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Non-Fungible Tokens (NFTs) – An IPR Perspective

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ABSTRACT

The tremendous advancement in Information Technology has given rise to a lot of emerging digital assets such as Non – Fungible Tokens (NFTs), Cryptocurrency and many more. These assets are completely intangible as they exist only in the virtual or digital world. As their popularity is significantly increasing day by day, a lot of legal issues are also increasing along with it. This article looks at Non – Fungible Tokens through an IP perspective so as to get an idea of the rights that are conferred after the sale and purchase of Non – Fungible Tokens.

As Non – Fungible Tokens raise a lot of questions with respect to copyrights such as licensing and ownership, the same has been dealt with according to the Indian Copyright Act along with a real-life example. Further, the relation between trademark infringement and Non – Fungible Tokens are also highlighted with a suitable illustration. Lastly, the latest American case involving NFTs is summarised with brief facts, issues and arguments along with its comparison with the Indian legal scenario. The case deals with various statutes and remedies pertaining to both the American as well as Indian laws. As Non – Fungible Tokens are going to grow at a rapid pace in the coming future, so would be the legal fraternity for tackling the issues arising out of these new technologies.

I. INTRODUCTION

An NFT (non-fungible token) is a digital asset that represents real-world objects like art, music, in-game items and videos. NFTs exist on a blockchain, which is a distributed public ledger that records transactions. The records cannot be forged because the ledger is maintained by thousands of computers around the world. NFTs can also contain smart contracts which will give

the artist, for instance, a cut of any future sale of the token.²

An NFT is created or “minted” from digital objects that represent both tangible and intangible items, including:

1. Art;
2. GIFs;
3. Videos and sports highlights;

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² BBC News, What are NFTs and why are some worth millions? <https://www.bbc.com/news/technology-56371912> (last visited Feb 15, 2022).

4. Virtual avatars and video game skins;
5. Designer sneakers;
6. Music.

II. NFT'S THROUGH THE IPR PERSPECTIVE

Copyrights

NFTs have significant interaction with copyrights while we look at them from an IP perspective. As far as the copyright is concerned, owning an NFT does not imply that all intellectual property rights stand transferred to the buyer. NFTs may be created without permission from the owners or infringe copyrights; NFTs can infringe upon copyrights despite the owner's consent, depending on the owner's relationship with the artist. The issue of intellectual property rights in the NFT setting is specifically vexed because maximum NFTs traded at present concern some creative work, some intellectual property.

The Copyright Act 1957 is the primary legislation on the issue of copyrights in India. Under Section 139 of the said Act, "*the copyright will exist in the following works:*

- (a) original literary, dramatic, musical, and artistic works;
- (b) cinematograph films; and
- (c) sound recording."

Even though we might say that a video clip or a sound recording might qualify as a work that can be copyrighted under the meaning of this Act, it doesn't speak about a GIF or a tweet. If we go strictly by the Copyright Act, a tweet or a GIF might not qualify as a work capable of being copyrighted. Then how would a creator of NFT claim copyright to his work? At present, it seems that all NFTs might not qualify to be eligible for copyright. Thus, there is a need to expand the purview of the scope of works that can be copyrighted under the Indian jurisprudence.³

To illustrate the above, when Jack Dorsey sold his tweet, he auctioned it on the Valuables platform. Valuables characterise the purchase of an NFT as purchasing "an autographed certificate of the tweet" and makes it clear within the terms of sale that any such purchase does not transfer the copyright in the tweet to the customer. Therefore, even though the buyer of Jack Dorsey's tweet spent millions of dollars on the NFT, he won't be able to use the tweet itself (e.g. by printing it on a shirt) without authorisation, as the copyright is still owned by Twitter and Jack Dorsey.⁴

Trademarks

Trademark infringement may arise where a party who isn't authorised mints an NFT linked to the underlying asset without their permission, and advertises, offers for sale and/or sells the NFT using the asset owner's registered trademarks.

³ SCC Online, Million Dollar Meme: Non-Fungible Tokens and their Regulation (2022), <https://www.scconline.com/blog/post/tag/nft/> (last visited Feb 14, 2022).

⁴ Will Garton & Farah Mukaddam, Norton Rose Fulbright, NFTs and Intellectual Property Rights

(2021), <https://www.nortonrosefulbright.com/en-gb/knowledge/publications/1a1abb9f/nfts-and-intellectual-property-rights> (last visited Feb 14, 2022).

The primary question worth considering is whether the business owns those registered trademarks that cover NFTs or similar products/services. In case it does, then there may be a relatively straightforward case for trademark infringement under trademark law.⁽³⁾

To illustrate, the owners of fashion giants such as Tiffany, Louis Vuitton, and Dom Perignon are utilising the AURA blockchain for consumers to track the authenticity of their branded NFTs; a key question comes up that whether the business owns NFTs over trademarks or the assets which are being sold. This question can be tackled if brands expand their trademark registrations in order to integrate NFTs in their trademark domain.

Case Law: Miramax v. Tarantino

Miramax v. Tarantino⁵ is the latest lawsuit to involve the budding field of non-fungible tokens (NFT). Here, Plaintiff Miramax, LLC is a Delaware limited liability company with its principal place of business in Los Angeles, California, while Defendant Quentin Tarantino is a United States citizen who owns multiple businesses within Los Angeles, California. Miramax's Pulp Fiction (1994) is one of the most influential films in history, which also won the prestigious Palme d'Or at the 1994 Cannes Film Festival. Pulp Fiction was written and directed by Quentin Tarantino, and produced by Lawrence Bender, in collaboration with Brown 25 Productions, Inc.

Miramax claims that Tarantino recently announced plans to auction off seven 'exclusive scenes' from the 1994 motion picture Pulp Fiction in the form of NFTs. According to Miramax's newly-filed copyright and trademark infringement and breach of contract complaint, the famed director granted and assigned nearly all of his rights to Miramax, including those that would enable him to legally sell the NFTs at issue. In the complaint that it filed in a California federal court, Miramax asserts that it acquired "all rights (including all copyrights and trademarks) for the film from writer and director Tarantino and producer Lawrence Bender in 1993. It also asserted that while Tarantino held on to rights in connection with a string of agreements over rights in Pulp Fiction, his "limited 'Reserved Rights' are far too narrow for him to unilaterally produce, market, and sell the Pulp Fiction NFTs."

According to the plaintiffs, "Tarantino's Reserved Rights were limited to the 'soundtrack album, music publishing, live performance, print publication, interactive media, theatrical and television sequel and remake rights, and television series and spinoff rights,' They also claimed that the Defendants sought to capitalise, unilaterally, on Miramax's rights to Pulp Fiction. Defendants' infringing acts have caused and are likely to cause confusion, mistake, and deception among the relevant consuming public as to the source of the Pulp Fiction NFTs and that the Pulp Fiction NFTs originate from, are associated or

⁵Miramax LLC vs. Quentin Tarantino; Visiona Romantica, Inc. (2:21-cv-08979)

affiliated with, or are otherwise authorised by Miramax.

Further, Miramax asserts that it attempted to alert Tarantino “in great detail” about the infringing nature of the project by way of a cease-and-desist letter, which is sent to the director two days after he first announced the venture. Days after being told to cease and desist, Tarantino’s plans to sell NFTs relating to Miramax’s intellectual property intensified and expanded. Aggrieved by this, the plaintiff Miramax sets out three claims of relief viz.

1. Breach of Contract – Miramax asserted that the defendants had breached the Original Rights Agreement and the subsequent Tarantino-Miramax Assignment. Tarantino, in exchange for valuable consideration, granted and assigned to Miramax in perpetuity throughout the universe, “all rights in and to the Film now or hereafter known including without limitation the right to distribute the Film in all media now or hereafter known,” excluding only a limited set of Tarantino’s “Reserved Rights.”

2. Copyright Infringement- Except for Tarantino’s limited set of Reserved Rights, Miramax is the exclusive owner of rights under copyright in and to the motion picture Pulp Fiction and all elements thereof in all stages of development and production. Defendants have directly infringed Miramax’s exclusive rights in Pulp Fiction and the elements thereof in violation of Section 501 of the Copyright Act, 17 USC § 501. Defendants’ infringing conduct alleged herein was and continues to be willful and with full knowledge of Miramax’s rights relating to Pulp Fiction, and has enabled defendants

illegally to obtain profit therefrom. Hence, Miramax is entitled to the maximum statutory damages pursuant to 17 USC § 504(c) for Defendants’ willful infringing conduct and for such other amount as may be proper pursuant to 17 USC § 504(c).

3. Trademark Infringement -

Defendants’ unauthorised use of the Pulp Fiction Mark alleged herein is likely to deceive consumers as to the origin, source, sponsorship, or affiliation of the Pulp Fiction NFTs, and is likely to cause consumers to believe, contrary to fact, that the Pulp Fiction NFTs are sold, authorised, endorsed, or sponsored by Miramax, or that Defendants are in some way affiliated with or sponsored by Miramax. Defendants’ conduct, therefore, constitutes trademark infringement in violation of Section 32(1) of the Lanham Act, 15 USC § 1114(1). Defendants’ conduct is causing immediate and irreparable harm and injury to Miramax and to its goodwill and reputation and will continue to both damage Miramax and confuse the public unless enjoined by this Court.

Finally, the plaintiff prays that the Court enter judgment order as follows:

Damages in an amount to be determined at trial, or the maximum allowable statutory damages and such other amounts as may be proper, together with prejudgment and post-judgment interest; Declaratory relief that Defendants have breached their agreements with Miramax, infringed Miramax’s copyrights in and to Pulp Fiction, and infringed Miramax’s trademark rights in and to Pulp Fiction; Injunctive relief preventing further violations of Miramax’s rights

in and to Pulp Fiction; Attorneys' fees; Miramax's costs of suit; and Such other relief as the Court may deem just.

Now, if we compare this case with the Indian scenario, these three violations of the law would be dealt with accordingly as per the Code of Civil Procedure (CPC), Copyrights Law and Trademarks Law.

1. Breach of Contract –Order 39, Rule 2 of the CPC⁶ provides for a temporary injunction after an application in the Court by the plaintiff, to restrain the defendant from committing the breach of contract or injury complained of, or any breach of contract or injury of a like-kind arising out of the same contract or relating to the same property or right. The Court may by order grant such injunction, on such terms as to the duration of the injunction, keeping an account, giving security, or otherwise, as the Court thinks fit.

2. Copyright Infringement - Copyright owners can seek three pecuniary remedies under Section 55 and 58 of the Copyright Act of 1957⁷. First, an account of profits which lets the owner seek the sum of money made equal to the profit made through unlawful conduct. Second, compensatory damages let the copyright owner seek the damages he suffered due to the infringement. Third, conversion damages are assessed according to the value of the article.

3. Trademark Infringement – Here, the concept of passing off would come into the picture as the unauthorised use of the Pulp

Fiction Mark is likely to cause consumers to believe, contrary to fact, that the Pulp Fiction NFTs are sold, authorised, endorsed, or sponsored by Miramax, or that Defendants are in some way affiliated with or sponsored by Miramax.

Hence Section 135(1) of the Trademarks Act, 1999 (TMA)⁸ would provide the reliefs, which may be granted to the plaintiff who established his case of infringement and passing off are:

- a. An injunction restraining further use of trademark: - The grant of injunction is a right expressly provided by the TMA, 1999. The rules governing the grant of injunctions in trademark cases are based on the provisions contained in Section 36 to 42 of the Specific Relief Act, 1963⁹ and Order 39 Rule 1 and 2 read with section 151 of the CPC.
- b. Damages:- The grant of damages is an award for compensatory damages to the plaintiff with an aim to compensate him for the loss suffered by him, whereas punitive damages are aimed at deterring a wrongdoer and the likeminded for indulging in such unlawful activities.

III. CONCLUSION

As the world is witnessing tremendous technological advancement and innovation, a lot of legal and regulatory issues are bound to arise out of it. NFTs, too pose a lot of questions in front of the legal regime pertaining to its transactions,

⁶ The Code of Civil Procedure, 1908, Order 39, Rule 2, Act of Parliament 1908 (India).

⁷ The Copyright Act, 1957, § 55 and 58, Act of Parliament 1957 (India).

⁸ The Trademarks Act, 1999, § 135(1), Act of Parliament 1999 (India).

⁹ The Specific Relief Act, 1963, § 36 to 42, Act of Parliament 1963 (India).

licensing, IP infringement and other related issues. Being a relatively new concept, NFT is yet to have a detailed set of rules and regulations in India. It can be asserted that NFT trading gives rise to a lot of intellectual property issues, and to check its misappropriations, it is necessary to implement international guidelines based on pre-existing Intellectual Property laws and treaties. This will eventually protect the moral and commercial rights of the creator.
