LEGAL CONSIDERATIONS OF NFTS: HOW TO EARN MILLIONS AND PROTECT YOUR DIGITAL REVENUE

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NFTs are a new avenue for businesses to increase online revenues and brand presence. Nike, Dolce & Gabbana, Tiffany & Co. are just some examples of brands effectively leveraging NFTs. But how do you protect your NFT revenue? What type of violations can you face? Who owns the exclusive rights to NFTs? Is it legal to create NFTs with third-party content? And finally, what can you do if your rights are violated? This article has answers to all these questions.

If you are looking for a way to increase your company’s e-commerce revenue, then creating (“minting”) NFTs might be one of the ways to do so. Nike, Dolce & Gabbana, and Tiffany & Co. are great examples of brands that have learned how to make substantial profits with NFTs.

Brands’ success with NFTs

Last year, Nike acquired RTFKT, ‘a leading brand that leverages cutting edge innovation to deliver next generation collectibles that merge culture and gaming’. Following this acquisition, Nike has now established its own corner of the metaverse. In total, Nike earned $185.31 million from digital goods. Interestingly, the company stipulated a varying amount of royalties on secondary sales. 5% of royalties from the CloneX collection brought Nike $38.95 million, and 10% of the fresh MNLTH collection brought $24.22 million.

In 2021, Dolce & Gabbana’s Collezione Genesi ‘luxury NFT collection’ became a sensation and brought the brand $5.7 million. Since then, Dolce & Gabbana have expanded its NFTs and earned $25.65 million of which $2.52 million is royalties from secondary sales.

Tiffany & Co has just launched its NFT collection and has immediately left its mark. Although they do not receive royalties on secondary sales, they have raised in $12.62 million with the original sale of 250 NFTs alone.

Why do people buy NFTs?

There two main types of investors: those who buy NFTs to speculate and make a profit as if they are stocks, and those who buy NFTs to use them; obtaining rights to use digital art, gaining membership to private clubs, and so on.

Speculative NFTs are getting less popular, while NFTs that bring some real value to an owner are getting more and more popular. A good example of the connection between NFTs and a real product is Johnnie Walker’s NFT collection. Their token gives you the access to the rarest single malt whiskey, an opportunity to chat with blending master Dr. Emma Walker, and of course a collectible NFT for connoisseurs.
NFTs and IP infringement

Johnnie Walker is a positive example. But there are a lot of cases when NFTs provide access to counterfeit products. How it works: the NFT includes unlockable content which will be available for the owner. Once you purchase it, you get the file which often contains instructions on how to receive the counterfeit product (pic.1). Another example is NFTs that come attached with a file to 3D print a counterfeit product (pic.2).

What other types of intellectual property violations might you face with NFTs? If a brand mints its own NFTs then it is likely that others will look to issue further identical NFTs in order to confuse consumers. In this case we can talk about counterfeit NFT. A brand may not produce its own NFTs, in which case an infringer could create a work that infringes copyright or a trademark and then mint an NFT, offering it for sale. It is copyright/trademark infringement.

Another type of violation is impersonation. We have already seen an example of this issue. In early 2021, Banksy-style NFTs sold for $900,000. Given Banksy’s anonymity, buyers were not sure if this was the real Banksy or someone impersonating him. It turned out to be the latter.

And last but not least, is brand abused domains and cybersquatting on blockchain platforms. These issues potentially might inflict more damage to a brand then other types of violation since Web3 domains (blockchain-based DNS addresses) can be used as a cryptocurrency wallet. If a brand wants to create its own blockchain domain but a third-party already registers that name, the brand will likely need to pay a high cost (pic.3). In such cases it might be more efficient to enforce it.

Who owns the exclusive rights to NFTs?

NFTs are used for tokenization of pictures and GIFs. In the smart contract code, a link to an image is simply indicated as metadata. At the same time, the picture itself can be stored on centralized (AWS) or decentralized servers (IPFS) (pic.4).

As an example, I’ll explore the auction where an artist named Beeple sold their NFT painting for a record $69 million. The Beeple painting sold at auction is just such a token; only in the metadata there is a link to the original painting by the author. The history of the owners of the painting can be viewed on the makersplace website, with the help of which the same NFT for $69 million was created. It’s also possible to check the owner in the smart contract: you should enter the NFT id “40913” in the field number 16 “ownerOf”.

POTENTIAL COUNTERFEIT PRODUCT

The owner of the NFT has access to a file. This might be a PDF file for 3D printing or instruction on how to get counterfeit products.
Beeple is the author and copyright holder of the painting, not because they made the NFT, but because they are the creator of the painting – the one who put it into an objective form by editing on their computer or on any other device that the author uses in their creative process. It means that any third party that makes an NFT with a Beeple picture will not become the owner of exclusive rights to the picture itself. Beeple will remain its copyright holder.

What rights belong to the buyer who paid $69 million for this token? This is a crucial question. For example, a new owner might want to print 100,000 Beeple t-shirts or other merchandise as a memento of the first digital token auction. The buyer of the token has exactly the rights that are specified in the contract with the auction house Christie’s. The transfer of a token is not a valid way to issue a license unless it is expressly stated in the agreement between the parties. According to the agreement that governed the terms of the sale of the Beeple painting, the buyer did not acquire any exclusive rights or licenses to the image itself.

The NFT itself was created on the third-party platform MakersPlace. MakersPlace Terms of Service says that the platform itself receives a limited license to use downloadable materials and allows the fact that one user can sell their content to another. There is no direct indication of the transfer of any exclusive or licensing rights to the buyer.

When it comes to other NFT marketplaces we have a similar picture. It follows from the OpenSea Terms of Service that you grant OpenSea a non-exclusive, worldwide license free of charge with the right to enter into sublicensing agreements. Such license is granted for the following designated purposes: use, copy, reproduce, process, adapt, modify, publish, transmit, display, and distribute by any means. Separately, it is emphasized that the granting of such a license does not limit your rights as the owner of an asset, and it is also noted that OpenSea does not have the right to sell your assets.

Rarible’s Terms of Service are largely devoted to the issues of token economy, smart contracts, and the governance system in DAO. At the same time, the rules say that users are not entitled to create NFTs that violate the rights of third parties. The issue of the transfer of exclusive rights to the intellectual property objects themselves has not yet been settled.

We can summarize it like this: if there is no legal agreement between the creator and the buyer of the NFT, the exclusive rights do not pass to the buyer with their purchase of the token.

Another important question is if it’s legal to create NFTs with third-party content? The law protects the interests of the authors of the creative, granting them a monopoly on the use of the created objects of intellectual property. When creating an NFT, the subject can take the public link
How can you protect your intellectual property in the digital world?

If a brand wants to mint its own NFT, it’s necessary to register its trademarks according to NICE Class 9 of ‘Digital goods’. This provides the best legal protection. Brands are also registering in Class 35 and 41, but to enforce on NFT-marketplaces it’s not necessary to have such a registration. In absence of a Class 9 trademark, enforcement is still possible with other classes, as many platforms have been compliant. It is also possible to use copyright as an enforcement tool.

What can we recommend to a brand that wants to protect its digital rights? First of all, monitor for domains that appear to be NFT trading/minting platforms which are used to scam users and to discover URLs within the domain where infringing NFTs are listed. Secondly, scrape legitimate platforms to find fake NFTs or infringing works that have been minted. It’s also critical to build relationships with the legitimate platforms to ensure effective and efficient takedown procedures exist. The next step is tracking legitimate NFT content to determine if there is widescale distribution that would erode value. And finally, you should monitor for domains that are purporting to be official NFT stores for the brand.

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