

Trade mark dilemmas in the Metaverse: interplay between stakeholders

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Abstract

- The opposite interests of the stakeholders in the Metaverse produce more and more legal uncertainty. The relationship between stakeholders is defined by the author as the triangle of opposite interests, where each interest shapes the development of the Metaverse.
- If we have too much freedom of expression for developers but little attention is dedicated to IP clearance in which interested trade mark holders find themselves, the Metaverse collapses because of the uncontrolled circulation of fake digital goods. In this situation, developers put pressure on the whole IP system. The value of digital goods decreases which evokes negative reputational consequences for the Metaverse. In contrast, constraints from trade mark holders are also dangerous because the Metaverse will stagnate, and designers will lock in limited creative choices. In this uncertainty, we need to balance conflicting interests and revise lessons from trade mark and technology history.
- This problem requires an examination of the European Union and the United State case law and scholarly comments because court practice tends to limit the fair use of trade marks in favour of trade mark holders. In contrast, scholars signal potential issues with this approach as overly limiting freedom of artistic expression.

I. Introduction

The opposite interests of the stakeholders in the Metaverse produce more and more legal uncertainty. Developers of virtual worlds and the Metaverse are primarily located in the USA, where the First Amendment provides broad freedom of creative expression. The predecessors of virtual worlds—the video game developers—used trade marks without cautiousness under the fair use doctrine. The rapid shift in the gaming industry from purely entertainment general design to active use of trade marks affixed on digital goods with separate values within virtual worlds changed the balance of interests between main stakeholders (developers and trade mark holders). Although the biggest virtual worlds are governed according to USA legislation as specified in their Terms of Use (ToS), conflicts go beyond this jurisdiction. The complexity is added because of the cross-bordering of the Metaverse, as trade mark holders from the European Union (EU) pursue their interests under the EU legislation. Trade mark holders claim more rights in virtual worlds to protect users from fake digital goods and earn profit from trade mark licensing.

Developers are constantly under the scrutiny of trade mark holders who dispute the scope of protection under fair use or

honest practices in favour of trade mark licensing. The developers claim that trade marks in virtual worlds do not deserve the same level of protection as those in the real world. The question arises from the debate of whether the borders of the doctrine of fair use, which protects the interests of developers, should remain the same as in the ‘video game era’ or ‘Web-3/Web-4’ requires new considerations.

According to trade mark advocates, the private interests of trade mark holders should be protected equally in the virtual and real worlds. Trade mark holders consistently compete to capture consumer attention. If we look at balance sheets, the numbers companies spend on marketing, promotion and licensing of trade marks are enormous.¹ Trade marks became a source of income for companies rather than just a source of origin. The argumentation of this group is not without flaws. The rise of trade mark value

¹ The average individual trademark is worth \$36.76 million, and the annual output of new trademarks represents approximately 2% of the total asset. P Desai and others, ‘The Value of Trademarks’ (SRRN, 18 November 2022). <<https://ssrn.com/abstract=4280505>> or <<http://dx.doi.org/10.2139/ssrn.4280505>> (accessed 28 May 2024).



The BIRKIN Hermès Bag. The BIRKIN trade mark, the U.S. Trade mark and Patent Office under Registration No. 2991927



Baby Birkin NFT by Artist Rothschild

Figure 1. Figures from the claim *Hermès v Rothschild*.⁶

and free-riders empowers attorneys to play in bad faith more frequently. They act as trade mark predators, sending to the lawyers of small companies aggressive letters without merit,² abusing the register with a long list of classes without intention of using them³ and creating barriers to entry for other parties.

The third category of stakeholders in the Metaverse comprises users, specifically gamers and consumers. I distinguish these two types of users due to their differing relationships with trade marks. Gamers, who primarily engage in the Metaverse for entertainment, typically have limited concern for trade marks. In contrast, consumers may view digital goods as collectable assets or artistic attributes and participate as creators of digital goods. For this latter group, the clearance of IP rights is important when they obtain IP rights on digital goods or contribute to the creation of digital goods protected by trade marks. Additionally, their perception of trade marks influences determinations regarding trade mark infringement in the virtual world.

After the case *Hermès v Rothschild*,⁴ the debate around the conflict of interests between stakeholders intensifies, dividing the legal community into two camps: those supporting and those opposing the narrowing of freedom of expression. In January 2022, French fashion house Hermès stated in the claim that the defendant's METABIRKINS brand simply ripped off Hermès' famous BIRKIN trade mark by adding the generic prefix 'meta' to the famous trade mark BIRKIN. 'Meta' and 'Metaverse' refer to virtual worlds and economies where digital assets such as non-fungible tokens (NFTs) can be sold and traded. Artist Rothschild sought to make his fortune by swapping out Hermès' 'real life' rights for 'virtual rights'.⁵ (Fig. 1)

In response to this claim, law professor and attorney of the defendant, Mark P. McKenna, argued:

'Digital goods' are not goods in any meaningful sense. Digital shoes do not have any of the characteristics of actual shoes. Trade marks used in relation to these "goods" do not convey the sorts of information that trade mark law and theory have always taken to be central. They are pure representations. Recognition of these kinds of trade mark rights threatens to

finally break trade mark law and turn trade mark rights into abstract protection for brands.⁷

These conflicts between stakeholders require a factual evaluation of both positions and their impact on the USA and EU trade mark framework. The prevalence of either interest will lead to opposite outcomes regarding trade mark regulation and shaping the development of the Metaverse. I am concerned that an excessive reliance on freedom of expression or honest practices may undermine the interests of trade mark holders. At the same time, if developers use old exceptions in doctrine to adjudicate legal cases, the law shapes the technological development of the Metaverse in a very particular way.

The Metaverse concept, as outlined by Mark Zuckerberg, describes an integrated immersive ecosystem where the barriers between the virtual and real worlds are seamless to users.⁸ This implies that one of the key features of the Metaverse—high virtual realism—encounters constraints under trade mark law. Developers' reliance on parody and artistic exceptions to trade mark protection promotes the creation of a Metaverse in which much of the design falls under comedy or art, thus deflecting efforts to build a Metaverse as close to reality as possible. This situation raises important questions: Does it pose an obstacle to innovation when the path of law channels the path of technology towards comedy or art? How can a balance between these conflicting interests be achieved?

I analyse opposing legal positions and revise lessons from the interplay between trade marks and technology history. The goal is to identify the conflicting interests in the Metaverse and examine the challenges of achieving balanced trade-offs among stakeholders with a comparative analysis of the USA and the EU approaches. This article is structured as follows:

II. Unpacking interests of different stakeholders within the Metaverse

- A. The interests of trade mark holders
- B. The interests of developers
- C. The interests of users

III. Striking a balance: challenges in reconciling conflicting interests

² The well-known trademark holders are trying to maximize the protection of their trademarks. For instance, luxury fashion brands, particularly Louis Vuitton, have traditionally been notorious for aggressively sending cease-and-desist letters and filing claims against parodists. D Tan, 'Logo Hacking, Downmarket Irony, and Counterfeit Chic: A Study of Contemporary Fashion Trends and Their Implications for Trademark Laws'. <10.1093/oso/9780198871248.003.0004> (accessed 22 December 2024).

³ 'Bad Faith Trademark Applications' (Gowling WLG). <<https://gowlingwlg.com/en/insights-resources/articles/2019/bad-faith-trademark-applications/>> (accessed 28 May 2024).

⁴ *Hermès International and Hermès of Paris Inc v Mason Rothschild* Case 1:22-cv-00384, Document 1, Complaint, filed 14 January 2022 (SDNY).

⁵ *ibid*, paras 1–2.

⁶ *ibid*, paras 25 and 53.

⁷ Mark P McKenna, 'Trademarks in the Metaverse' (NYU School of Law) <www.law.nyu.edu/sites/default/files/Mark%20McKenna%20-%20Trademarks%20in%20the%20Metaverse.pdf> (accessed 17 November 2024).

⁸ Yogesh K Dwivedi and others, 'Metaverse beyond the Hype: Multidisciplinary Perspectives on Emerging Challenges, Opportunities, and Agenda for Research, Practice and Policy' (2022) 66 International Journal of Information Management 102542 <www.sciencedirect.com/science/article/pii/S0268401222000767> (accessed 16 April 2023).

- A. Evolving legal dilemmas between stakeholders in the USA and the EU
- B. The fall of the Rogers test in the USA
- C. The role of honest practices in the EU.
- D. Consequences of shrinking of the fair use and honest practices
- E. Pruning of trade mark law: path to trade-off

IV. Conclusions

II. Unpacking interests of different stakeholders within the Metaverse

In this section, I describe patterns related to using trade marks in the Metaverse from the perspective of interested stakeholders. I call the relationship between stakeholders a triangle of interests, where any dominant interest will shape the development of the Metaverse (Fig. 2). The exercise of trade mark rights by trade mark holders goes hand-in-hand with the dynamics of technological innovation pursued by developers. Let us discuss the interests of trade mark holders (Section A), the interests of developers (Section B) and the interests of users (Section C).

A. The interests of trade mark holders

Trade mark holders are obligated by trade mark law to act vigorously to stamp out infringers, even those at the level of Rothschild. If they don't, the marketplace will become filled with Birkin bags, and Mirkinbags, and quasi-Birkins, and near-Birkins, and Birkin-lookalikes.

Michael Murray⁹

Trade mark use in video games often falls under the USA First Amendment or the EU honest practices and is excluded from trade mark law protection. However, scholars pay attention that virtual worlds should not be guaranteed such a high level of 'safe harbour' in trade mark use. The threshold issue in applying trade mark law to virtual worlds is determining whether any given 'use' of a trade mark in a given virtual world environment constitutes a 'use' in commerce.¹⁰ The trade mark holders are involved in numerous licence agreements when main characters in films or video games recommend certain goods or services, as a result, relevant audiences might think about endorsement or sponsorship.

⁹ Michael D Murray, 'Trademarks, NFTs, and the Law of the Metaverse' [2022] SSRN Electronic Journal <www.ssrn.com/abstract=4160233> accessed 5 March 2023.

¹⁰ Candidus Dougherty and Greg Lastowka, 'Virtual Trademarks' SSRN Scholarly Paper (Rochester, NY, 17 February 2008), <<https://papers.ssrn.com/abstract=1093982>> (accessed 5 August 2024).

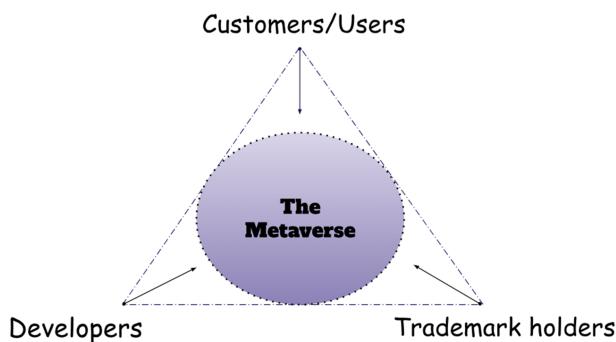


Figure 2. Triangle of stakeholder interests within the Metaverse.

In 2008, Benjamin Duranske pointed out two trends around trade mark protection in virtual worlds that are concerning for trade mark holders:

1. Massive unlicensed sales of mainstream brands' products with few content controls.
2. Unlicensed sales of in-world content creators' brands by another virtual world.¹¹

The same problems are still relevant to the Metaverse. The Metaverse has a variety of fashion collaborations between trade mark holders and Metaverse developers. Balenciaga and Epic Games¹² suggest buying digital goods with real counterparts. Gucci collaborates with Roblox by selling only rare digital Gucci items on Roblox.¹³ But some of the creators use well-known trade marks in the Metaverse without permission.

As an illustration, the Roblox virtual world allows its users to purchase or earn in-game items. Random immersion in the Roblox virtual world disclosed a number of counterfeit digital goods with well-known trade marks that can be purchased for real money through a market search. Several examples of fake digital goods that led to trade mark infringement were within Roblox (Fig. 3).

Transactions were conducted successfully involving both the authentic digital Gucci baseball hat and the counterfeit digital Gucci t-shirt (Fig. 4). Mentioning strict penalties in the ToS for uploading fraudulent 'Virtual Items' or 'Metaverse Items' does not stop users from creating counterfeit digital goods.

My exploration of Roblox shows signals of ineffective trade mark protection. These anecdotal breadcrumbs of evidence might indicate deeper layers of existing problems that impact trade-offs between stakeholders. These trends cause reconsideration of trade mark usage in virtual worlds by trade mark holders. They insisted that the roots of trade mark protection are far from the doctrine of freedom of expression, as trade marks do not share similarities with copyright works. Therefore, there is no place for exceptions.¹⁵ The court decisions changed steady practice related to virtual games, considering that trade mark usage in virtual worlds requires authorization of trade mark holders.¹⁶ In the USA, *Hermès v Rothschild*¹⁷ opened a new wave of discussion on whether artistic expression should prevail over trade mark protection. The parties required the application of different legal tests to the case. Rothschild argued that because the digital images of Birkin bags tied to the NFTs he sells 'art', the Second Circuit's test in *Rogers v Grimaldi* should apply, and that applying the *Rogers* test necessitates dismissing *Hermès's* claims on First Amendment grounds. *Hermès* contended that the two-pronged test from

¹¹ Benjamin Tyson Duranske, *Virtual Law: Navigating the Legal Landscape of Virtual Worlds* (1st edn, Chicago, American Bar Association 2008).

¹² Mark van Rijmenam, *Step into the Metaverse: How the Immersive Internet Will Unlock a Trillion-Dollar Social Economy* (John Wiley & Sons, Hoboken 2022).

¹³ Roblox is a virtual world with its own economy, where the in-game currency of 400 Robux equals 5.99 euros. In the ToS, the distribution of profits is established between the virtual world and the owner of the digital goods, which is generated by selling the digital goods. Roblox platform charges 30–40% of the value of deal.

¹⁴ 'GUCCI (Fake)—Roblox' <www.roblox.com/catalog/7007504389/GUCCI-fake> accessed 17 April 2023.

¹⁵ Unlike copyright law (which implements art I, s 8, cl 8 of the Constitution), trade mark law is not intended to protect the owner's right in a creative product simply to encourage creative output, ie where there is no consumer confusion. See *EMI Catalogue*, 228 F3d 56, 63 (2d Cir. 2000). In other words, trade mark law is not founded on a constitutional mandate and therefore must be applied with caution where constitutionally protected speech is arguably involved.

¹⁶ See *E.S.S. Entertainment 2000, Inc. v Rockstar Videos Inc*, 444 F Supp 2d 1012 (CD Cal 2006); *Novalogic, Inc. v Activision Blizzard*, 41 F Supp 3d 885 (CD Cal 2013), *Dillinger, LLC v Electronic Arts Inc.*, 795 F Supp 2d 829 (SD Ind 2011), *AM General LLC v Activision Blizzard*, 450 F.Supp.3d 467 (SDNY 2020), *Virag, S.R.L. v Sony Comput Entm't Am. LLC*, Case No 3:15-cv-01729-LB (ND Cal).

¹⁷ *Hermès Int'l v Rothschild* 678 F Supp 3d 475 (SDNY 2023)



Figure 3. Examples of digital fake goods.

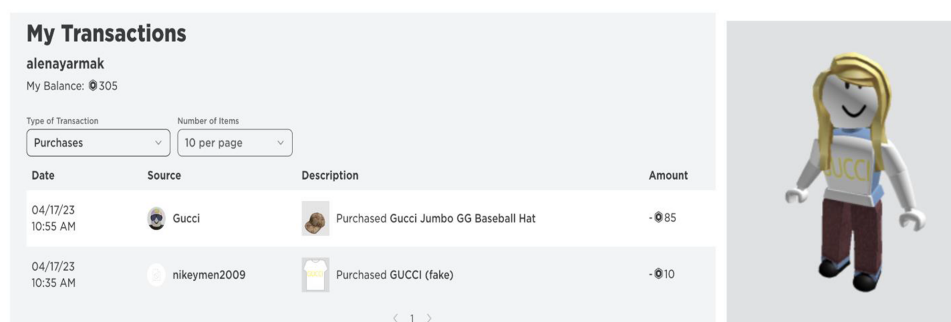


Figure 4. Confirmation of transactions with digital fake and original Gucci goods.¹⁴

*Gruner + Jahr*¹⁸ should be applied instead, which involves determining whether the mark is entitled to protection and requires the application of the *Polaroid*¹⁹ factors to assess the likelihood of confusion. Deciding which of these tests to apply at the summary judgment stage first requires defining the set of works that are 'artistic' and therefore deserving of First Amendment protection. This case illustrates a conflict between two opposing interests and the search for relevant determinants. The gist of the United States District Court for the Southern District of New York holdings is that the First Amendment in the trade mark context 'protects an individual's right to speak out against a mark holder, but it does not permit an individual to suggest that the mark holder is the one speaking'.²⁰

At the same time, a myriad of tests and factors create uncertainty for stakeholders in determining whether trade mark infringement occurs. In the EU, the concentration of trade mark protection is even higher than in the USA. The *Juventus Football Club* successfully exercised its right in the case against *Blockeras*, which created NFT cards with its football players. An important point from this case is that

In cases where there is confusion in the use of a trade mark, there is a risk that the public might believe that the goods or services at issue come from the same undertaking or from economically-related undertakings.²¹

¹⁸ The two-prong test established in *Gruner + Jahr USA Publishing v Meredith Corp.*, 991 F.2d 1072 (2d Cir 1993) means that the court must determine whether the defendant's use of the plaintiff's trade mark is purely descriptive and whether such use is likely to cause consumer confusion.

¹⁹ *Polaroid Corp. v Polaroid Electronics Corp.* 287 F.2d 492, 495 (2d Cir 1961) (noting factors include (I) the strength of the plaintiff's mark, (II) the similarity of the marks, (III) the competitive proximity of the products in the marketplace, (IV) the likelihood that the senior user will 'bridge the gap' by moving into the junior user's product market, (V) evidence of actual confusion, (VI) the junior user's bad faith in adopting the mark, (VII) the respective quality of the products and (VIII) the sophistication of the consumers in the relevant market).

²⁰ *Hermès International* (n 17).

²¹ *Juventus Football Club S.p.A. v Blockeras S.r.l.*, The Court of Rome IP Chamber, Judgment No 32072/2022 (Unofficial translation by Trevisan & Cunzio, 2022)

The courts in the USA and the EU, as gap-fillers of legislation, recognized trade mark rights in digital goods and NFTs. On top of the decisions, the trade mark holders may require the signing of licence agreements and authorizing the placement of their trade marks on digital goods. The trade mark holders advertise their trade marks to receive better recognition among customers in virtual worlds, which allows them to exercise more trade mark rights.

The flagship of wealth in virtual worlds has become digital goods with well-known trade marks, from Ferrari cars in *Need for Speed* to H&M clothes in *The Sims*. However, scholars Candidus Dougherty and Greg Lastowka argue that commercial scenarios between the real world and virtual worlds are different:

For instance, what constitutes quality with regard to a virtual sneaker? Can it fall apart? If not, do we really need to provide incentives for Nike to protect the quality of virtual footwear?²²

Answering these questions, I want to point out that, indeed, the function of product quality will not be triggered by the Nike digital goods in the same way as real shoes. However, we cannot deny the impact of digital images on the company's goodwill. The function of quality in the virtual world is transformed according to the intangible nature of digital goods. What does matter in terms of the quality of digital goods for users? Brand perception directly depends on the visual quality and characteristics of digital goods. The trade mark holders might assign certain functionality to digital goods with their trade marks, which benefit users of virtual worlds. These goods may help them achieve better game results or bring scarce, valuable collectables. Trade mark holders are interested in expanding their audience and maintaining their loyalty to their brand. The ordinary content creators acting without authorization do not care about the loyalty of users.

<www.trevisancunzio.com/static/upload/juv/juventus-nft-order-en.pdf> (accessed 25 November 2024).

²² Dougherty and Lastowka (n 10).



Figure 5. Photos of real McDonald's and parodies on the website of McRTFKT. (a) McRTFKT's parody on McDonald's.²⁹ (b) Original McDonald's restaurant.³⁰ (c) The Hype Meal of McRTFKT.³¹ (d) Happy Meal of McDonald's.³²

For instance, McRTFKT created the sarcastic project on the well-known trade mark with reconsideration of McDonald's trade marks:

1. The Happy Meal trade mark²³ in the Metaverse represented as Hype Meal.
2. The McNuggets trade mark²⁴ represented Pigeon McNuggets.
3. Active usage of MC²⁵ suffix for McMurakami Burger, Mc-email.
4. The McRib trade mark²⁶ depicted McDrip Wearable.
5. The I'm loving it²⁷ presented as Just chew it.

Another significant aspect of the McRTFKT project is the description made on the website that can mislead consumers of McDonald's:

We are building something special—our flagship location. Come visit the Metaverse's first QSR virtual franchise and mint your meal at the hover-thru for FREE (while supplies last).²⁸

²³ HAPPY MEAL—Trade mark Details, US Serial No 77305070, Registration No 3431008, registered on 20 May 2008, for a combination meal consisting primarily of meat, a side dish and a beverage for consumption on or off the premises under International Class 029.

²⁴ MCNUGGET—Trade mark Details, US Serial No 77822521, Registration No 4 071 074, registered on 13 December 2011, for products made of poultry. The mark was accepted under s 8 on 23 February 2017 and is classified under International Class 029, covering meat, fish, poultry and game products. The mark was published for opposition on 2 February 2010.

²⁵ MC—Trade mark Details, US Serial No 74192851, Registration No 1947099, registered on 9 January 1996, for restaurant services. The mark was renewed on 25 September 2016 and is classified under International Class 042, which includes scientific and technological services, as well as legal services.

²⁶ MCRIB—Trade mark Details, US Serial No 73369229, Registration No 1315979, registered on 22 January 1985, for staple foods under International Class 030. The mark is a typeset word mark and is registered on the Principal Register. It has been renewed multiple times, with the latest renewal and s 8 declaration on 8 April 2015.

²⁷ I'M LOVIN' IT—Trade mark Details, US Serial No 78257203, Registration No 2978887, registered on 26 July 2005, for restaurant services under International Class 043. The mark is a typeset word mark and was filed on 2 June 2003. It was published for opposition on 27 January 2004. The trade mark has been renewed, with the latest renewal recorded on 24 July 2015.

²⁸ 'McRTFKT's 'Just Chew It' <<https://mcrtfks.webflow.io/>> (accessed 20 August 2024).

This advertisement may confuse the relevant audience, using the well-known McDonald's trade mark and implying false endorsement by the famous brand. The screenshots from the website and photos of real McDonald's chain presented thus far support the consideration of a high possibility of the consumer's confusion (Fig. 5).

There is no doctrinal requirement that a trade mark should perform all possible functions to be protected from infringement. Indeed, the trade mark cannot perform the function of quality in the Metaverse equally to the real world, but at the same time, the aura of trade mark plays a decisive role for companies. The settings in which these goods are presented in virtual worlds also matter. For instance, Swedish company Ikea sent a cease and desist letter to the Ziggy gaming studio demanding to remove all facilities associated with Ikea in the game 'The Store is Closed' (Fig. 6):

The unauthorized use of the IKEA indicia constitutes unfair competition and false advertising under Sections 43(a) of the U.S. Trademark Act, 15 U.S.C. § 1125(a), and state unfair competition and false advertising laws. You can easily make a video game set in a furniture store that does not look like, or suggest, an IKEA store. You can easily make changes to your game to avoid these problems.³³

The legal and marketing teams create and protect a particular reputation around the company's trade mark. Ikea mentioned on

²⁹ Screenshots are from the official website of <<https://mcrtfks.webflow.io/>> (accessed 20 August 2024).

³⁰ Image credit: 'McDonald's' by JeepersMedia is licensed under Creative Commons Attribution 2.0 (CC BY 2.0). Available at <https://creativecommons.org/licenses/by/2.0/?ref=openverse> (accessed 22 December 2024).

³¹ Screenshots are from the official website (accessed 20 August 2024).

³² Image credit: 'Early McDonald's Happy Meal' by Jim, the Photographer, is licensed under Creative Commons Attribution 2.0 (CC BY 2.0). Available at <https://creativecommons.org/licenses/by/2.0/> (accessed 21 December 2024).

³³ 'Ikea Asks Horror Game to Change So People Stop Comparing It To Ikea [Update]' (Kotaku, 28 October 2022) <<https://kotaku.com/ikea-furniture-horror-game-store-is-closed-kickstarter-1849715848>> (accessed 11 August 2023).

³⁴ Image credit: Ikea Cease and Desist Letter to the Ziggy Game Studio on the Steam Platform. Available at <<https://www.crowell.com/en/insights/client-alerts/ikea-s>>



Figure 6. Photos of the IKEA real shop and screenshots of the Ziggy game from the Steam platform.³⁴

the website that among its fundamental values are (I) togetherness, as the heart of the IKEA culture; (II) caring for people and the planet. We want to be a force for positive change; we have the possibility to make a significant and lasting impact—today and for the generations to come; (III) cost-consciousness. As many people as possible should be able to afford a beautiful and functional home.³⁵ These values sound optimistically and friendly for their customers, while the developer of the horror game has an opposite description of the game settings, which is associated with the well-known Ikea trade mark:

The Store is Closed is a cooperative survival game. You are trapped in an infinite furniture store, trying to survive against the mutant staff who attack at night. You must explore the store, alone or with your friends, to find a way out. Luckily, it is filled with furniture that can be used to craft weapons or build fortifications to survive the night. Eventually you will wander too deep into the store and attract something dangerous. The Managers.³⁶

These contrasting descriptions of the same store create different perceptions of trade marks in the relevant audience. The trade mark holders usually do not want to associate their reputation with horror or negative patterns. The reasons why Ikea sought to remove designs similar to its stores are quite obvious: (I) the negative image of the video game may cause damage to the Ikea trade mark and mislead customers about false endorsement; (II) it has not permitted through a licence agreement to associate its trade mark with stuff who kills at night or furniture, which you can use for murders of zombies. As we can see, licence agreements provide the trade mark holder with a warranty that trade mark use in the virtual world aligns with the common values of the company. Some perceptions of the trade mark, even in virtual reality, might cause negative consequences for trade mark holders: loss of customers, negative image in media or financial loss due to the stock market fluctuation. The cases discussed earlier demonstrate the importance of signing licensing agreements with trade mark

holders in the Metaverse. Such agreements provide a structured framework to protect the interests of various stakeholders while fostering transparent development of the Metaverse. Key arguments supporting the necessity of these agreements include the following:

1. *The impact of unauthorized NFT creators.* The NFT trolls create a negative image of original trade marks, killing the traditional values of brands, which are maintained, developed and created over the years. As a result, trade marks might be tarnished, as free-riders usually intentionally use well-known trade marks to attract more attention and earn money on their media recognition. Even if the truth is unveiled later, reputational damages are inevitable. Jonathan Swift once remarked that a lie can travel halfway around the world while the truth is still putting on its shoes.
2. *The first-mover advantages.* In the tech industry, the Metaverse is called 'the next big thing',³⁷ which opens new channels for marketing and business deals. If a third party creates a virtual world using the well-known trade mark without authorization as the first mover, it may occupy market share in the Metaverse under the winner-takes-all theory. Then, the original trade mark holder will lose the effect of first impression among users, media attention and part of the audience after such unfair behaviour. The trade mark acts as a magnet for users. If trade mark holders came to the Metaverse not first, the traffic of their audience would be hard to reverse. The only way is to claim a transfer of infringing accounts, but this opportunity is lacking in some decentralized virtual worlds.
3. *The confusion among customers.* The main problem is confusion among customers when they cannot identify original and fake representations of real goods in the Metaverse. Some customers have negative experiences when a purchase of unauthorized digital goods with well-known trade marks creates issues such as loss of initial value, disputable rights or even the freezing of an account.
4. *The benefits for virtual worlds.* Signing licences with trade mark holders guarantees the control of quality, value and rights on digital goods. The virtual worlds (Roblox, Minecraft) even

battle-against-horror-games-the-importance-of-intellectual-property-rights> (accessed 22 December 2024).

³⁵ 'Our Culture and Values—IKEA Global' (IKEA) <www.ikea.com/global/en/our-business/how-we-work/ikea-culture-and-values/> (accessed 20 August 2024).

³⁶ 'The Store Is Closed on Steam' <https://store.steampowered.com/app/1593010/The_Store_Is_Closed/> (accessed 20 August 2024).

³⁷ Andrew Faridani, 'Council Post: Why The Metaverse Is Marketing's Next Big Thing' (Forbes) <www.forbes.com/councils/forbesbusinessdevelopmentcouncil/2021/12/21/why-the-metaverse-is-marketings-next-big-thing/> (accessed 24 August 2024).

seek collaborations with trade mark holders due to their broad customer base, which can move to the virtual worlds.

5. *Control of rights.* Trade mark holders can transfer exclusive rights to the virtual world's developers. The licence agreements eliminate attempts of free-riding or parasitism on the company's IP. It is unfair when some companies pay to receive exclusivity from well-known trade mark holders, while others use the freedom of creativity as a shield for unfair enrichment in the Metaverse.

Trade mark holders express concern that virtual worlds encapsulate broad commercial opportunities, which should be controlled at least by licence agreements. Otherwise, the digital counterfeits will destroy this new market and devalue digital art. They claim that the standard of trade mark protection should remain high in virtual worlds. Intangible property will be appreciated only with respect to trade mark holders' rights. At the first stage, we may have the boost of digital goods on an uncontrolled virtual market, but if the Metaverse is flooded uncontrollably by fakes, what kind of incentives will trade mark holders have to contribute to the development of the Metaverse? This question is rhetorical.

B. Interests of developers: legal stance

IP law development has always had a conflict of interest with technology innovation (*Authors Guild v Google*³⁸ and *Oracle v Google*³⁹). Authors of copyright works and trade mark holders claim profit for their financial, labour or creative efforts, while developers aim to bring new and valuable technologies to our society. The Metaverse is not an exception. The Metaverse developers are interested in depicting our real world in virtual reality. As our natural world is full of names, logos and signs, the question arises whether developers may use trade marks in virtual worlds without legal obligations. Developers have different means to avoid responsibility for using IP objects for free, but they primarily use the First Amendment, honest practices and competition law as a shield.

From a recent study conducted by Ernst & Young, 97 per cent of gaming executives believe the gaming industry is central to the development of the Metaverse.⁴⁰ Therefore, we consider case practice related to video games and virtual worlds as direct predecessors of the Metaverse. I ask myself three questions that need to be addressed: What legal means may developers use to protect their interests in the Metaverse? Should the Metaverse be protected by the doctrine of freedom of expression or honest practices because of its high social value (the promotion of the progress of science and arts)? How can developers safeguard their interests in this contentious IP climate?

The antitrust law is always a sharp tool against abuse of IP law. Some scholars sceptically call trade marks 'barriers to entry' for encumbers. In 1956, economist Joe Bain, one of the first, among scholars,⁴¹ emphasized in his book *Barriers to New Competition* that trade marks are the most challenging obstacles for new market participants to overcome. There are several grounds when developers of the Metaverse can attack trade mark holders with antitrust law:

1. The high cost of trade mark licensing leads to access to a new market that may receive only big players, while smaller players face entry barriers.
2. The trade mark holders may act in bad faith, sending cease and desist letters without grounds and creating obstacles for using their trade marks even in a non-commercial context.
3. The trade marks acquire copyright works characteristics, making them artificial objects with broad monopoly power and overprotection within the real world.

Other possible shields for the developers' interests are the First Amendment in the USA and honest practices in the EU. These exclusions are widely known, we reiterate them just for the sake of convenience. In the USA Constitution, the First Amendment states that:

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.⁴²

In the EU, limitations of the effects of an EU trade mark are mentioned in Article 14(1) Regulation (EU) 2017/1001 on the European Union Trade Mark⁴³ (EUTMR) and Article 14(1) Directive (EU) 2015/2436 to Approximate the Laws of the Member States Relating to Trade Marks⁴⁴ (TMD):

1. An EU trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade: (a) the name or address of the third party, where that third party is a natural person; (b) signs or indications which are not distinctive or which concern the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of the goods or services; (c) the EU trade mark for the purpose of identifying or referring to goods or services as those of the proprietor of that trade mark, in particular, where the use of that trade mark is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts. 2. Paragraph 1 shall only apply where the use made by the third party is in accordance with honest practices in industrial or commercial matters.⁴⁵

In the video game context, courts in the USA repeatedly invoke that developers may use trade marks in their games under the First Amendment without signing licence agreements. What factors would indicate that developers of video games do not infringe trade mark rights that a court should consider? In answer to this question, the United States District Court for the Central District of California in *E.S.S. Entertainment 2000, Inc (n 16). v Rockstar Videos*⁴⁶ states that:

Video game creator's use of 'Pig Pen,' as a virtual, cartoon-style strip club in its video game, was protected by the First Amendment from trade mark and trade dress infringement claims...;

⁴² US Constitution, Amendment I.

⁴³ Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark [2017] OJ L154/1.

⁴⁴ Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks (recast) (Text with EEA relevance) 2015.

⁴⁵ Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark [2017] OJ L154/1, art 14.

⁴⁶ *E.S.S. Entertainment 2000 Inc (n 16)*.

³⁸ *Authors Guild v Google Inc* 804 F 3d 202 (2nd Cir 2015).

³⁹ *Google LLC v Oracle America Inc* 593 US 1; 141 S Ct 1183; 209 L Ed 2d 311 (2021).

⁴⁰ S Porter et al (2022) *Gaming Industry Survey* (Ernst & Young 2022).

⁴¹ Bain (1956) defined an entry barrier as the set of technology or product conditions that allow incumbent firms to earn economic profits in the long run. Bain identified three sets of conditions: economies of scale, product differentiation and absolute cost advantages of established firms.

including a strip club in the video game that was similar in look and feel to the owner's strip club had at least some artistic relevance as it helped create a cartoon-style parody of East Los Angeles, and video game's use of 'Pig Pen' did not explicitly mislead consumers as to the source or content of the work.

The court took into account four critical factors: (I) artistic relevance—a parody of a club, (II) absence of consumers' confusion, (III) trade mark does not perform the function of identification of the source and (IV) there is no operational link between two companies (collaboration or endorsement). In addition, the court emphasized that:

The San Andreas Game is not complementary to the Play Pen; video games and strip clubs do not go together like a horse and carriage or, perish the thought, love, and marriage. Nothing indicates that the buying public would reasonably have believed that ESS produced the video game or, for that matter, that Rockstar operated a strip club.⁴⁷

This decision is well reasoned, as the percentage of game design that the Play Pen contributes is a small part of the big plot. Indeed, user perception is unlikely to centre on this single feature, as the club does not embody the core thematic elements central to The San Andreas Game.

The next turn in court practice affirmed the close tight of video games with other copyright works. In 2011, the USA Supreme Court explicitly stated that video games qualify for First Amendment protection:

And whatever the challenges of applying the Constitution to ever-advancing technology, "the basic principles of freedom of speech and the press, like the First Amendment's command, do not vary" when a new and different medium for communication appears.⁴⁸

In a trade mark context, the decision means that if a party uses a third party's trade mark in a video game or a TV show, the doctrine of freedom of expression applies equally to these works. This position was confirmed in the cases *Novalogic, Inc. v Activision Blizzard*,⁴⁹ *Dillinger, LLC v Electronic Arts Inc.*,⁵⁰ *A.M. General LLC v*

*Activision Blizzard*⁵¹ and *Virag, S.R.L. v Sony Comput Entm't Am. LLC*,⁵² in which the courts reached the same conclusion that video game companies had the right to use other parties' trade marks in their games because the First Amendment protected the use.

In the EU, courts demonstrated an analogue approach, favouring video game developers with further promotion of the freedom of expression. The French case of *Ferrari v Take Two Interactive Software Inc.*⁵³ is a good example. There, plaintiff Ferrari uses various signs, such as the Prancing Horse represented on its logo; defendants published and marketed a video game featuring a vehicle called 'Turismo', which would have the characteristics of its 360 Modena and F40 models. Ferrari brought an action against these companies for infringement of its designs. The French Cour de cassation (Commercial, Financial and Economic Chamber) held the decision in favour of the video game developer, stating that:

With regard to the first complaint, namely the use of the Ferrari company logo — a rearing horse —, while it is true that this emblem enjoys great notoriety, it remains the case that the logos appearing on the Turismo vehicle represent either a seated horse or a rearing hare; that this choice excludes any risk of confusion with a particular manufacturer of racing vehicles, since manufacturers of this type of vehicle associate a powerful animal with the image of their company; that the user of the game will only be able to perceive a humorous attention.

For several decades, courts have routinely denied trade mark protection in video games that they deemed to meet a requirement of the doctrine of freedom of expression (the USA) or honest practices (the EU). The trade mark has played an aesthetic or attributive role, contributing to the common design of video games, rather than performing its primary functions of identifying origin or guaranteeing quality.

Video game developers have witnessed the most dramatic changes in the legal treatment of trade marks since the advent of the Metaverse, generative AI and the separate value of digital goods. These changes bring the commercial trade in virtual worlds prevailing for initial entertainment purposes. Consequently, trade mark holders began closely scrutinizing nearly all kinds of uses of digital goods in virtual worlds, often issuing restrictive orders. Developers and creators are concerned that the USA courts have significantly narrowed their freedom of expression in several recent decisions favouring trademark holders (*Hermès v Rothschild*⁵⁴ and *Jack Daniel's™ Properties, Inc. v VIP Products LLC*⁵⁵).

Trade marks are essential means of communication in our world. Authors can remove them from books, TV shows and video games, but then we would live in a limited world of freedom of speech. IP law should not become the filter for the ban of trade marks from original works or the killer of the freedom of creative

⁴⁷ *E.S.S. Entertainment 2000 Inc* (n 16) para 84.

⁴⁸ *Brown v Entertainment Merchants Association* 564 US 786 (2011).

⁴⁹ Trademark owner, as developer and global publisher of computer and video games for consoles, filed suit asserting Lanham Act claims that competitor publisher of 'Call of Duty: Modern Warfare 3' (MW3) video game and competitor's licensees infringed owner's registered word mark, 'Delta Force,' and registered design mark for MW3 Delta Force Logo by using marks in MW3 video game and related products, and also claiming false designation of origin, contributory trade mark infringement and state law common law infringement. Competitor and licensee guidebook publisher moved for partial summary judgment. The District Court, John F. Walter, J, held that (i) First Amendment protection extended to MW3 video game; (ii) claims based on use of marks in MW3 video game and guidebook were barred by First Amendment and (iii) competitor did not waive First Amendment rights. *Novalogic, Inc.* (n 16).

⁵⁰ Owners of registered trade marks for 'John Dillinger' filed action alleging that video game company violated its trade marks and interfered with its control over John Dillinger's personality rights. Company moved for judgment on pleadings. The District Court, Jane Magnus-Stinson, J, held that (i) post-mortem right-of-publicity statute did not apply to personality who died before its enactment; (ii) video games qualified as 'literary works' under statutory exception and (iii) trade mark owners stated trade mark infringement claim. *Dillinger LLC* (n 16).

⁵¹ Trademark holder brought action against video game developers, alleging trade mark infringement, trade dress infringement, unfair competition, false designation of origin, false advertising and dilution under Lanham Act and New York law. Developers moved for summary judgment, and trade mark holder moved for partial summary judgment on developers' laches claim. The District Court, George B Daniels, J, held that (i) First Amendment barred trade mark infringement claims; (ii) developers were not liable for trade dress infringement; (iii) developers were not liable for unfair competition; (iv) developers were not liable for false designation of origin; (v) developers were not liable for false advertising and (vi) developers were not liable for trade mark dilution. *AM General LLC* (n 16).

⁵² *Virag, S.R.L.* (n 16).

⁵³ *Ferrari v Take Two Interactive Software Inc* Cour de cassation, Chambre commerciale, financière et économique, pourvoi no 13-10.689, ECLI:FR:CCASS:2014 (8 April 2014).

⁵⁴ *Hermès v Rothschild* (n 17) 22.

⁵⁵ *Jack Daniel's™ Properties, Inc. v VIP Products LLC* 599 US 140 (2023).

expression. Taking into account exclusions from IP law, developers may return the freedom of trade mark use in virtual worlds through the following arguments:

1. The Metaverse developers have significant R&D centres doing research in engineering, medicine, environment and education, bringing high social value to society compared with the private interests of trade mark holders.
2. High virtual realism is a key feature that allows the recreation of real-world places in virtual worlds. This feature will preserve cultural and historical heritage and prevent its destruction.
3. Their users want virtual liberty and entertainment within virtual worlds without following real-world rules.
4. Obtaining permissions and licences requires substantial financial investments, time frames and legal negotiation, leading to Metaverse development stagnation.

Both legislators in the USA and the EU are interested in the promotion of the Progress of Science and useful Arts and uniform protection of IP rights.⁵⁶ At the centre of any debate are always public benefits. What kind of benefits may the Metaverse bring to the table that allow neglect private interests of trade mark holders?

I decided empirically to check the innovation within the Metaverse when the Metaverse developers demonstrate the practical applicability of virtual worlds and resolving severe social issues. Digital twins⁵⁷ have high social impact and applications towards different sectors, including:

1. *Saving cultural heritage.* European scholars⁵⁸ point out that digital twins could be used to preserve and share cultural heritage and make cultural heritage more accessible to the public.⁵⁹ One of the reasons is saving history from unforeseeable events. Fires, such as those at Notre Dame in Paris and the National Museum in Rio de Janeiro, are tragic examples of this threat. Wars are another threat to cultural heritage, as entire cities might be completely destroyed. For example, in Ukraine, a small city, Bachmut, which was known locally for its salt mines and sparkling wine,

completely turned into ruins. Ukrainian government is testing the digital twin technology with french companies to rebuild the nation's shattered cities.⁶⁰ Over the last decades, the preservation and rebuilding of a historical and cultural legacy have become popular using virtual and augmented realities.

2. *Governmental services.* There are several ongoing projects in the world with the aim to implement digital twins in city governance to improve the efficiency of facilities and services within the cities.⁶¹ In Europe, 'the Citiverse' project aims to provide communities, regions and member states with an access to standardized and interoperable tools to implement Local Digital Twins on local or regional level.⁶²
3. *Medicine.* The 'Medical technology and AI' (MeTAI) ecosystem includes key elements such as virtual comparative scanning with digital twins of scanners on individualized patient avatars, ubiquitous and secure medical data access and raw tomographic data sharing. Digital twins, in combination with AI, reconstruct human body for conducting complex surgeries.

Finally, we can see that protected expression under the First Amendment or the doctrine of honest practices is a historically contingent category whose contours change with time as new conventions and technologies emerge.⁶³ The Metaverse offers profound advancement in the state-of-the-art, which ranges from environmental protection to complex engineering. This stance demonstrates that different IP law objects should work in synergy to promote the Progress of Science and useful Arts, rather than being hostile, incompatible elements when trade marks become obstacles to the virtual worlds' development. The Metaverse developers should have more leverage in enhancing their virtual worlds, as it was in the 'video game era'. The line between designing a virtual world to promote the progress of science and trade mark infringement of third parties is thin and often unclear. This demonstrates the need for a clear-cut policy of balancing opposite interests to minimize risks of abuses from either party.

C. Interests of users

The Metaverse market involves different types of consumerism among users: gamers interested in playing within virtual worlds and customers focused on buying digital goods. The former reflects on game experience without concentration on trade marks or following real-world rules, while the latter has substantial interests in IP rights buying digital goods. Jack M Balkan pays attention that as increasing numbers of people flock to virtual worlds and invest their time and resources there, the law will surely follow.⁶⁴ The aim is to check the robustness of legal positions, whether the point of virtual worlds is to allow players to

⁵⁶ In the USA, [The Congress shall have Power ...] To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. US Const art I, s 8, cl 8. In the EU: In the context of the establishment and functioning of the internal market, the European Parliament and the Council, acting in accordance with the ordinary legislative procedure, shall establish measures for the creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the Union and for the setting up of centralized Union-wide authorization, coordination and supervision arrangements. The Council, acting in accordance with a special legislative procedure, shall by means of regulations establish language arrangements for the European IP rights. Treaty on the Functioning of the European Union, art 118, 26 October 2012, OJ C326.

⁵⁷ A digital twin is defined as a virtual replica of a physical good, system, process or even a human, created using 3D simulations and human-computer interfaces such as augmented reality and virtual reality. 'Augmented Reality: A Lens to the Digital Twin' <www.ptc.com/en/blogs/corporate/combining-augmented-reality-and-digital-twin> (accessed 11 June 2024).

⁵⁸ Several research studies have been conducted in this field within both technological and historical contexts: F Niccolucci and others, 'The Heritage Digital Twin: A Bicycle Made for Two. The Integration of Digital Methodologies into Cultural Heritage Research' (n.d.). Retrieved from Open Research Europe; J Hutson, J Weber and A Russo (2023) 'Digital Twins and Cultural Heritage Preservation: A Case Study of Best Practices and Reproducibility in Chiesa dei SS Apostoli e Biagio' 10.4236/adr.2023.111003; LFR Correia and others (2023) 'Toward a Digital Twin for Cultural Heritage' in João Vidal de Carvalho, António Abreu, and Pedro Liberato (eds), *Advances in Tourism, Technology and Systems* (Springer, Singapore 2023) 419–30.

⁵⁹ Correia and others, *ibid*.

⁶⁰ Rebecca Lambert, 'Rebuilding Ukraine's Cities Using Virtual Twins' (Dassault Systèmes Blog, 24 February 2023) <<https://blog.3ds.com/industries/cities-public-services/rebuilding-ukraines-cities-using-virtual-twins/>> (accessed 15 July 2024).

⁶¹ 'Research for REGI Committee—Artificial Intelligence and Urban Development| Think Tank| European Parliament' <[www.europarl.europa.eu/thinktank/en/document/IPOL_STU\(2021\)690882](http://www.europarl.europa.eu/thinktank/en/document/IPOL_STU(2021)690882)> (accessed 8 July 2024).

⁶² 'Launch of European Funding Instrument to Upscale Digital Twins towards the Citiverse through Living-in-EU' (Open & Agile Smart Cities) <<https://oascities.org/launch-of-european-funding-instrument-to-upscale-digital-twins-towards-the-citiverse-through-living-in-eu/>> (accessed 8 July 2024).

⁶³ 'The State of Play: Law, Games, and Virtual Worlds', *The State of Play* (New York University Press 2006) <www.degruyter.com/document/doi/10.18574/nyu/9780814739075.001.0001/html> (accessed 11 March 2024).

⁶⁴ *ibid*.

engage in their fantasy without following real-world rules or trade mark law should apply to digital goods in the virtual worlds.⁶⁵

Initially, gamers followed the plot of games, immersing in speed races, fights and the creation of avatars. The scenarios ranged, but the purpose had been the same for a long time—entertainment. No one considered spending real money on avatars, as game designers provided everything. It was the time when the status and quality of digital goods had entertainment purposes without real financial value for gamers. At the moment, virtual worlds lost their magic circle of engagement in fantasy. Commodification brought reality into virtuality.⁶⁶ Traditional concepts changed, after which individuals became consumers and content producers in virtual worlds. New forms of IP, and perhaps even new rights, are taking shape.⁶⁷ The virtual worlds opened commercial opportunities for players when they are not just spending money; they are making it too.⁶⁸

I acknowledge that the commercialization of digital goods has indeed added distinct value to them, elevating them beyond mere elements of common design. However, gamers primarily value the functionality of digital goods for achieving in-game objectives rather than the presence of affixed trade marks. For instance, in Decentraland, proposals to remove names that infringe IP rights or conflict with public order must receive a requisite number of votes from users for enforcement. Despite clear violations of the ToS and Content Policy, infringing names often persist because gamers show limited interest in trade mark concerns. While gamers have limited interests in IP rights, other representatives of users require clear policies to protect their rights.

In many ways, consumer life in the Metaverse holds strong parallels to life in the physical world. For instance, as in the physical world, consumers in the Metaverse acquire products and engage in real-time interactions with others.⁶⁹ In this new dimension of the relationship between developers of the Metaverse and customers, contracts become part of common practice. As digital goods affix trade marks—trade mark law intervenes in the development of business there.

The former players of video games evolved into sophisticated purchasers of scarce digital goods. Trade mark law is fundamentally tied to the market, which means that significant shifts in the market will inevitably raise questions about trade mark law.⁷⁰ To what extent do consumers need trade mark law in virtual worlds? What functions do trade marks serve to benefit consumers? It matters specially after the NFTs purchases when users paid \$23 000 for the Hermes digital bag or \$24.4 million for one hundred digital apes.⁷¹ In both cases, the enforcement of trade mark law lags behind. Therefore, these NFT deals plummeted in value dramatically, bringing the loss to their holders.

The speculations on the digital market highlight that the absence of control causes a collapse in prices. With the development of digital art, policymakers should eliminate the volatility of

the virtual market, securing investments with due diligence of IP rights in the Metaverse. The customers who encountered the outcomes of bubbles lost their trust in the Metaverse due to all shady transactions. They are interested in the authenticity of digital goods, which bear original trade marks. The purpose of trade mark protection is to protect consumers and owners of trade marks and to increase competition and transparency between parties about a trade marked work's origin and quality.⁷²

In fact, consumers and content creators are interested in IP clearance more than gamers because of different reasons: (I) confirmation of IP rights on digital goods, (II) authenticity of digital goods and (III) security of investments. The first negative experience with digital art shows that if users wish to control digital goods in the same way as real ones, trade mark laws should be incorporated by default settings of the virtual world.

III. Triangle of opposite interests: search for balance

Each side of the 'triangle of interests' holds an opposing position at its core. In resolving trade mark disputes, judges often find themselves at a crossroads, having to choose between enforcing trade mark regulation and promoting innovation. Courts in the USA and the EU face the complex issue of private conflicts: (I) trade mark holders seek control over their trade marks and content, (II) developers focus on the innovative potential of high virtual realism and (III) users prioritize different aspects of digital goods, with gamers valuing functionality and consumers pursuing clarity in IP rights. The public interest in scientific progress further complicates achieving a balanced trade-off among these key stakeholders.

The current tests and approaches aimed at resolving conflicting interests introduce uncertainty for all stakeholders involved. I analyse the evolution of fragmented trade mark regulations in the USA and the EU. By examining shifts in conflict assessment, I aim to determine whether case law creates constraints that hinder the achievement of high virtual realism in the Metaverse. Additionally, we consider how trade mark law may shape Metaverse design in ways that could detract from developers' original goals.

A. Evolving legal dilemmas between stakeholders

Scholars pay attention to the fragmentation of trade mark laws and clash in interests with other laws (constitutional law, competition law or overlaps between IP laws), which cause uncertainty among stakeholders. Originally, IP rights were understood to be 'islands of protection in a sea of free competition'.⁷³ Thomas McCarthy explains that the successful coexisting of IP law and competition law is possible if the public domain is the rule; IP is the exception.⁷⁴ Catherine Manley argues that trade mark lawyers crossed the line and the rise of so-called 'trade mark bullies' is significantly challenging the balance of interests and the competition landscape outside the courts' or authorities' control. These factors are important to keep in mind, particularly in understanding how we have failed to address the anti-competitive effects of trade mark ownership and use.⁷⁵

⁶⁵ David Gunkel, *Gaming the System: Deconstructing Video Games, Games Studies, and Virtual Worlds* (2018).

⁶⁶ 'The State of Play: Law, Games, and Virtual Worlds' (n 63).

⁶⁷ Rónán Kennedy and Ronan, 'Virtual Rights? Property in Online Game Objects and Characters' (2008) 17 *Information* 95.

⁶⁸ Mark A Lemley and Sonali Maitra, 'Video Game Law' (1 June 2023) <<https://papers.ssrn.com/abstract=4466453>> (accessed 5 August 2024).

⁶⁹ Rhonda Hadi, Shiri Melumad and Eric S Park, 'The Metaverse: A New Digital Frontier for Consumer Behavior' (2024) 34 *Journal of Consumer Psychology* 142.

⁷⁰ James Yang, 'Trademark Law in the Virtual Realism Landscape' (NYU *Journal of Intellectual Property & Entertainment Law*, 6 June 2019) <<https://jipel.law.nyu.edu/vol-8-no-2-1-yan/>> accessed 16 April 2023.

⁷¹ 'Buyers of Bored Ape NFTs Sue after Digital Apes Turn Out to Be Bad Investment' *Ars Technica* <<https://arstechnica.com/tech-policy/2023/08/buyers-of-bored-ape-nfts-sue-after-digital-apes-turn-out-to-be-bad-investment/>> (accessed 25 August 2024).

⁷² *Top Tobacco, L.P. v N. Atl. Operating Co.*, 509 F.3d 380 381 (7th Cir. 2007).

⁷³ Jerome Reichman, 'Charting the Collapse of the Patent-Copyright Dichotomy: Premises for a Restructured International Intellectual Property System' [1995] *Faculty Scholarship*.

⁷⁴ J. Thomas McCarthy on *Trademarks and Unfair Competition*, s 1:2 (5th ed, Thomson Reuters, Eagan, Minnesota 2024).

⁷⁵ Catherine M Manley, *The Trademark Paradox: Trademarks and Their Conflicting Legal and Commercial Boundaries* (PL Academic Research, Frankfurt am Main, 2015).

In IP law, overlapping exclusive rights stemming from different protection regimes raises particular problems, which Martin Senftleben highlighted. Despite the awareness of the potential corrosive effects of protection overlaps in the EU and the USA, the IP system fails to draw clear boundary lines between individual protection regimes.⁷⁶

The freedom of expression continues to shrink, and the protection of trade marks grows enormously; therefore, trade mark boundaries should be defined more precisely. While the USA and the EU have exclusions from trade mark protection, their implementation in virtual worlds varies. Trade mark law, instead of adaptation to the emerging Metaverse, creates more constraints for developers.

B. The fall of the Rogers test in the USA

For a long period of time, it was not clear that 'fair use' even existed as a substantial doctrine in trade mark law.⁷⁷ The main test, which courts constantly apply, is the *Rogers* balancing test, which requires courts to construe the Lanham Act to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.⁷⁸

After more than 30 years of the defendant-friendly test, courts have begun to undercut or outright ignore the test. The potential fall of *Rogers v Grimaldi*, however, began in the form of an opinion by the United States District Court for the Southern District of New York in the 2022 case *Hermès International v Rothschild*⁷⁹ and was solidified in the case *Jack Daniel's™ Properties, Inc. v VIP Products LLC* in 2023.⁸⁰ The *Rogers* test previously offered a broad degree of First Amendment protection and has divided commentators into two opposing camps. The first camp deems the test ill-suited,⁸¹ ill-equipped,⁸² and forecast the 'last dance'⁸³ of the *Rogers* test, especially in relation to consumer products.⁸⁴

The second camp, against narrowing the freedom of expression, considers that *Jack Daniel's* would likely weaken the First Amendment defence, increasing trade mark owners' power to restrict speech. Interestingly, even judges have doubts about their own decisions; three judges (Justice Gorsuch, joined by Justice Thomas and Justice Barrett) expressed concurring opinion that lower courts should take the *Rogers* test with care; in doing so, they necessarily leave much about *Rogers* unaddressed.⁸⁵ Stacey L. Dogan and Jessica M. Silbey interpret this message to lower courts as 'special care' of artistic freedom:

At stake is artistic freedom and the promotion of a full range of aesthetic creativity; also at stake is the audience's enjoyment

⁷⁶ Martin Senftleben, 'The Copyright/Trademark Interface—How the Expansion of Trademark Protection Is Stifling Cultural Creativity' (11 December 2020). <<https://papers.ssrn.com/abstract=4689838>> accessed 26 August 2024.

⁷⁷ Dougherty and Lastowka (n10)

⁷⁸ *Mattel Inc v Walking Mountain Productions* 353 F 3d 792 (9th Cir 2003).

⁷⁹ Barton Beebe, 'The Sensibility of Expressive Genericity and the Rise (and Potential Fall) of *Rogers v. Grimaldi* in American Trademark Law', *Improving Intellectual Property* (Edward Elgar 2023) <www.elgaronline.com/edcollchap/book/9781035310869/book-part-9781035310869-40.xml> (accessed 25 July 2023).

⁸⁰ *Jack Daniel's* (n 55).

⁸¹ The US scholars: Wintermyer, 1243–1263 (Do Not Delete) 6/20/2013, 2:14 PM. 'Who Framed *Rogers v Grimaldi*? What Protects Trademark Holders Against First Amendment Immunity for Video Games?'

⁸² Nike Inc, Brief of Amicus Curiae in Support of Petitioner, *Jack Daniel's Properties Inc v VIP Products LLC*, No 22-148 (US Supreme Court, 2023).

⁸³ TE Green, 'Commentary: The Rogers Test Dances Between Trademark Protection under the Lanham Act and Freedom of Speech under the First Amendment', *Trademark Reporter* (2022) 112(5), September–October.

⁸⁴ Nike Inc, *Jack Daniel's* (n 53).

⁸⁵ *ibid.*

of that creativity and the enrichment that comes from diversity of expression and unconstrained artistic freedom.⁸⁶

My intuition is that this special care for artistic freedom may be vital in the course of the Metaverse development. This shift in the application of the *Rogers* test has provoked suggestions for new balancing tests, ranging from adding new factors for evaluation⁸⁷ to specifying the framework of the test.⁸⁸ Nevertheless, Gaetano Dimita, Andrea Rizzi and Nicoletta Seroa argue that existing tests need to provide clear enough guidance to the legal practitioner advising the developers' team on the risks associated with their work. All these tests,⁸⁹ in searching for the balance, present meaningful limits and may lead to very different, and therefore often unpredictable, results.⁹⁰ Unsurprisingly, the balancing tests bring more tensions and disbalance in the usage of trade marks, rather than a clear road map of how and when interested stakeholders can mention trade marks without a threat of infringement.

C. The role of honest practices in the EU

In 2011, the Max Planck Institute for Innovation and Competition conducted a study on the functioning of the European trade mark system. European scholars called on the introduction of a fair use clause, specifying under which conditions the use of a trade mark would not be considered as complying with *honest business practices* in the meaning of both paragraphs in the provision (Article 6(2) of Directive 2008/95/EC to Approximate the Laws of the Member States Relating to Trade Marks⁹¹ and Article 12(2) of Council Regulation (EC) No 207/2009 on the Community Trade Mark⁹² (CTMR). Unfortunately, the European Commission overlooked this suggestion, and wording in the recital 27 of Directive 2015/2436 has not changed significantly.⁹³

This uncertainty with borders of honest practices undermines the freedom of expression related to trade marks in the EU. Some scholars⁹⁴ argue that the CJEU has expanded trade mark rights to include exploitation rights without sufficient policy reasons.⁹⁵ No clear-cut legal rule separates legitimate exclusions from an infringing use, particularly in cases of so-called mixed expressions where the reference to the protected trade mark is not closely

⁸⁶ 'Jack Daniel's and the Unfulfilled Promise of Trademark Use' SSRN <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4826692> (accessed 27 August 2024).

⁸⁷ NE Frontera, 'The Best of Two Tests: A Hybrid Test for Balancing Right of Publicity and First Amendment Interests Tailored to the Complexities of Video Games' (2015); CH Farley and LP Ramsey, 'A Proposal for a Broad Fair Use Doctrine in Trademark Infringement Law' in *Raising the Threshold for Trademark Infringement: Protecting Free Expression* (American University Washington College of Law Digital Commons 2023) <https://digitalcommons.wcl.american.edu/facsch_lawrev> (accessed 30 August 2024).

⁸⁸ Dogan and Silbey (n 86).

⁸⁹ Authors mean three tests in the context of trademark rights in video game. These tests are the transformative use test, which focuses on the degree of creative transformation of the image; the predominant use test, which considers whether the purpose of the work is predominantly commercial or expressive, and the relatedness test (or so-called 'Rogers test').

⁹⁰ Gaetano Dimita, Andrea Rizzi and Nicoletta Seroa, 'Image Rights, Creativity and Videogames' (2020) 15 *Journal of Intellectual Property Law & Practice* 185.

⁹¹ Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (Text with EEA relevance) 2008.

⁹² Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark (codified version) (Text with EEA relevance) 2009 (OJ L).

⁹³ 'Directive - 2015/2436 - EN - EUR-Lex' <<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015L2436>> (accessed 28 August 2024).

⁹⁴ Eniko Karsay, Laetitia Lagarde and Nikos Prentoulis, 'When Trade Mark Rights Meet Free Speech' (2014) 243 *Managing Intellectual Property* 16–18.

⁹⁵ See R Maňko, 'Trademark Law in the European Union: Current Legal Framework and Proposals for Reform' (Library of the European Parliament, 26 September 2013) 130592REV2; M Senftleben, 'Robustness Check: Evaluating and Strengthening Artistic Use Defences in EU Trademark Law' (2022) 53 *IIC* 567–603 <<https://doi.org/10.1007/s40319-022-01182-x>> (accessed 22 November 2024).

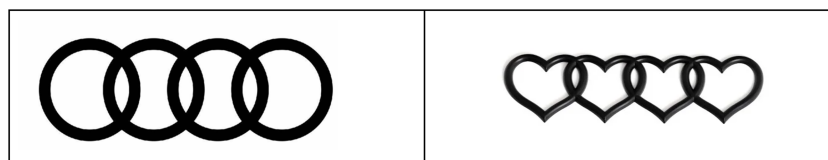


Figure 7. The real Audi trade mark and its digital representation.¹⁰⁹

tied to commercial use but still happens outside of a purely artistic context.⁹⁶ For instance, the cases *L'Oreal S.A. v Bellure N.V. and others*,⁹⁷ *Artpusher Gallery ApS v Coop Danmark*⁹⁸ and *Juventus F.C.*⁹⁹ contribute to what some critics refer to as the 'pointless monopoly' of trade mark holders due to the expansion of trade mark functions and the limitation of the freedom of expression, which may lead to constraints for the depiction of realistic content in the Metaverse. Scholars consider that commercialization of culture and case law create the dominance of corporations' trade marks over freedom of artistic expression. The right to speak has been recast as a right to be free from business regulation (Katya Assaf,¹⁰⁰ Anette Kur¹⁰¹ and Carys Craig¹⁰²). This expansion of functions impacts the balance of rights between interested parties in the Metaverse.

Some cases give hope to the developers of the virtual worlds when the honest practices defence plays in favour of defendants when the context matters. Cases like *Moët Hennessy Champagne Services (MHCS) v Cedric Art*¹⁰³ or *Hermès v Namila*¹⁰⁴ are referred to as the so-called 'due case' in which the European courts seek the balance between the interests of trade mark holders and the fundamental right of the freedom of expression. Despite the commercial elements in these cases (image of the trade mark on a pop-up brochure and demonstration of the trade mark in a fashion show), the courts considered that the focus of customers was not on the trade mark functions of origin but on the messages which were embodied in the trade marks. The main problem is that there is no statutory provision for invoking the artistic defence and that it is legally unclear how to handle the hybrid usage of trade marks involving commercial but also socio-critical elements. The court tried to tackle this dilemma by not viewing the used trade marks in isolation.¹⁰⁵

The USA approach, despite the last narrowing of the freedom of expression, has more leverage for parties, while the EU prefers rigidly protecting the interests of trade mark holders. All of the

biggest virtual worlds in the Metaverse originated from the USA, and a lot of fashion brands that contain a significant share of digital goods in the virtual worlds have EU roots. This poses risks in terms of uniform regulation of trade mark protection in the Metaverse. How do we resolve this dilemma?

I side in this matter with Ilanah Fhima, who considers that the fair use style of defence is characterized by flexibility. Some might argue too much flexibility, as flexibility is generally accompanied by uncertainty. In order to articulate flexibility in the best interest of stakeholders, we need to apply the rule-of-reason approach to achieving the balance. The key advantage of the rule-of-reason style approach is its ability to incorporate 360-degree analysis of all relevant factors, potentially considering the interests of all relevant parties, balancing all these indices in a way designed to lead to the most socially advantageous outcome.¹⁰⁶

D. Consequences of shrinking of the fair use and honest practices

The ever-expanding scope and strength of trade mark rights have caused justifiable fears of a threat to free expression.¹⁰⁷ In the case law, however, trade mark law is more frequently used against virtual world developers when an aspect of the game is similar to a real-world product.¹⁰⁸ As a result of these changes, we observe that creative industry representatives create the looks like or in the style of the brand design, which is not directly linked to the original products, but customers recognize who is hidden behind the shield. This tactic is called off-brand digital goods.

For example, the developers of the Grand Theft Auto (GTA) game and virtual world no longer use original trade marks. Instead, they depict original trade marks in their own interpretation (Fig. 7).

The Audi's four rings, which are protected as a trade mark in the USA and the EU, are depicted on the digital car as four hearts. The GTA developers suggest to their users a variety of the latest models of BMW, Mercedes-Benz, Porsche and Ferrari in their interpretation. Despite the off-branding approach, users still guess the supercars and compare them to real-life cars on the YouTube platform¹¹⁰ and the Reddit¹¹¹ forums. 'Emily in Paris', a Netflix series created by Darren Star, uses the same technique and recreates different well-known trade marks related to the fashion industry in a humorous context. For example, Pierre Cadault is the depiction of Pierre Cardin, Jvma's couture closet is Louis Vuitton, Moët, Hennessy (LVMH), Bavazza is the Italian brand Lavazza and

⁹⁶ Ines Duhanic, 'Artistic Use Defence in Trademark Dilution Cases—Hermès' Legal Setback in Its Attempt to Prevent Others from Using Its Iconic Birkin Handbag' (2024) 73 GRUR International 421 <<https://academic-oup.com/eui.idm.oclc.org/grurint/article-abstract/73/5/421/7604690?redirectedFrom=fulltext&login=true>> (accessed 28 August 2024).

⁹⁷ Case C-487/07 *L'Oréal SA v Bellure NV and others*, ECLI:EU:C:2009:378 (ECJ, 18 June 2009).

⁹⁸ *Artpusher Gallery ApS v Coop Danmark A/S*, BS-30 388/2023-SH.

⁹⁹ *Juventus Football Club* (n 21) (Tribunale di Roma, Italy).

¹⁰⁰ Katya Assaf, 'The Dilution of Culture and the Law of Trademarks' (2009) 49 IDEA 1-83.

¹⁰¹ T Cohen Jehoram, CJC van Nispen and JLRA Huydecoper, *European Trademark Law: Community Trademark Law and Harmonized National Trademark Law* (Alphen aan den Rijn, The Netherlands: Frederick, MD: Kluwer Law International; Sold and distributed in North, Central and South America by Aspen Publishers, 2010).

¹⁰² Carys J Craig, 'Perfume by Any Other Name May Smell as Sweet... But Who Can Say?: A Comment on *L'Oreal v Bellure*', SSRN Scholarly Paper (Rochester, NY, 15 August 2010) <<https://papers.ssrn.com/abstract=1781044>> (accessed 6 June 2023).

¹⁰³ Case A 2018/1/8 *Moët Hennessy Champagne Services (MHCS) v Cedric Art* (Benelux-Gerechthof, 2018).

¹⁰⁴ LG Frankfurt am Main, Beschluss of 19 September 2023, Cases 2-06 O 533/23 and 2-06 O 532/23; see a translation of judgment 2-06 O 533/23 in this issue of GRUR International <<https://doi.org/10.1093/grurint/ikae013>> (accessed 17 November 2024).

¹⁰⁵ Duhanic (n 96).

¹⁰⁶ Ilanah Fhima, 'The Trade Mark Defences Meet Copyright: Fair Use or Three Step Test?' (2014) 4 Queen Mary Journal of Intellectual Property 297 <<https://heinonline.org/HOL/P?h=hein.journals/qmjip4&i=297>> (accessed 28 August 2024).

¹⁰⁷ William McGeveran, 'Rethinking Trademark Fair Use' (2008) 94 Iowa Law Review 49.

¹⁰⁸ Lemley and Maitra (n 68).

¹⁰⁹ Image credits:(a). Audi AG, promotional image of the Audi A5, available at <https://www.autoguide.co.bw/image/2018-Audi-A6-TFSI-23-5872486_1.jpg> (accessed 11 December 2024); (b). Grand Theft Auto V (Rockstar Games, 2013), in-game screenshot.

¹¹⁰ *GTA V Cars in Real Life! All Super Cars* (Directed by Petar Iliev, 2020) <www.youtube.com/watch?v=6wFG5vkbjY> (accessed 29 August 2024).

¹¹¹ User123, 'GTA 5 Has Off-brand Audi' (20 September 2022) Reddit <www.reddit.com/r/Audi/comments/wt9j0c/gta_5_has_offbrand_audi/>.

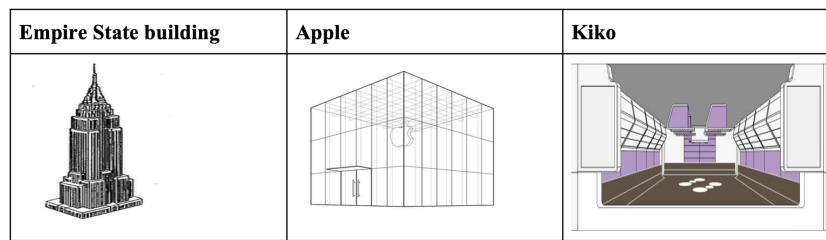


Figure 8. Examples of trade marked buildings: (a) Empire State building (TM 75705756).¹¹⁴ (b) Apple (TM 85097331).¹¹⁵ (c) Kiko (application was refused).¹¹⁶

McBaguette is a hint at McDonald's. The off-branding approach creates a more reliable defence in terms of freedom of expression.

The metaverse developers are interested in the key feature of high virtual realism. The existing exceptions from trade mark law should support this legitimate artistic goal, but gaps in the framework constantly lead to new IP conflicts. Trade mark holders consider that almost any representation of their trade marks constitutes trade mark infringement. I am concerned that the freedom of expression shrinks over time, threatening variety in creative choices.

Another issue is that many objects enjoy copyright or trade mark law protection, and creators have limited choices of depiction for the Metaverse. In recent years, the scope of potential signs or identifiers has broadened substantially and now includes shapes, sounds, animations, colours and even, potentially, smell, taste and touch, depending on the relevant jurisdiction.¹¹² Even a building that is used in an artwork may have trade mark status.¹¹³ Several examples can be made from the United States Patent and Trademark Office (USPTO) and the European Union Intellectual Property Office (EUIPO) register of trade marks (Fig. 8).

These restrictions are artificial and slow down the development of the content in the Metaverse. If developers cannot represent realistic features of the real world, they will use blunt, not creative, and standard decisions. Under the current policy of trade mark usage, when the content creators follow the off-branding strategy, we have all odds that the movement of the freedom of panorama will continue in the virtual world in relation to trade marks.

The increasing numbers of the off-brand approach and applications for layouts of retail stores are signs that trade mark holders are seeking more ways to control their trade marks. R Dreyfuss and J Pila consider that all jurisdictions have different 'gatekeepers' for assessing the descriptive use of a trade mark. The defendant's use must be commercial to unlock the gateway into infringement.¹¹⁷ Otherwise, trade mark holders will increase the power of their trade marks, as some thresholds are too low.

E. Pruning of trade mark law: path to balance

Under the classic theory, the purpose underlying any trade mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade mark that it favourably knows, it will get the product that it asks for and wants to get. Secondly, where the trade mark owner has spent energy, time and money in presenting the product to the public, they are protected in their investment from misappropriation. This is the well-established rule of law, protecting both the public and the trade mark owner.¹¹⁸ Irene Calboli points out the crack of this rule when the interests of trade mark holders are on the top scale. Recent years have seen the relentless expansion of trade mark rights, and it is well known that trade mark practice is largely driven today by the philosophy of 'trade mark everything'.¹¹⁹

How do we pave the way to return a balance for all the stakeholders? American Professor Barton Beebe¹²⁰ and European Professor Martin Senftleben¹²¹ recall Professor Rochelle C Dreyfuss' landmark article on *Expressive Genericity: Trade marks as Language in the Pepsi Generation* (1990),¹²² where she distinguishes the context of the trade mark use:

Signaling usages of trade marks by Parties other than the trade mark owner would be actionable; other usages would be entirely permissible. Expressive uses of marks do not usually involve purchasing decisions. Accordingly, no prohibitions on such usages are generally necessary.¹²³

These considerations between perception of the trade mark as a source of origin and the aesthetic part of work are crucial for establishing the balance between stakeholders. When trade marks play an aesthetic or expressive role in a certain context, the customers evoke images in their mind as looking at the theatre performance; they do not think about purchasing.

The US and EU courts chose the path of broad trade mark protection where trade marks are isolated from the context. I acknowledge the necessity of trade mark protection in the Metaverse, as the trade marks fix responsibility. With marks, a

¹¹² G Dimita, *Understanding Intellectual Property in Video Games* (Document prepared for the WIPO Committee on Development and Intellectual Property, Centre for Commercial Law Studies, Queen Mary University of London).

¹¹³ McCarthy (n 74).

¹¹⁴ Empire State Building, US Registration No. 2413667, United States Patent and Trademark Office <https://tsdr.uspto.gov/#caseNumber=75705756&caseSearchType=US_APPLICATION&caseType=DEFAULT&searchType=statusSearch> (accessed 20 September 2024).

¹¹⁵ Apple, US Serial No 85097331, United States Patent and Trademark Office <https://tsdr.uspto.gov/#caseNumber=85097331&caseSearchType=US_APPLICATION&caseType=DEFAULT&searchType=statusSearch> (accessed 20 September 2024).

¹¹⁶ KIKO, EU Trade Mark Application No 013259891, European Union Intellectual Property Office <<https://euiipo.europa.eu/eSearch/#details/trademarks/013259891>> (accessed 20 September 2024).

¹¹⁷ Rochelle Cooper Dreyfuss and Justine Pila, *The Oxford Handbook of Intellectual Property Law* (Oxford University Press, Oxford 2018).

¹¹⁸ S Rep No 1333, 79th Cong, 2d Sess, 3 (1946). Quoted in *Two Pesos, Inc. v Taco Cabana, Inc.*, 505 US 763, 782 n15, 112 S Ct 2753, 120 L Ed 2d 615, 23 USPQ2d 1081 (1992) (Stevens, concurring).

¹¹⁹ Irene Calboli, 'Chapter 1: Non-traditional Trademarks as Barriers to Competition, Innovation, and Creativity: What If Their Protection Could Be Effectively Limited in Practice?' (2022) <www.elgaronline.com/edcollchap/book/9781803922256/book-part-9781803922256-6.xml> (accessed 29 August 2024).

¹²⁰ Beebe (n 79).

¹²¹ Martin Senftleben, 'Chapter 24: Expressive Genericity Revisited: What EU Policymakers Can Learn from Rochelle Dreyfuss,' 2023 <www.elgaronline.com/edcollchap/book/9781035310869/book-part-9781035310869-39.xml>.

¹²² Rochelle Cooper Dreyfuss, 'Reconciling Trademark Rights and Expressive Values: How to Stop Worrying and Learn to Love Ambiguity' (13 September 2006) <<https://papers.ssrn.com/abstract=929534>> (accessed 11 August 2023).

¹²³ *ibid*.

seller's mistakes or low-quality products would be untraceable to their source. Therefore, trade marks create an incentive to keep up a good reputation for a predictable quality of goods.¹²⁴ I try to convey that the expansion of trade mark protection threatens the freedom of expression today. The lack of IP filters where functions of trade marks are not confused with the purposes and contexts of trade mark use creates a disbalance of interests in the Metaverse. Each party pushes its own interests without thinking about common values, which leads to chaos and fragmentation of rules in the Metaverse.

Catherine M Manley suggests an interesting approach that does not take extreme positions in the IP conflicts. She calls this approach pruning of trade mark law. The idea is taken from nature:

Pruning is a horticultural practice that involves the removal of certain parts of a plant, such as branches, buds, or roots. Reasons for pruning include removing deadwood, shaping the plant (by controlling or directing growth), improving or maintaining health, reducing the risk from falling branches, and increasing the yield or quality of flowers and fruits. The practice involves the targeted removal of diseased, damaged, dead, non-productive, structurally unsound, or otherwise unwanted tissue. The result is a more robust and healthy plant. This same language could be applied to the current state of trade mark laws: they too need pruning. Trade mark laws require a mix of targeted "shaping" (to control and direct growth) and "nurturing" (to improve and maintain health) to rebalance the private and public interests in trade mark protection.¹²⁵

In doing so, the path of balance between private interests of trade mark holders and public interest in the development of the Metaverse will be found.

IV. Conclusions

1. *Search for balance.* The stakeholders pursue different goals in the Metaverse but bear the same losses from the uncertain legal regime of trade mark regulation. I believe that on the top of this triangle are the interests of consumers that equally may assume if a product appears in the Metaverse, it may be covered by a contractual agreement or be just the independent part of aesthetic design.¹²⁶ The clear guide on what is considered an infringement and what is not brings all parties to a desirable balance, where each interest is taken into account.
2. *Consequences of legal dilemmas in the Metaverse.* The fragmented approach to trade mark infringement and the search for balance with other laws created an inconsistent approach in applying tests. Courts maintain the philosophy to trade mark everything, limiting the creative choices for the Metaverse's developers. The current policy poses risks of oversimplification and standardization of the Metaverse, where the high virtual realism should be transformed into off-brand fantasy, which is far from the real world. Potentially, there is a high risk of 'lock-in' to designers with limited content choices. The role of virtual realism may be diminished by uncertain policy when developers will be forced to reinvent the wheel in the creation of the content.
3. *The necessity of an appropriate test.* We have signs of over-protection of trade marks when creative industries avoid

directly using them, transforming them into a new interpretation, or presenting them as white-label goods. American and European scholars pay attention to red flags of narrowing freedom of expression. Neither fair use nor honest practices offer any blanket protection that could immunize participants in virtual worlds from potential liability for trade mark use.

Trade mark law has developed from protecting consumers against confusion to extending the protection to the business value of trade marks and protecting their proprietors against commercial practices that damage or unfairly exploit this value.¹²⁷ There is no doubt that truly commercial activity that generates confusion or dilution of protected trade marks seems perfectly capable of leading to liability under existing trade mark law.¹²⁸ At the same time, the Metaverse developers need leverage in the freedom of design choices. Legal reasoning should determine all relevant factors that are meaningful to the stakeholders. Trade marks are not used in isolation from the context; even if the creative expression has a value itself, it does not mean that the aesthetic part of the common design where certain trade marks are depicted threatens trade mark holders. The freedom of art should not be unreasonably restrained.

4. *The failure of fair use with trade marks.* The inconsistent application of different approaches by courts to the doctrine of fair use leads to uncertainty for all parties involved. Incorporating third-party content into the Metaverse potentially makes it more appealing to users. The likelihood of such content being protected by IPR, the lack of harmonization of exceptions and the risk of public backlash combine to make this a somewhat risky practice for companies, both legally and from a public relations perspective.¹²⁹ To prevent the failure of the fair use doctrine, it is necessary to establish a unified approach for classifying these relationships.
5. *The path to balance in the triangle.* The tensions between IP law and competition law create legal uncertainty when each party uses legal means from different domains to undermine the interests of another party. In fact, this conflict between trade mark holders and developers exists from the Metaverse predecessors (video games, virtual worlds and even films). In order to find a way out of this conflict of interests, we need to think strategically, taking into account the past regulations, outcome of cases and behaviour of the main stakeholders in the Metaverse. The interests of the players in a game may be in a strict conflict: one person's gain is always another's loss. But more typically, there are zones of commonality of interests as well as of conflict; there can be combinations of mutually gainful or mutually harmful strategies.¹³⁰ The best way to boost the creative and innovative industry in the Metaverse is by implementing an approach of pruning of the 'trade mark law tree',¹³¹ where a mutual gaining strategy will take place.

¹²⁷ Gea Lepik, 'Protecting Trade Mark Proprietors against Unfair Competition in EU Trade Mark Law' (2021) 30 *Juridica International* 152 <<https://heinonline.org/HOL/P?h=hein.journals/jurdint30&i=153>> (accessed 28 August 2024).

¹²⁸ Dougherty and Lastowka (n 10).

¹²⁹ G Dimita, YH Lee and M Macdonald, Copyright Infringement in the Video Game Industry (Document prepared for the Advisory Committee on Enforcement, Fifteenth Session, Geneva, 31 August to 2 September 2022, Centre for Commercial Law Studies, Queen Mary University of London; Law School, University of Bristol; School for Electronic Engineering and Computer Science, Queen Mary University of London 2022).

¹³⁰ AK Dixit and BJ Nalebuff, *Thinking Strategically: The Competitive Edge in Business, Politics, and Everyday Life* (WW Norton, New York 1993).

¹³¹ Manley (n 75).

¹²⁴ McCarthy (n 74) para 1:2

¹²⁵ Manley (n 75)

¹²⁶ Lemley and Maitra (n 68).

