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Non-Fungible Tokens - An Overlap between Blockchain Technology and Intellectual Property Rights

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Non-fungible tokens (NFTs) have taken the world by storm as sales exceeded \$2 billion in the first half of 2021. Sports memorabilia firms, musicians, artists, and publishers have used NFTs to commercialize their works and exploit their intellectual property rights, with roughly twice as many buyers as sellers. Non-Fungible tokens are unique tokens generated on blockchain technology. They are used to denote digital artwork, music, or digital collectibles of real assets of a similar nature. Unlike regular cryptocurrencies which are also based on blockchain technology, NFT's are non-fungible i.e., they cannot be exchanged or interchanged for any other form of currency or token. Due to this boom in the use of digital media and NFT's a host of intellectual property rights issues have developed which need to be addressed. The author through this paper is attempting to analyse these issues and present suitable solutions for the same in the Indian Context.

Keywords: *tokens, blockchain, intellectual property.*

INTRODUCTION

A non-Fungible token is a unique crypto token that represents digitally incorporeal property such as art, music, videos, and digital collectibles. They are traded online using cryptocurrency

and are encoded using blockchain technology¹. They are digital tokens generated on blockchain technology that possess unique metadata and identification codes. Blockchain Technology is the use of a public digital ledger that records the data stored on it to all the participant computer nodes which are a part of the network. This ensures that the data recorded is unaltered and transparent since that data is simultaneously recorded on each of the nodes which act as participants in the network². Unlike regular cryptocurrencies which are also based on blockchain technology, NFT's are non-fungible i.e., they cannot be exchanged or interchanged for any other form of currency or token. The sale of Digital Artist Beeple's digital artwork "Everyday: The First 5000 days" for an amount of USD 69,346,250 Million (United States Dollar Sixty-nine million three hundred forty-six thousand and two-fifty) through the world-famous auction house Christie,³ has put the concept of NFT's on the world map. Rights Holders such as the National Basketball Association have tied up with blockchain sites such as Dapper Labs to facilitate the sale of NFTs related to the NBA through the site called NBA Top Shot (NBA Top Shot)⁴. NBA Top Shot is a crypto-collectible, which consumers can purchase as an NFT. Each collectible is tied to a blockchain. This effectively gives each NFT a unique and non-hackable certificate of authenticity. So even if somebody makes a perfect copy of the highlight video, it will instantly be recognized as a fake.

NFTs are encoded and governed by smart contracts, thus the use of NFT's allows for faster-more efficient verification and authorisation of transactions and provides benefits both in terms of the time of transaction and the removal of intermediaries. An NFT is therefore a digital token representing an ownership interest in an underlying asset, for instance, in a piece of digital art or music. Recently, India's biggest cryptocurrency exchange by volume, WazirX,

¹ Robyn Conti & John Schmid, 'What You Need to Know About Non-Fungible Tokens (NFTs)' (*Forbes Advisor*, May 2021) <<https://www.forbes.com/advisor/investing/nft-non-fungible-token/>> accessed 2 June 2021

² BuiltIn, 'What Is Blockchain Technology. How Does It Work' (*BuiltIn.com*) <<https://builtin.com/blockchain>> accessed 02 June 2021

³ Jesse Daimani, 'Beeple's 'The First 5000 Days' Sold To Metakovan, Founder Of Metapurse, For \$69,346,250' (*Forbes*, March 2021) <<https://www.forbes.com/sites/jessedamiani/2021/03/12/beeples-the-first-5000-days-sold-to-metakovan-founder-of-metapurse-for-69346250/?sh=28d94ec84de4>> accessed 02 June 2021

⁴ Kyle Irving, 'What is NBA Top Shot? Explaining the Blockchain NBA highlight collectables' (*CA NBA*, April 2021) <<https://ca.nba.com/news/what-is-nba-top-shot-explaining-the-blockchain-nba-highlight-collectables/18nram5ye1ub01hres3lkk3xvd>> accessed 02 June 2021

has launched the country's first marketplace for NFTs⁵. This will act as a marketplace wherein users can trade digital incorporeal assets and earn royalties based on such trade. Due to this boom in the use of digital media and NFTs a host of intellectual property rights issues have developed which need to be addressed.

NFT & COPYRIGHT

The overlap between NFT's and Copyrights has led to issues such as:

- The distinction between ownership of the copyright in the original asset and ownership of the copyright in the NFT- With the popularisation of NFT, the primary question which has been raised is whether the NFT purchaser has a copyright in the existing artwork or merely in the digital copy owned by him. This has to be analysed based on the nature of the smart contract entered into between the author and the purchaser of the NFT. According to the Copyright Act of 1957 (Indian **Copyright Act**), artistic work means "*a painting, a sculpture, a drawing (including a diagram, map, chart or plan), an engraving or a photograph, whether or not any such work possesses artistic quality; or any other work of artistic craftsmanship*"⁶. Section 14 of the Indian Copyright Act provides the author with the bundle of economic rights which can be exercised in respect of the copyright granted. For e.g., if an individual creates a piece of art he/she gets the exclusive right to reproduce, distribute or create derivative works from the original piece of art. Whereas if an individual purchases a piece an artwork, they are purchasing the physical painting, which they can exhibit, but not the inherent rights to copy, create derivative works of, or sell copies of the painting. The underlying copyright only transfers if the owner of the copyright confirms in writing that they wish to transfer those rights along with the copyright. Similarly, in an NFT, the copyright and ownership of the underlying digital asset remain with the author of such asset, and the purchaser of the NFT only receives the right to exhibit the NFT, unless the smart contract that governs the purchase explicitly mentions the transfer of economic copyrights of the digital asset.

⁵ M.Sriram, 'WazirX goes live with NFT marketplace amid crypto boom, RBI clarification' (*Moneycontrol*, June 2021) <<https://www.moneycontrol.com/news/business/startup/wazirx-goes-live-with-nft-marketplace-amid-crypto-boom-rbi-clarification-6967421.html>> accessed 05 June 2021

⁶ Copyright Act 1957, s 2(1)(c)

- The bundle of rights which the NFT holder shall receive after purchase i.e., whether the purchase of NFT amounts to an assignment of copyright or its license- In most scenarios, the copyright subsists with the author and the NFT holder receives a limited right of use, reproduction, and display for non-commercial purposes only. The terms of the smart contract shall dictate whether the smart contract will operate as a license agreement or an agreement for assignment. In an agreement for assignment the owner of the IP right transfers or assigns all of the rights to the assignee, whereas in a license agreement the owner authorises the licensee to use the rights associated with the IP in particular circumstances. However, in either case, the ownership of the original artwork will subsist with the author, and ownership and limited economic rights of the NFT such as the right to exhibit or use-in game (in case of digital video-game collectibles) will be transferred to the purchaser of the NFT. However, irrespective of an agreement for either the author still retains his moral rights as those cannot be transferred by any operation of law.⁷ For e.g., in NBA Top Shot, a template NFT License is used by which the rights holder can distinguish the NFT token from the underlying incorporeal property.⁸ The license specifies that the buyer of the NFT obtains a personal license to use and exhibit the art associated with the NFT, as well as a commercial license to create products that exhibit the art associated with the NFT, up to a yearly gross revenue limit of US\$100,000.⁹

- Counterfeiting- This is a problematic issue since the authenticity and verification of the digital artwork on which the NFT is going to be generated is the responsibility of the intermediary who is listing such an NFT. Due to the immutability of blockchain transactions and the pseudo-anonymous nature of NFT ownership, enforcing IP rights against a buyer after an NFT is sold can be difficult. An NFT is usually linked to a digital wallet address, but without advanced computer forensics, determining the wallet owner's identity can be difficult. Several sites have already have received numerous complaints from artists that people are

⁷ Copyright Act 1957, s 57

⁸ Dapperlabs, 'NFT License. Help Define What Ownership Means in Blockchain' <<https://www.nftlicense.org/>> accessed 05 June 2021

⁹ *Ibid*

counterfeiting their work and uploading the same on blockchain sites which are thereafter generating non-fungible tokens for the same.¹⁰ The legal question that arises is – does such an act by the intermediary amount to an infringement of the copyright of the author. Section 51 of the Indian Copyright Act provides for the scope and meaning of infringement. According to the Section, copyright in a work shall be deemed to be infringed when *“when any person, without a license granted by the owner of the copyright permits for profit any place to be used for the communication of the work to the public where such communication constitutes an infringement of the copyright in the work unless he was not aware and had no reasonable ground for believing that such communication to the public would be an infringement of copyright; or when any person – (i) makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire, or (ii) distributes either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright, or (iii) by way of trade exhibits in public.”*¹¹ Therefore, according to the provisions of Section 51 of the Act, the intermediary can be held liable for infringement of copyright by the author in case of any counterfeit NFT. The author of the copyright can institute a case for infringement with the jurisdiction of India against both the intermediary and the Counterfeiter.

NFT & TRADEMARK

Trademark law applies to the use of a mark in the course of business to identify the source of goods and/or services and to distinguish between goods/services of different sellers. Right holders such as the National Basketball Association (NBA) have filed trademark applications for “NBA Top Shot,” which includes *“Downloadable virtual goods, namely, computer programmes for the creation and trade of digital collectibles using blockchain-based software technology and smart contracts, featuring players, games, records, statistics, information, photos, images, game footage, highlight reels, and other digital collectibles, featuring players, games, records, statistics, information, photos, images, game footage, highlight reels, and other digital collectibles”*¹²

¹⁰ Malwarebytes Labs, ‘NFTs explained: daylight robbery on the blockchain’ (*Malwarebytes Lab*, March 2021) <<https://blog.malwarebytes.com/exploited/2021/03/nfts-explained-daylight-robbery-on-the-blockchain/>> accessed 06 June 2021

¹¹ Copyright Act 1957, s 51

¹² US Application No 88/550, 320

Trademarks are enforced in India under the Trademarks Act, 1999, which provides for the protection of trademarks used in interstate commerce and allows owners of a protected brand to prevent others from using it if it would cause confusion in the marketplace.

The main concern with the use of NFTs as trademarks is that of:

- Infringement- As discussed before, the sale of NFT doesn't mean the sale of the rights underlying in it, the question which then arises is whether the resale of an NFT with a prominently placed trademark is considered infringement.¹³ To assess whether or not infringement has occurred, the following elements of direct infringement must be examined in the light of the facts of the case and the triple identity test should be employed: (i) did the alleged infringer make unauthorised use of the mark in connection with the delivery, sale, or offering of the goods; (ii) did the trademark holder asserting the allegation of infringement own a legitimate and legally protectable mark and did the alleged infringer make unauthorised use of the mark in connection with the distribution, sale, or offering of the good sand; and (iii) is such use by the alleged infringer likely to cause consumer confusion in the marketplace. Further, the issue that arises in connection with this is that of the identity of the infringer. Due to the immutability of blockchain transactions and the pseudo-anonymous nature of NFT ownership, enforcing IP rights against a buyer after an NFT is sold can be cumbersome. Therefore, it becomes arduous to ascertain as to how and whom to pursue the infringement/ passing off of the trademark.

- Cybersquatting- Cybersquatting is the practise of registering an internet domain name that is likely to be desired by another individual, company, or organisation in the hopes of selling it for a profit to another person, business, or organisation.¹⁴ It entails the registration of trademarks and trade names as domain names by third parties that do not own the trademarks or trade names. In India, the Hon'ble Supreme Court in *Satyam Infoway Ltd vs Sifynet Solutions*

¹³ NBA Properties, 'NBA Top Shot' (*United States Patent and Trademark Office*, July 2019)
<https://tsdr.uspto.gov/#caseNumber=88/550,320&caseSearchType=US_APPLICATION&caseType=DEFAULT&searchType=statusSearch> accessed 06 June 2021

¹⁴ Singh & Associates, 'Cyber Squatting Laws in India' (*Mondaq*, November 2012)
<<https://www.mondaq.com/india/trademark/208840/cyber-squatting-laws-in-india>> accessed 08 June 2021

Pvt Ltd.,¹⁵ distinguished between trademarks and domain names. The landmark decision in India with respect to cybersquatting is *Yahoo! Inc. v. Akash Arora and Another*,¹⁶ wherein the Court ruled in favour of the plaintiff and held that “the degree of the similarity of the marks is vitally important and significant in an action for passing off for in such a case there is every possibility and likelihood of confusion and deception being caused. When both the domain names are considered, it is crystal clear that the two names being almost identical or similar in nature, there is every possibility of an Internet user being confused and deceived in believing that both the domain names belong to one common source and connection, although the two belongs to two different concerns.” In May 2021, the National Arbitration Forum of the United States handed down a decision against Joseph Masci, who registered the domain ‘NFTMorganStanley.com’ in a complaint instituted by Morgan Stanley.¹⁷ The Court ruled that the registration by the defendant is in bad faith and the use of the domain name which is identical to the trademark of the complainant is likely to deceive the public and therefore ordered the defendant to transfer the domain name to the respondent.

NFT & PERSONALITY RIGHTS

In India name, image, and likeness rights (NIL) often referred to as Personality or Image Rights are grouped under the right of publicity. In India, there is no specific statutory legislation that declares the right to publicity. However, the Indian judiciary through various precedents has recognised this right from the right to privacy, which is a constitutional right. Image or personality rights identify the monetary value of a notable person’s, representation and preserve their proprietary interest in the profitability of their public reputation or persona. The landmark judgement of the Delhi High Court in the case of *Titan Industries Limited vs. M/s Ramkumar Jewellers* ¹⁸ wherein the court held that “when the identity of a famous personality is used in advertising without their permission, the complaint is not that no one should commercialize their identity but that the right to control when, where and how their identity is used should vest with the famous personality. The right to control the commercial use of human identity is the right to publicity.”

¹⁵ *Infoway Ltd v Sifynet Solutions Pvt Ltd* AIR 2004 SC 3540

¹⁶ *Yahoo! Inc v Akash Arora & Anr* 1999 II AD (Delhi)

¹⁷ *Morgan Stanley v Joseph Masci* Claim Number: FA2104001940938

¹⁸ *Titan Industries Limited v M/s Ramkumar Jewellers* CS (OS) No 2662/2011

NFT represents a new marketing tool for athletes, clubs, and various stakeholders to reach wider audiences. In March 2021, NFL players Rob Gronkowski and Patrick Mahomes released digital memorabilia of themselves. The NFL has not licensed these items, and as such, they do not carry the logo of the teams/clubs on them¹⁹. An interesting question that arises with regards to the interplay between NFT and NIL rights is the use of NIL rights in a non-commercial background. Since the use of NIL rights only requires the prior permission of the famous personality in a commercial setting but, the use of such rights in a non-commercial setting is at a nascent stage in India.

CONCLUSION

NFTs, are novel digital assets built on blockchain technology with a wide range of applications in the arts, entertainment, fashion, and marketing for companies, brand owners, and individuals. Tokenization sees and produces value in virtually any artifacts that can be purchased or traded on a digital marketplace. The current NFT craze promises to empower creators, change the market, and revolutionize the system for managing intellectual property rights. Their position in the advancement of intellectual property rights and laws holds a lot of promise, and it's easy to see why, given the versatility, monitoring, and immediate payment for work sales, they have generated much attention in a relatively short period of time. The use of NFT's for the purpose of digital collectibles, artwork, and music is an affirmation that NFT's are the future for the recording, transacting, and sale of media especially digital media.

That being said, before widespread adoption can take effect, these amongst a myriad of many other questions that must be answered such as assignment vs. licensing of NFT's and the original artwork; counterfeiting issues; infringement, etc. As more creators and businesses undoubtedly step into the NFT market and employ NFTs in their own marketing and advertising campaigns, the ideas above are just a few to think about. Many more novel applications for NFTs are anticipated to emerge, bringing with them new intellectual property issues.

¹⁹ Danny Nelson, 'Quarterback Patrick Mahomes Joins Gronk in NFL Blitz of NFT Mania' (*Coindesk*, March 2021) <<https://www.coindesk.com/patrick-mahomes-to-sell-nft-collectibles-on-makersplace>> accessed 09 June 2021