Corporate & Commercial

‘Industrial’ property in the metaverse

The metaverse raises several questions related to the legal regime of so-called industrial property (i.e. intellectual property not involving copyright and related rights) that are addressed in this paper.

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1. Introduction

Conceived as one of the largest confluences of cutting-edge technologies (around virtual, augmented and mixed realities) and as a space in which, among many other activities, commercial transactions can be carried out, the importance in the metaverse of industrial property rights, both in its creation and subsequent operation, is easily understood. This also explains why, of the many legal questions that arise in connection with the metaverse, a large part of them relate to the legal regime of industrial property, as we shall see below.

2. Protection of the technology involved in the functioning of the metaverse

2.1. The operation of the metaverse involves the implementation of multiple technological inventions, many of which are patentable. In fact, major companies already have a considerable portfolio of patents (granted or applied for) related to the metaverse. It is estimated that Microsoft alone has more than ten thousand related to virtual and augmented reality, and that companies such as Sony, Intel and Google also have thousands. And this being an evolving sector, the

number of patent applications is growing rapidly. We need only recall, for example, among the most recent patent applications, the one filed by Apple in the United States on a device for projecting augmented reality directly onto the retina that avoids the dizziness and headaches that can be caused by other types of glasses used to access the metaverse, or the applications filed by Facebook (now Meta) to protect devices and body sensors that allow an avatar to realistically reproduce in the metaverse the movements of a person in the physical world, the invention that allows a real computer to be used in the metaverse, so that user interfaces appear there, or the invention that allows notifications to be received and accepted in the metaverse just by looking at them.

In any case, these patent applications, which accompany the emergence of a new technological sector, will be examined in accordance with the existing legislation, without any specific legal issues arising from the fact that they are inventions relating to the metaverse.

2.2. Moreover, from a patenting perspective, it is important to note that there are currently multiple independent metaverses and that we are witnessing a process of interconnection of these virtual worlds, which will lead to the transition from the so-called *protoverse* to a truly global metaverse. This process of interconnection makes it essential to define and establish technical standards or rules, the execution of which will often require the use of proprietary technology. For this reason, we are facing a new field for the whole problem of the relationship between patents on essential elements of standards: from patent ambushes by those who participate in the setting of standards without advising of relevant patents they hold to the situation in which, having the patentholder committed himself to the process of setting the standard to grant licences to third parties as a way of allowing the standard to be implemented, it subsequently refuses to do so or does not do so on fair, reasonable and non-discriminatory (FRAND) terms.

3. The metaverse and the acquisition of industrial property rights

The possibility of using the metaverse for commercial transactions or as an advertising platform explains the importance of trademarks and industrial designs in this new virtual space and, with it, the importance of their adequate protection, whether registered or not.

3.1. *Towards the registration of industrial property rights in the metaverse?*

For the time being, as regards industrial property rights arising as a consequence of registration, the acquisition of exclusive rights (as well as the granting of patents) will take place outside the metaverse through the recognition of such rights by the relevant State or organisation of States and subject to the principle of territoriality governing industrial property rights, regardless of the trademark or design being used in the metaverse,.

Initiatives may arise such as that launched years ago in Second Life, a virtual space considered to be one of the first metav-

erses, where a patent and trademark office ("Second Life Patent and Trademark Office") was set up to register the creations of Second Life users or the first use of a trademark in said virtual world. But initiatives like this will not be accompanied by exclusive rights, unless an authority with the power to grant industrial property rights is behind it. Such a possibility has not yet materialised, but it cannot be excluded that in the future some State's industrial property office will have a presence in the metaverse and allow the filing and obtaining of applications for trademarks, designs and other rights in the metaverse itself. It seems far away, but it is not a utopia; years ago, the idea of filing a trademark application online seemed far away, but today it is an ordinary reality. And we should not forget that the metaverse is an evolution of the internet.

3.2. *Acquisition of unregistered industrial property rights as a consequence of the use of certain goods in the metaverse*

a) Activity in the metaverse may be relevant for the emergence of industrial property rights in cases where rights are protected without registration. It should be borne in mind that certain legal systems recognise a right in the unregistered trademark, which may make the use of a distinctive sign in the metaverse relevant. In Spain's case, for example, the owner of an unregistered trademark, but well known within the meaning of Article 6 bis of the Paris Union Convention, enjoys - in the same way as the owner of a registered trademark and in accordance with Articles 6, 34 and 52 of the Spanish Trademark Act - the right to oppose the registration of a confusingly similar trademark or trade name, the right to oppose the use of a similar or confusingly similar sign (with the sole exception of the enhanced protection afforded to trademarks with a reputation) and the right to apply for the invalidity of a confusingly similar trademark or trade name.

b) Similarly, the use of an industrial design in the metaverse may trigger protection as an unregistered design. It should be recalled that Regulation (EC) No. 6/2002 on Community designs, protects designs without the need for registration from the moment they are made public within the European Union, so that, in the normal course of trade, such facts may reasonably be known to the specialised circles of the sector concerned operating in the European Union.

The definition of 'product' to which the design applies under European law could be seen as an obstacle to the protection of designs used in the metaverse. This definition considers any industrial or handcrafted article to be a product, with the express exclusion of computer programmes. However, this legislation has not prevented the protection of user interfaces of electronic devices, so for the same reason there will be no obstacle to the protection of designs in the metaverse either. Consequently, the appearance in the virtual world of the design of a digital product (such as, for exam-

ple, any element used by avatars, from furniture to clothing) may involve its disclosure for the purposes of the emergence of protection as an unregistered design. And the current boom in the metaverse and its foreseeable increase in the future make accessibility to the design by the specialised circles operating in the relevant sector very feasible, thus fulfilling the requirements for the emergence of unregistered design protection (provided, of course, that it is accompanied by other required elements, especially novelty and uniqueness).

c) In any case, for both an unregistered trademark and an unregistered Community design to be protected, there must be a certain territorial link between the use of the trademark or design in the metaverse and the relevant State or States. This is one of the great challenges of applying the rules governing industrial property rights (by definition, territorial) to the metaverse (by definition, global and delocalised).

The problem is not new, as it has already arisen intensely since the emergence of the Internet, giving rise to numerous debates and points of view, which led the World Industrial Property Organisation and the Paris Union to take a position, adopting in 2001 the "Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet", which establishes that the possibility of accessing an Internet resource containing a given sign, from the territory of a given State, does not always mean that the sign is used in that State. On the contrary, the approach taken is to consider that the presence of a sign on the network only implies use in a given Member State when the use has commercial effect in that State, for which different factors may be taken into account (language used, currency in which prices are indicated, disclaimers, etc.).

The importance of this joint recommendation is beyond doubt and the Spanish courts have taken it into account on numerous occasions to establish the existence or not of the required territorial link between a given sign present on the network and Spanish territory. Of course, it seems clear that when the recommendation was drafted, metaverses and virtual worlds were not in mind (and this explains why there are voices that defend the application in these cases of the principle of universality, so that any conduct in the metaverse is considered to be carried out throughout the world, or at least in all the countries from which access to the metaverse is available). However, it also cannot be ignored that the metaverse is also conceived as an evolution of the internet and that the definition of the internet given in the Joint Recommendation ("an interactive medium for communication which contains information that is simultaneously and immediately accessible irrespective of territorial location to members of the public

from a place and at a time individually chosen by them") encompasses metaverses, so that, until there is an express change of approach, the above-mentioned Recommendation would apply to them. Consequently, and always in the light of the specific case, it will be necessary to determine whether the unregistered trademark used in the metaverse produces commercial effects in Spain or whether the disclosure of the unregistered design in the metaverse involves its disclosure in the European Union.

3.3. *Activity in the metaverse as a possible obstacle to obtaining an industrial property right*

The metaverse may not only be a means of engaging in conduct that may give rise to the creation of an industrial property right. It can also be a space in which actions are carried out that involve the opposite: the impossibility of obtaining a registration outside the metaverse. Consider, for example, the disclosure of an invention in the metaverse before applying for a patent, e.g. by way of a conversation between avatars or a lecture given in the metaverse. Certainly, to the extent that the invention is made accessible to the public, it will become part of the prior art and the novelty of the invention will be destroyed. But there will be legal difficulties in proving such disclosure and, crucially in patenting, the exact time of disclosure. These are the same problems that arose with the internet, and there is already established practice in patent offices and courts of law of being able to inspect archives where copies of most websites of some importance on the internet, such as WayBack Machine, are kept. However, in the absence of a record or recording of everything that happens in the metaverse, proving the disclosure of an invention becomes much more complex.

4. The use of registered trademarks and designs in the metaverse: industrial property infringement and liability attachment problems

Leaving aside the cases already analysed in which an industrial property right is acquired thanks to the activity carried out in the virtual world, the most frequent scenario in practice will be one in which a right is registered in the physical world and, immediately afterwards, the protected property (the trademark or design) is used in the metaverse. Where such acts of use in the virtual world are carried out by the rightholder, such use may be relevant to meet the mandatory use burden under trademark law (provided it is a relevant use that can also be linked to the State(s) in which it has effect). And, where the trademark or design is used by an unauthorised third party in the metaverse, an industrial property infringement may occur, raising a number of questions as to how the holders of these rights can protect them against third-party uses.

4.1. *Are trademarks protected against use in relation to digital goods or services?*

A first question is whether the owners of a trademark right in goods or services offered or provided outside the metaverse enjoy protection in relation to the same goods or services when offered in the metaverse. Consider, for example, the proprietor of a watch trademark: does

his right extend to the extent that he can prevent a third party from distinguishing a virtual watch that is marketed as a non-fungible token for use by avatars in the metaverse? In this regard, we have the recent claim filed by Hermés with a US court alleging infringement of its registered Birkin trademark for handbags due to the use of the Metabirkin sign by a third party who had created non-fungible tokens representing images depicting such handbags.

Under European and Spanish law, trademark proprietors are allowed to prohibit any third party from using, without his consent, in the course of trade, signs that fit into one of the following scenarios:

a) double identity between the trademark and the third party's sign and between the goods or services for which the trademark has been registered and the third party's sign is used;

b) likelihood of confusion because the third party's sign is identical or similar to the trademark and is used in relation to goods or services which are identical or similar to the goods or services for which the trademark is registered;

c) the trademark has a reputation and the third party's sign is identical with or similar to the trademark, regardless of whether it is used in relation to goods or services identical with or similar to those for which the trademark is registered, provided that the use of the sign without due cause takes unfair advantage of the trademark's distinctive character or repute or is detrimental to such distinctive character or repute.

Thus, when a trademark registered for physical goods or services is used by a third party in relation to digital goods or services in the metaverse, it will not be possible to assert the identity of goods or services, which will oblige the trademark proprietor to invoke the likelihood of confusion or, as the case may be, the special protection of the trademark with a reputation. And this may give rise to discussions on the actual similarity of goods or services or on whether or not there is a likelihood of confusion amongst members of the public.

It is not surprising, therefore, that we are currently witnessing a considerable increase in trademark applications in different jurisdictions in relation to goods or services in the metaverse as a way to avert such discussions in the future and to ensure that the trademark right extends to the metaverse. The international nomenclature classes used are of a very different type, such as class 35, to distinguish retail services for the distribution of virtual goods (as Walmart has done in a recent US trademark application); class 9 (downloadable virtual goods), as is the case for the Jay Z trademark, also applied for in the US to distinguish "fungible and non-fungible token-based goods, namely, music, clothing, jewellery, eyewear, bags, toys, fragrances, sports equipment for use online and in online virtual worlds"; or class 41, to distinguish entertainment services consisting of providing online accessories for use in virtual environments (as Nike has done in a recent trademark application, also in the US).

4.2. *Is the design protected against use in relation to digital goods or services?*

Doubts as to whether or not exclusive rights extend to digital goods when the trademark has been registered for physical goods are less relevant in design matters. This is because, in design matters, neither the list of goods indicated in the application for registration in which the design is to be incorporated or applied to, nor the classification of these goods under the Locarno Pact, nor the explanatory description of the design, can be taken into account to determine the scope of protection of the design as such. This is expressly provided for in Article 36 of the Community Design Regulation (EC) No. 6/2002.

Consequently, the holder of a registered design enjoys a *jus prohibendi* in relation to the use of the design for any other type of product. The judgment of the Court of Appeal of England and Wales (Civil Division) of 23 April 2008 is very significant when it states that "if you register a design for a car you can stop use of the design for a brooch or a cake or a toy". And, this being the case, it makes it easier to protect designs from being applied to digital goods in the metaverse.

4.3. *Use in the course of trade and territorial connection*

In order for the use by a third party of a sign in the metaverse to infringe another's trademark, it is necessary, by express requirement of European and Spanish trademark law, that it involves use in the course of trade. This is a requirement that will easily be met, as it is difficult to argue that what happens in the metaverse is outside the course of trade, especially if one takes into account that in order to participate in a metaverse the user has to create an electronic wallet in which the corresponding cryptocurrency of the metaverse or possibly other cryptocurrencies will be incorporated.

In the case of design, the law does not expressly restrict exclusive rights to third party uses in the course of trade. It is true that acts carried out in private and for non-commercial purposes are excluded from the scope of protection, but public acts of use of the design are covered, even if they are not carried out in the course of trade (and provided that other legal exceptions do not apply).

However, in the case of both trademarks and industrial designs, the right is only infringed when the acts of the third party are performed or produce effects in the State or States in which the relevant industrial property right is recognised. And this raises once again here the problems we have already referred to concerning the clash of the universal nature of the metaverse and the territoriality of industrial property rights. In any case, in the current state of industrial property law, it will be essential to establish a link between what happens in the metaverse and the specific territory in which the trademark or industrial design is protected (a link that will undoubtedly exist when it is possible to enter the metaverse and purchase goods or services from that territory).

4.4. *Liability for infringement*

Once the infringement of an industrial property right in the metaverse has

been established, the question arises as to who is liable. In principle, the first party liable will be the person who uses the infringing sign or design in the virtual world (either by means of his avatar, or by means of the establishment he has created in the metaverse, or by marketing an NFT in a marketplace in the metaverse). What happens is that the identification of that person can often be complex. Note that metaverses have a digital identity system that uniquely identifies users. But an identity does not necessarily have to be revealed in the real world.

It is therefore not surprising that the owners of centralised metaverses or the managers of open metaverses should be held liable for industrial property infringements. This explains the establishment of disclaimers that users must accept before using metaverses. This is the case, for example, of the Decentraland metaverse (see section 10 of the Terms of Use), where users declare that they are responsible for their own conduct in the metaverse, undertaking, among other things, not to include, upload, transmit, distribute or otherwise make available any content that involves infringing industrial property rights, and where the Foundation responsible for the metaverse, its directors and employees, as well as the decentralised autonomous organisation (DAO) that manages it, are released from any liability for any infringement of industrial property rights.

However, this type of clause only has *inter partes* effects, and therefore cannot be relied on against the holder of the injured right. Metaverse operators may eventually be able to invoke the safe harbours or exemptions from liability established in certain legislations, as is the case in the European Union with the 2000 Directive on electronic commerce and, in Spain, with the Information Society Services Act 34/2002 that transposes it. For this, it will be essential that they have no effective knowledge that the activity in the metaverse harms the rights of a third party and that, if they do, they act diligently to remove the illicit content or access to it. This increases the importance of the notice and takedown mechanisms established in many metaverses as a way of reporting infringement and requesting the removal or blocking of infringing content. This is the case, for example, of the Decentraland metaverse, with the peculiarity that in this case the notification takes place outside the metaverse (by e-mail) and the decision to block the content or even the infringer's account will be taken by the decentralised autonomous organisation, by means of a vote of its members (section 17 of the Decentraland Terms of Use).