

Licensing Tips For Trademark Protection In The Metaverse

By **Rachel Yu, KJ Lim and Jisoo Park** (July 5, 2023)

Despite the recent pullback by prominent players including The Walt Disney Co. and Microsoft Inc., the metaverse continues to attract brand owners who are seeking to leverage their physical-world brands to expand into the virtual world and, more recently, vice versa.[1]

As such expansion often develops through partnership, such as Gucci's partnership with Yuga Labs, brand owners seeking to navigate both worlds can benefit from understanding the current, uncertain trademark landscape and implementing practical licensing considerations discussed in this article.[2]

Tacking and Natural Zone of Expansion

Given that trademark rights are inherently field-limited, the natural question arises as to whether physical and their virtual counterparts are in the same field.

Would a trademark filing in class 18 for a leather bag also cover the virtual bag?

Currently, the U.S. Patent and Trademark Office generally allows registration for virtual goods in certain specific classes that are different from the classes where their physical counterparts would typically be registered.[3][4]

For example, a virtual bag would be registered in class 9. On this basis, it is best practice for brand owners to establish trademark rights for both physical and virtual goods.

However, for brand owners in industries where launching virtual counterparts of their physical goods has become a common practice, such as fashion and other luxury goods, there is an argument that existing trademarks for physical goods may already provide coverage for virtual goods based on the trademark doctrines of tacking and natural zone of expansion.

Both doctrines provide protection for additional categories of goods if a third party's marketing or sale of such goods under the same or a similar trademark would cause consumer confusion.[5]

As the April 4 Bertini v. Apple Inc. decision in the U.S. Court of Appeals for the Federal Circuit clarified, such extended coverage requires that new goods be substantially identical to, or within the normal evolution of, the previous goods protected by existing trademarks.[6]

In turn, these questions ultimately depend on "whether consumers would generally expect the new goods to emanate from the same source as the previous goods." [7]



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The question is, then, are virtual goods within the normal evolution of their physical counterparts?

While courts and the Trademark Trial and Appeal Board have historically permitted extended coverage based on tacking or natural zone of expansion only in a narrow set of circumstances, recent office actions by the USPTO suggest that virtual goods may appropriately be considered within the normal evolution of their physical counterparts if such evolution is a common practice in the relevant industry.[8]

USPTO Guidance and Limitation

In an Aug. 30, 2022, USPTO office action involving a trademark application for the mark Gucci for certain virtual goods, the USPTO examining attorney rejected the application — which was filed by an individual unaffiliated with the fashion company — because the claimed virtual goods and Gucci's physical counterparts are "of a kind that may emanate from a single source, under a single mark." [9]

In support of the rejection, the examining attorney cited several news articles reporting on the trend to launch virtual goods in the fashion industry. Similarly, in another office action, the USPTO examining attorney rejected a trademark application for the mark "Prada" for certain virtual goods filed by an individual unaffiliated with the fashion company Prada because "[t]he same providers of real fashion goods often provide virtual fashion goods" and therefore the applicant's virtual goods and Prada's physical counterparts are "highly related." [10]

Undoubtedly, Gucci and Prada are well-established brands. Indeed, the office actions alluded to the fact that the brands are "renown[ed]" and "well established in the fashion industry." [11]

While fame was not a dispositive factor in the office actions, brand owners should take note — until there is clearer guidance, even in industries where physical-to-virtual expansion is commonplace and thus consumers may more reasonably expect such virtual expansion to be the normal evolution, brand owners may wish to consider establishing trademark rights for their virtual goods independent of those of physical counterparts instead of solely relying on tacking and natural zone of evolution principles. [12]

Virtual Goods With Functionality

In establishing trademark rights for virtual goods, brand owners may also want to consider imbuing their virtual goods with the functionality of their physical counterparts.

In the May 18, 2022, *Hermès International v. Mason Rothschild*, metaverse-related decision involving an unauthorized trademark use on digital images of handbags, one threshold question for the U.S. District Court for the Southern District of New York was whether the trademark use at issue was for an expressive purpose or to identify the source of a product. [13]

In deciding that the use at issue was the former, the judge referenced the fact that "fashion companies are just starting to branch out into offering virtual fashion items that can be worn in virtual worlds" and indicated that, if the digital images of handbags at issue in the case were virtually wearable by avatars, then the trademark use would have been to identify the source of a — virtual — product. [14]

The reference to the functionality of the digital images of handbags raises the interesting question of whether a virtual item without the functionality of its physical counterpart should be considered a virtual product or a mere digital representation of a physical product.

Put another way, the Hermès case suggests that the courts may consider using a trademark on virtual goods with functionality as a use of a mark to identify the source of a product, which may be eligible for trademark protection, whereas using a trademark on virtual goods without functionality could be distinguished and instead considered a use for an expressive purpose, which alone may not be eligible for trademark protection.

To be sure, the USPTO currently does not appear to consider functionality a requirement for virtual goods trademark registration. However, the functionality distinction could become a point of contention in trademark enforcement cases, particularly in the growing metaverse marketplace ripe for litigation.

Brand owners can take caution and, to the extent practicable, consider designing virtual goods to perform, or at least purport to perform, functions of their physical counterparts.

Brand Licensing Drafting Considerations

Expansion into the virtual world often develops through partnership. Brand owners who lack technical expertise seek to expedite entry into the virtual world by finding virtual world partners or by broadening the scope of existing licensing arrangements to cover virtual counterparts of existing licensed physical goods. In considering such a partnership, brand owners and their licensees may wish to consider the following.

Scope of Licensed Product

First, obvious as it may seem, the license should expressly clarify whether the scope of licensed goods covers virtual goods. For example, if the definition of the term "licensed product" covers chocolates and the intent is to cover virtual chocolates, then include express language such as "any virtual versions, embodiments or representations" of chocolates.

Highly negotiated agreements often further define licensed items. For example, the term "chocolates" may be defined for added clarity by referring to required ingredients, shapes or packaging, or if applicable, to the relevant statutory or regulatory standard. In such cases, parties should carefully draft the reference to virtual versions to avoid subjecting virtual versions to definitional requirements that have limited applicability in the virtual world, which would result in an inadvertent narrowing of the scope of licensed virtual goods.

Product Expansion Mechanism

If parties do not currently have a virtual expansion plan, they may consider implementing a product expansion mechanism, a common tool in brand licensing to define a process for expanding the scope of license to cover related categories of goods.

In such product expansion mechanism, one approach for the licensor to retain control, while providing flexibility to the licensee, is to allow product expansion for categories of goods that the licensee has commercially launched.

Since a commercial launch of physical goods typically requires significant resources and lead

time — e.g., procuring raw materials, building production lines and establishing supply chains — the licensor would effectively prevent the licensee from claiming and squatting on a licensed right.

However, consider the relative ease of production and distribution of virtual goods. While they do require some technical expertise and resources, production and distribution of virtual goods typically require substantially less resources and lead time than those of physical goods.

As such, parties should consider drafting a production expansion mechanism tailored for virtual goods separate from one for physical goods — which may rely on customary concepts more applicable to physical goods such as the commercial launch standard — including by adding an extra layer of licensor approval right and extending the required lead time for the licensee.

Digital Use and Exclusive Territory

Where there is a territorial exclusivity, parties sometimes expressly immunize digital uses of licensed marks that result in leakage to the other party's exclusive territory.

For example, parties may agree that a party's digital use of a licensed mark does not violate the territorial exclusivity of the other party even if such use is accessible from such other party's exclusive territory, so long as the use is not directed primarily toward that territory — e.g., a social media post that does not include identifiers such as hashtags specific to that territory.

Granting immunity to such digital uses is generally acceptable because, with respect to physical goods, digital uses are mostly for marketing purposes. However, parties should recognize that the use of licensed marks on virtual goods directly covers sales of goods and should accordingly consider excluding such use from the general digital use immunity provisions.

Product Design Provisions

Once parties agree virtual goods are within the scope of licensed products, consider product design provisions to address certain distinguishing aspects of virtual goods.

Brand license agreements typically include an approval process by which the licensor approves the licensee's proposed use of licensed brand as well as related collateral and packaging.

A customary exception to such approval process is that the licensee is not required to obtain, or re-obtain, approval for a new use that is substantially similar to a previously approved use. While such exception adds expediency, parties should specify whether, and to what extent, it would apply to virtual goods on different platforms.

Due to the lack of universal interoperability across metaverse platforms, the question of whether virtual goods on one platform are substantially similar to those on a different platform might be tricky to answer.

In addition, even if they appear substantially similar, an appealing feature on one platform may lose its appeal on a different platform given the inherent visual differences between various platforms.

The licensor should thus pay particular attention to the virtual goods approval process, and consider carving out virtual goods from the customary exception and scheduling specific design requirements for different platforms.

Another consideration is a requirement for the licensee to design virtual goods with the functionality of their physical counterparts. As discussed above, adding such functionality may enhance trademark protection in enforcement cases.

To facilitate implementation, the licensor may also consider obligating the licensee to make commercially reasonable efforts to coordinate with platform operators if a target platform does not provide means to implement such functionality.

Quality Control

Trademark licensing requires the licensor to exercise quality control over the licensee's use of a licensed mark. In drafting quality control provisions, parties often refer to the standard applied to the licensor's goods.

However, if the licensor does not provide virtual goods, parties should draft quality control provisions to refer to specific virtual goods guidelines or other general quality assurance concepts.

Intersection of Trademark and Other Intellectual Property Law

We end this article with a more philosophical question, reminiscent of René Magritte's painting of a pipe which caption famously stated "Ceci n'est pas une pipe," or this is not a pipe.

When licensed products are virtual goods, what quality assurance does trademark law provide to consumers? A physical handbag sold under a renowned fashion brand's trademark assures consumers that the handbag will be of a certain quality — artisanship, durability and functionality, to name a few.

Other than appearance, however, what aspects of a virtual handbag do consumers need assurance on? A virtual handbag is not a — physical — handbag, after all.

As the legal landscape around brand protection for virtual goods continues to develop, it will be intriguing to see how trademark law and copyright or other intellectual property protections interact to inform our thinking about brand protection in the virtual world.

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[1] <https://fortune.com/crypto/2023/03/28/disney-shuts-down-metaverse-focused-team-lays-off-all-employees/>.

[2] Shanti Escalante-De Mattei, Gucci Collaborates with Bored Ape Yacht Club NFTs in New Metaverse Project, ARTnews (Mar. 28, 2023), <https://www.artnews.com/art-news/news/gucci-bored-ape-yacht-club-nfts-metaverse-yuga-labs-1234662536/>.

[3] For brevity, the term "goods" will be used to refer to both goods and services.

[4] Such classes include: 9 (downloadable virtual goods), 35 (retail store services featuring virtual goods), 36 (financial services providing digital tokens), 41 (entertainment services) and 42 (online non-downloadable virtual goods and NFTs).

[5] While both tacking and natural zone of expansion are based on the same principle of preventing consumer confusion, their applications slightly differ. Tacking is relevant at the trademark registration stage when a trademark owner attempts to register the same or a similar mark with respect to a new category and there is an intervening user. Natural zone of expansion is relevant when a senior trademark holder seeks to enjoin a junior trademark user from using the same or a similar mark in a different category.

[6] *Bertini v. Apple, Inc.*, 2023 WL 2764122, at *5 (Fed. Cir. 2023) (citing *Big Blue Prods. Inc. v. Int'l Bus. Machs. Corp.*, 1991 WL 326549, at *3 (T.T.A.B. Apr. 8, 1991); *C.P. Inst., Inc. v. Cal. Pools, Inc.*, 238 F.3d 690 (5th Cir. 2001)).

[7] *Id.* (citing *Maryl'n Nutraceuticals, Inc. v. Mucos Pharma GmbH & Co.*, 571 F.3d 873 (9th Cir, 2009); 3 McCarthy on Trademarks and Unfair Competition § 17:24 (5th ed.)).

[8] Compare *J. C. Penney Co., Inc. v. Security Tire & Rubber Co., Inc.*, 382 F. Supp. 1342, 1344 (E.D. Va. 1974) (bicycle tires to automotive tires), *Rosenthal A. G. v. Ritelite, Ltd.*, 986 F. Supp. 133, 141 (E.D.N.Y. 1997) (china, dinnerware, glassware and flatware to religious items), but compare *J. Wiss & Sons Co. v. W.E. Bassett Co.*, 462 F.2d 567, 569 (C.C.P.A. 1972) (finding that hair-cutting shears are not in the normal expansion from grass shears), *RXD Media, LLC v. IP Application Development LLC*, 986 F.3d 361, 371–72 (4th Cir. 2021) (finding that a cloud storage service was not a "natural expansion" of an Internet-based notepad service) and *Bertini v. Apple, Inc.*, 2023 WL 2764122, at *5 (Fed. Cir. 2023) (finding that consumers would not expect live musical performances to be within the normal product evolution of gramophone records).

[9] USPTO Office Action, U.S. Trademark Serial No. 97112038 (Aug. 30, 2022).

[10] USPTO Office Action, U.S. Trademark Serial No. 97112054 (Aug. 30, 2022).

[11] USPTO Office Action, U.S. Trademark Serial Nos. 97112038; 97112054 (Aug. 30, 2022).

[12] If such brand owners have not yet launched virtual goods, they can consider filing "intent-to-use" ("ITU") applications if they have a bona fide intention to use a mark in commerce in the virtual world. ITU applications provide operational flexibility because an applicant will generally have three to four years to show actual use and obtain registration. At the time of publication, it generally takes approximately nine months for the USPTO to review an application after filing. Once the application is reviewed and following the opposition period, the applicant will have six months to show actual use, which time period can be extended for good cause to a total of three years. 15 U.S.C. § 1051(d).

Other benefits of registration include an earlier priority date (i.e., trademark right will date

from the filing date instead of the actual use date) and suspension of subsequent applications filed by third parties for the same or a similar mark in the same or related class pending resolution of the earlier ITU application.

Base fee for filing an ITU application is \$250 (or \$350 depending on electronic filing option) per mark per class and the fee to extend the deadline for showing actual use is \$125.

Taken together, given the relatively affordable filing and prosecution costs, it would be a prudent business practice for brand owners with a bona fide intention to expand into the virtual world to file and maintain ITU applications.

[13] *Hermès International v. Mason Rothschild*, 603 F. Supp. 3d 98 (S.D.N.Y. 2022).

[14] *Id.*, 104 n. 3.