also capable of creating and hosting websites. NFT domains serve as an easy-to-remember shortcut to blockchain-based cryptocurrency wallets. They are regarded as a crucial component for anyone exploring Web3.

An Internet Protocol address, which is a string of characters, is used to identify traditional domains. An NFT domain, on the other hand, allows users to access crypto wallets through domain names. The largest benefit of NFT domains is that, as opposed to leasing them, consumers acquire complete ownership of the domain name upon purchase.

NFT domains have many benefits, but they can also present some significant risks. With the use of this enabling technology, a large number of domains can be registered and subsequently used for phishing or malware assaults.



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# Can a consumer acquire the underlying art when buying an NFT?

When purchasing an NFT, consumers may get the impression that they are acquiring ownership of the underlying artwork. After all, an NFT is a blockchain-traceable digital certificate of ownership that represents the acquisition of a digital asset. This, however, is not the case. When purchasing an NFT, the consumer is simply purchasing the metadata associated with the artwork, not the artwork itself.

The NFT holder has no copyrights to the artwork either. The situation is the same as if a physical piece of art is purchased. The default rule of copyright law is that the copyright to creative works does not transfer to the purchaser of the works. The NFT purchaser will have no copyrights to the works linked to the NFT unless the NFT creator draws up a licensing agreement to actively transfer the rights to the purchaser.

Purchasing an NFT provides the buyer with simply a tokenised version of the work, which cannot be manufactured due to blockchains' inherent security qualities. In other words, an NFT is a blockchain representation of a piece of art's existence rather than the actual artwork. Unless specified otherwise, an NFT does not grant rights to the digital or physical assets it represents, it is actually a digital duplicate of the original artwork. This is similar to having a limited-edition print of a renowned photograph with copyrights reserved for the owner.

**The purchaser of an NFT receives simply the metadata to the digital artwork, not the artwork itself.**

## How can an NFT be so valuable if it is merely metadata to the digital artwork that does not transfer copyrights?

While the initial value of the NFT is determined by the artwork it represents, the ultimate value of the NFT is determined by the demand and hype produced around a certain NFT.

NFTs are most typically sold at auction, where the seller believes there is a high demand for the NFT and buyers are willing to pay a premium price for it.

NFT is not the same as underlying artwork



**NFT The Kiss** by Gustav Klimt

The most famous auction painting, The Kiss, was created in 1908 by Gustav Klimt at the height of what became known as the 'Golden Period'. It is part of the collection of the Stadtmuseum in Vienna. The high-resolution digital image of the masterpiece is to be minted as 10000 unique files.

NFT does not transfer copyrights

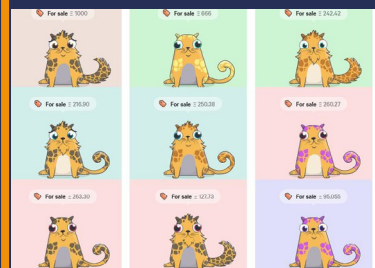


## How can copyrights be transferred?

The acquisition of an NFT, such as Gustav Klimt's 'The Kiss' NFT, does not mean that the painting can be copied, reproduced or distributed in any form. The author of the painting retains the intellectual property rights to do so. Copyrights of the underlying artwork can be transferred together with the NFT only if the artist of the original work explicitly transfers the copyrights. The copyright holder may also issue a licence to the NFT buyer, the terms of which are listed in a 'smart contract'. Smart contracts are digital contracts that are kept on a blockchain and are used to purchase NFTs.



King of Leon issues NFT with clear copyright use limitations



CryptoKitties is a blockchain game developed in Canada

There have been some cases in which the buyer of an NFT was given a limited licence to use the copyright. Owners of CryptoKitties NFTs, for example, have been permitted to earn up to USD 100 000 in gross revenue from them each year.

In other, more common cases, the creators have expressly prohibited any commercial usage of their work. The band Kings of Leon, for example, indicated that their NFT music was strictly for personal consumption.

# When does an NFT become illegal?

When the underlying artwork is used without the artist's permission, an NFT becomes illegal. Criminals produce NFTs using copyrighted content or trademarked symbols, which they then sell on NFT marketplaces. Because of their misleading link with the underlying artist or brand, such NFTs are frequently more profitable.

Using artwork without the permission of the artist may result in a copyright violation, specifically 'making available to the public', which is an exclusive right of the copyright holder in every country subject to the Berne Convention. At the same time, using a brand's logo or a trademark-protected symbol may result in trademark infringement.

## Lack of regulation

The NFT market frequently operates outside of the legal regulatory system. The lack of a strong regulatory framework allows for easy system exploitation.

## Copyright ownership not verified

No verification of copyright or trademarked ownership is required for NFT marketplaces. The request to prove copyright ownership is frequently only made after the copyright owner files a complaint.

## Why are IP violations raising rapidly in the NFT world?

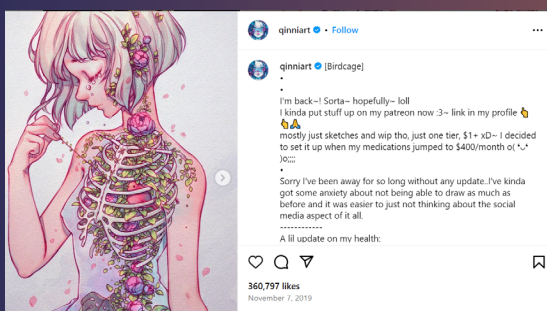
Anonymous accounts are permitted in NFT marketplaces. Users can easily create an account with any name, there is no need to verify the user's identity.

An NFT can be minted by anyone, the sole requirement is having a crypto wallet. Any image can be uploaded to the NFT marketplace without restrictions or verification.

## Anonymity

## Accessibility

## Illegal NFTs were made out of an artist's work after her death



Artist Qinni's illustrations based on the Japanese anime series Cardcaptor Sakura rose to prominence swiftly. Following her death, one of her most popular works, 'Bird Cage', was listed on Twinci, one of the most prominent platforms for selling NFTs. The artist's family filed a claim with Twinci, alleging that this piece of art was transformed into an NFT without their permission. Twinci investigated and removed the NFT since the account owner could not offer proof that they made the piece.

This form of fraud is becoming more common, owing to the anonymity of both collectors and sellers and the fact that artists are not subject to identity verification when opening accounts.

# Which copyrights might be violated?

The vast majority of NFTs do not include an 'as is' copy of the underlying work but rather the alphanumeric signature or URL that is linked to it. Nonetheless, because the underlying asset in NFTs is mostly art, the question arises of how the creation or mining of NFTs impacts the copyright protection afforded to the underlying art.

The author's exclusive rights cover reproduction, publication, lending and renting, public performance, adaptation, communication to the public and authorisation to do any of the latter. The question is which of these rights is being violated by the unauthorised use of artwork to mint NFTs.

## SCENARIO I

**An artist creates an NFT based on one of their paintings. The NFT does not contain a copyright licence agreement. The buyer purchases the NFT and starts making posters based on the painting.**

**Which copyrights might be affected in this scenario?**

- **Reproduction right**
- **Communication to public**
- **Authorisation to perform any of above**

This scenario is similar to the unlicensed use of copyrighted photographs or videos, such as uploading a picture on a website, social media platform or blog post without first acquiring a licence or authorisation.



Berne Convention

Making a copy of a copyright-protected work affects the reproduction right. The reproduction right established in the Berne Convention Article 9(1) was written in broad terms, and it is widely understood that it is intended to apply to developments in technology. The World Intellectual Property Organization (WIPO) Treaty of 1996 provides in Article 25 that the reproduction right set forth in Article 9 of the Berne Convention and the exceptions thereto fully apply to the digital environment, in particular to the use of works in digital form.

It is understood that the storage of a protected work in digital form on an electronic medium constitutes a reproduction within the meaning of Article 9 of the Berne Convention. This means that the reproduction of protected works in digital formats must first be approved by the copyright holder, which also applies to NFTs.



WIPO Treaty

All reproductions of copyrighted work must meet what is known as the three-step test of the Berne Convention.

Even though the artist granted permission to create an NFT based on their painting in this scenario, the copyrights are not transferred to the consumer with the NFT. As a result, any further reproduction of the painting based on the NFT can be considered a copyright violation.

## Three-step test

- 1** **Reproduction must not conflict with the normal exploitation of the work**
- 2** **Reproduction must not unreasonably prejudice the legitimate interests of the author**
- 3** **Unreasonable prejudice may be avoided by the payment of remuneration under a compulsory or statutory license**

A person makes an NFT based on a famous photograph without acquiring the photographer's permission. The NFT is listed in an NFT marketplace and sold for a substantial sum.

Which copyrights might be affected in this scenario?

- Reproduction right
- Communication to public
- Authorisation to perform any of above

**Right of distribution or reproduction.** Because an NFT does not include the underlying artwork, selling it without the author's consent may be a violation of reproduction or distribution rights. However, WIPO maintains that an NFT does not violate these rights because it is mostly code and does not constitute a substantial duplication of the work. According to WIPO, NFTs are unlikely to meet the three requirements for copyright infringement: an infringer has taken advantage of one of the author's exclusive rights without authorisation; there is a link between an NFT and the original work; the work as a whole, or a substantial part of it, has been copied.

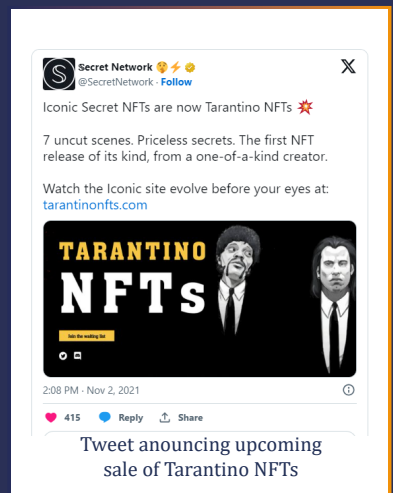


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Nonetheless, this is a contentious subject that will be resolved in the courts. The lawsuit filed against film director Quentin Tarantino for copyright infringement in connection with his proposal to sell NFTs based on parts of the original handwritten screenplay of the 1994 film Pulp Fiction is one example.

### Screenplay excerpts as NFTs

Quentin Tarantino, the director of the 1994 film Pulp Fiction, said that he would auction off portions of the original handwritten screenplay as NFTs. This prompted the production company Miramax to bring a lawsuit against Tarantino in California, claiming copyright infringement and breach of contract on the grounds that they, not Tarantino, control the rights to the picture and Tarantino's screenplay. In September 2022, the case was settled confidentially.



**Communication to public right.** In most situations, NFTs are open to the public, displaying the work to anybody who visits the NFT marketplace. This has an implication for the right to public communication. The right to communicate to the public includes the right to make the work available to the public through electronic transmission in a way that allows members of the public to access it from a location and at a time that is convenient for them. In the judgment of 8 September 2016 GS Media BV v Sanoma Media Netherlands BV and Others, C-160/15, EU:C:2016:644, the European Court of Justice held that disclosure to the public is illegal where (i) the offender is aware there is no authorisation and (ii) the infringement is intended to benefit the offender.



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In the context of NFTs, the URL generated by the NFT is publicly accessible on blockchain. Thus, if the artwork is being used without the author's permission, the illegal NFT infringes the right of communication to the public.

In this scenario, generating an NFT based on a photograph without the photographer's permission may not constitute an infringement of the reproduction right. The public display of an unauthorised use of the artwork, on the other hand, constituted a violation of communication to the public right.

# How is the trademark protection affected?

While the minting of NFTs has a significant impact on the artwork in question, minters can also produce NFTs that feature a brand's registered trademark without their permission. Similar to copyright infringement, it has been argued that an NFT is simply a collection of metadata and that the underlying trademark is not sold alongside the NFT. In contrast to copyrights, however, trademarks do not need to be sold. A trademark represents a specific brand and the reputation that the brand conveys. A trademark shown on a product signifies that the product is of a specific quality. The fact that an NFT displays the trademark increases the possibility that the average consumer would be misled into believing that the company is associated with the NFT. However, because there is no physical copy of the trademark linked to the NFT, the question arises as to whether digital trademark reproduction is regarded as trademark infringement.

Courts considered this question in two landmark cases: Hermès Metabirkins in the United States (US) and Juventus FC in Italy.

## 'Metabirkin' case – US District Court

The 'MetaBirkin' project was developed by an artist who made 100 photographs of the Hermès handbag, the Birkin, digitally covered in fur. The artist sold NFTs of the photographs in the metaverse for over USD 1 million.

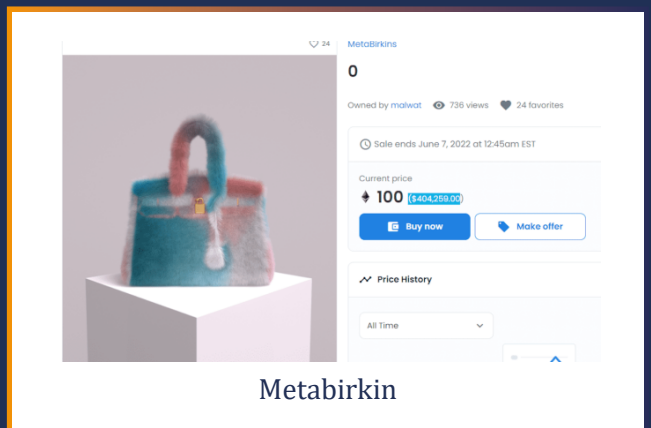
Hermès International initiated a trademark action against the artist, alleging that he was taking advantage of Hermès' famed intellectual property (the shape of the Hermès Birkin bag) in order to produce and market his own line of products, perhaps causing customer confusion. The lawsuit centred on whether 'MetaBirkin' NFTs were forms of protected artistic expression with commercial purposes that are likely to confuse consumers and thus are an infringement.

The Court used the Rogers v. Grimaldi test, which consists of two parts: (i) whether the use of the trademark in an expressive work is artistically important to the underlying work and (ii) if it is, whether it is intentionally misleading about the source or content of the work. The Court determined that the 'artistic relevance' criterion is often easy to satisfy and is met unless the use of the mark has 'no artistic relevance to the underlying work whatsoever' and was chosen merely to exploit the publicity value of the trademark or brand.

Thus, notwithstanding their association with NFTs, the Court found that the 'MetaBirkin' images were creative works. Even if NFTs are simply code referring to where a digital image is located, an image is provided trademark protection when the trademark is used to verify an image, allowing for resale and transfer. This protection is provided in the same way that physical paintings are protected when sold. Furthermore, the Court determined that buyers were indeed confused as to whether the 'MetaBirkins' were linked with Hermès.

The Court determined that 'MetaBirkin' used the Hermès trademark as an indication of origin, to identify a product line and to promote a business, which is the essence of trademark use. This clearly increases the possibility of customer confusion, and consumers may believe that the NFT was affiliated with Hermès.

The Court found the artist liable for trademark infringement, trademark dilution and unlawful cybersquatting. The jury awarded Hermès USD 133 000 in damages.



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# Juventus FC case - Rome Court of First Instance

Blockeras, a company that operates in the crypto market, had created an NFT initiative that consisted of minting and marketing trading cards (Cards) in NFT format that represent notable past and present sports players. One set of these NFT Cards was created in honour of the Italian footballer Christian Vieri. One of the Cards in this series portrayed the player in his early years wearing the official kit of the football club Juventus and reproducing the football club's distinctive and famed imagery.

Juventus filed a preliminary injunction application against Blockeras to prevent it from minting and promoting these Cards via NFTs. Juventus claimed that Blockeras' actions constituted trademark infringement and unfair competition because their NFTs illegally reproduced the club's trademarks, specifically the word marks 'JUVE' and 'JUVENTUS', along with the figurative mark consisting of a black and white striped jersey with two gold stars on the chest. While the footballer consented to the use of his image in the initiative, and in particular, the NFTs, Juventus, whose uniform he was wearing, did not consent to the use of its registered figurative trademark.

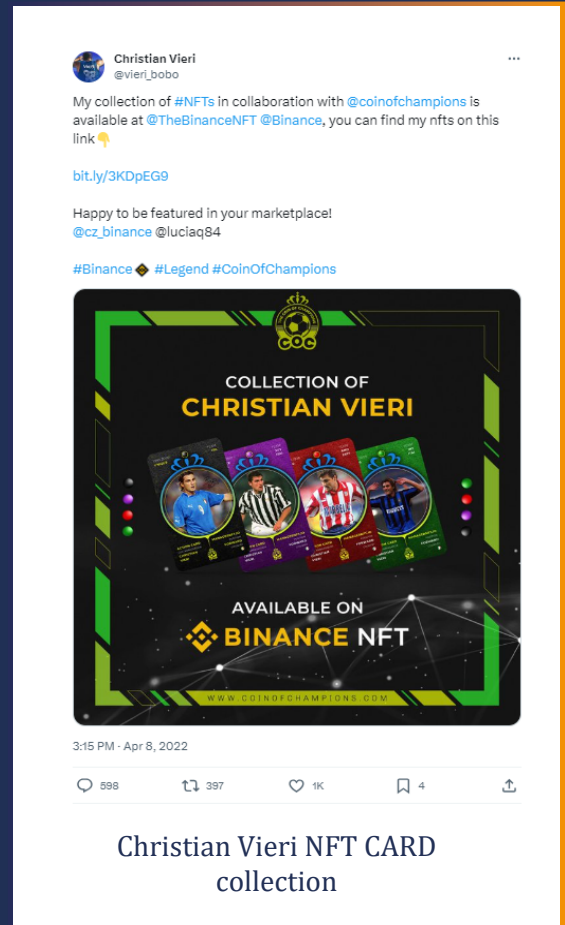
Blockeras requested the dismissal of Juventus' claims, claiming, among other things, that Juventus' trademarks were registered in Nice Classification Class 9, which does not encompass 'downloadable virtual goods'.

The Court began by confirming that Juventus' trademarks are well known, given the famed football teams associated with the club and the appropriate retailing activities carried out by the Italian club in a variety of areas. Furthermore, the Court determined that the registration of Juventus' trademarks in Nice Classification Class

9 can be interpreted to encompass NFT digital cards because the registration is broad, including expressions like 'downloadable electronic publication'. In this manner, the Court regarded the NFT as a 'digital certificate' of the digital content, in accordance with European Union Intellectual Property Office (EUIPO) guidelines. It makes no difference that the football player granted his consent and was wearing a Juventus jersey.

The Court concluded that the creation and sale of the NFT Cards constituted counterfeiting of the brand in question, creating a risk of confusion about the existence of a specific trade or economic link between Blockeras and Juventus.

The unlawful minting, advertising and sale of NFTs violated the rights of the registered owner, Juventus, according to the Rome Court of First Instance.



Christian Vieri NFT CARD collection

'The 12th Edition of the Nice Classification includes the term downloadable digital files authenticated by non-fungible tokens [NFTs]. In the context of this, non-fungible tokens are understood as unique digital certificates, registered in a blockchain, that are used as a means of recording ownership of an item such as a digital artwork or a collectible.

The term is not understood to mean the digital item itself, rather the means of certification, and so cannot be accepted for classification purposes as such. An acceptable example would be downloadable digital art, authenticated by an NFT.'



[Draft Guidelines for examination - EUIPO](#)



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