

NFTs AND IP LAW

Nicholas Allen, Colton Killoran, Seb Lloyd

03/21/21

NON-FUNGIBLE TOKEN (“NFT”)

Overview

Although you probably never heard, on February 28th, 2018, Pablo Picasso’s 1937 “*Femme au beret et à la robe quadrillée (Marie-Thérèse Walter)*” sold for

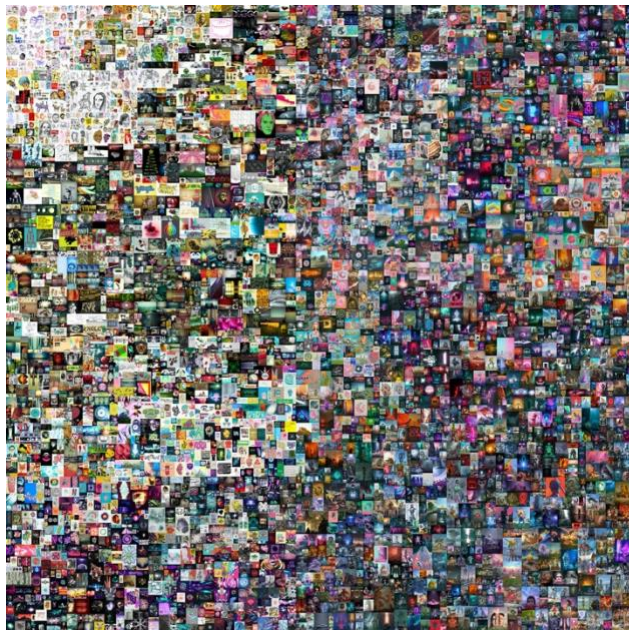


Figure 1.1: Beeple, *Everydays: the First 5000 Days*.

\$69.2 million USD out of Sotheby’s in London. Then, just over 3 years later, on March 11th, 2021, as Picasso rolled over in his grave, little-known digital artist Mike Winkelmann, better known as “Beeple”, sold his completely digital piece “*Everydays: the First 5000 Days*” for \$69.3 million USD – the third most expensive artwork sold by a living artist¹. If you have tuned into any major news outlet in the last several months, then without

1

Gompertz, Will. 2021. *Everydays: The First 5000 Days* – Will Gompertz reviews Beeple’s digital work. March 13. <https://www.bbc.com/news/entertainment-arts-56368868>

a doubt you will have heard of NFTs in one form or another – and there are *many* different forms. NFTs are units of data held on a blockchain (such as Ethereum, Bitcoin Cash and Flow) that represent a unique, encrypted, digital item – from a Jack Dorsey Tweet to a signature LeBron James tomahawk dunk. Although a consumer can infinitely copy the original digital files themselves, the NFT itself represents proof of unique and original ownership of the item. However, this proof of ownership in itself is not entirely practical – it does not confer copyright ownership or the right to reproduce or distribute the work. Owning an NFT is more like having a signed jersey or limited-edition baseball card, it is unique or quasi-unique to you, but you have no copyright-ownership rights that the ‘creator’ has.

Intellectual Property Issues

NFTs have opened up the door to the commodification of digital items and works, providing some sense of security of ownership in a space that historically has struggled to protect the interests of ‘owners’ of such digital items. By doing so, NFTs have opened up a ‘Pandora’s Box’ of intellectual property (“IP”) issues for buyers, sellers, artists, and any digital content creators.

One of the biggest problems with the commodification of NFTs is that unlike the traditional collectibles or art market, the artist, creator or copyright holder has often not authorized the work to be made into an NFT in the first place. Could you imagine if Banksy’s original signature was applied to one of his works and then sold without his knowledge



Figure 1.2: Banksy, *Rage, Flower Thrower*. 2003. Jerusalem.

or permission? Although proponents of NFTs have argued that blockchain technology can actually be helpful in tracking copyright ownership for digital

creations², analysts have noted that for the most part the technology has been used to “tokenize” other content creators’ works, add value to the works, and then sell those copies – ultimately the artist is not seeing the profits from this added value. As such, what are the legal implications of unauthorized NFT creation? Furthermore, what rights and remedies does the original creator have if their work is being attached to NFTs without their permission?

Other issues that the explosion in the popularity of NFTs has caused are:

- i. How the NFT issuers and the original content creators and copyright owners can enforce their rights against the ultimate holder of the NFT?
- ii. Do traditional licensing agreements to appropriate a creator’s work extend to the licensee that now wants to attach the work to an NFT?
- iii. How does the first sale doctrine (US Law) operate with NFTs?
- iv. What rights transfer along with the transfer of an NFT?

All of the above issues will be highlighted and discussed in three of the most predominant and trending areas of NFTs today; Music, “NBA Top Shot” and Earth 2.

² Bailey, Jonathan. 2021. *Plagiarism Today*. March 16.
<https://www.plagiarismtoday.com/2021/03/16/nfts-and-copyright/>.

NFT MUSIC

Following their recent explosion in the world of fine arts, NFTs have naturally found their way into the music industry, where they offer even more potential to radically shake-up the market. Just a few weeks ago, Kings of Leon became the first high-profile band to release an album as an NFT and quickly grossed over \$2 million in the two weeks that the tokens were available³. The trend is, of course, very new and carries with it the speculation and volatility of all related blockchain technology, but it offers a whole new market for musical artists to exploit: one that attaches value to the authenticity and uniqueness of otherwise identical works.

It is understandable why the expectations are high for NFTs, especially in the music industry. While art forms like paintings and sculptures have always, due to their physical form, capitalized on the identification and authentication of the artist's work, the intangible quality of music (beyond live performances and signed records or musical instruments) has not yet allowed for it. In fact, the music industry, since becoming digitized, has suffered from an utter lack of consumer interest in authentication, which has led, in part, to widespread piracy. When the value of music is found almost entirely in



Figure 2.1:

³ Hisson, Samantha. "Music NFTs Have Gone Mainstream. Who's In?" *Rolling Stone*, 10 Mar. 2021. www.rollingstone.com/pro/features/music-nfts-timeline-kings-of-leon-grimes-3lau-1138437

what is actually being heard, and what is heard is easily copied and spread across a number of given networks (despite laws to the contrary), it is no surprise that creators and copyright holders have been placed in an extremely vulnerable and disadvantageous position.

In response, streaming services like Spotify rest on a business model that minimizes the price of music in order to compete with the free, yet slightly less convenient, pirated alternatives available on the internet. As a result, artists are making “a fraction of a penny”⁴ per download. This may work out just fine for larger artists receiving millions of streams a day, but it does next to nothing for the smaller, up-and-coming artists trying to break into the industry. Right now, musical artists suffer from an extremely sharp Pareto distribution where 1% of artists are realizing 90% of all streams and smaller artists are forced to rely almost entirely on the goodwill of their brand to sell t-shirts and merchandising⁵ NFTs provide artists the opportunity to essentially “autograph” their music and sell those autographs to their more emphatic fans.

⁴ Jollett, M. et al. “Here’s What NFTs Are – and What They Could Do for the Music Industry, Artists and Fan.” *NBCNews.com* NBCUniversal News Group, 16 Mar 2021. www.nbcnews.com/think/opinion/what-are-nfts-what-could-they-do-music-industry-artists-ncna1261205

⁵ Blake, E. “Data Shows 90 Percent of Streams Go to the Top 1 Percent of Artists.” *Rolling Stone*, 10 Sept, 2020. www.rollingstone.com/pro/news/top-1-percent-streaming-1055005/.

Now, when a fan buys an NFT in connection with a song they are not buying the underlying IP rights of the content (unless that is included in the contract). So far, NFTs attached to musical content have followed the general rule that already exists in the fine arts world. If someone buys a famous painting, they are typically acquiring the physical painting itself to display for personal use; they are not buying the right to reproduce, make derivative works, or



distribute copies of that painting⁶. For example, YellowHeart platform, the group that facilitated to the Kings of Leon deal, included in their terms of services the right for purchasers to “display the art (defined as the album artwork and images) and included merchandise (defined to include the music files) associated with the NFT, for as long as the buyer owns the NFT and only for personal purposes”⁷. However, they restricted almost all commercial activity associated with the works, including third party use in products, movies or other media.

Clearly, copyright legislation around the world has suffered from enforceability issues when it comes to pirated music, which, as we’ve seen, has led to an industry in which the vast majority of creators suffer disproportionately compared to streaming services and record labels. NFTs offer a kind of solution to this problem by indirectly serving the same

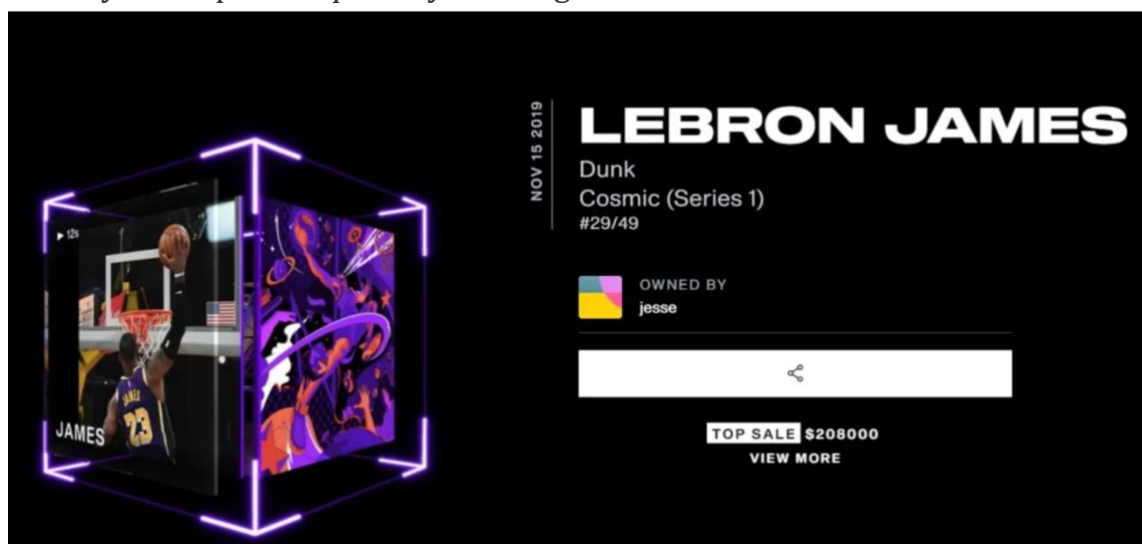
⁶ Creative Crypto: IP Implications of Selling Creative Works Tied to Non-Fungible Tokens.” *JD Supra*, www.jdsupra.com/legalnews/creative-crypto-ip-implications-of-7863392/.

⁷ *Ibid*

purpose as existing copyright legislation: “to ensure that the creator reap the benefit of his efforts, in order to incentivize the creation of new works” (*Cinar Corp*). Even if one takes a less author-centric approach, such as the one taken in *Théberge*, which focuses more on economic rather than moral rights, NFTs offer a great balance between “promoting public interest in the encouragement and dissemination of works... and obtaining a just reward for the creator.” It is the case, after all, that streaming services and cheap music will still exist (e.g. Kings of Leon’s new album is still available on popular streaming services), the only difference is that artists now have a brand new economic dimension to capitalize for themselves.

NBA TOP SHOT

Touchdown! She shoots, she scores! He strikes him out! The infamous calls that populate your sports channels and so many endeavor to hear live are a foundation of sports media. Highlights are a core component of the sports industry driving many sports broadcaster's revenue during daytime and late night time slots. Another component of sports fandom is trading cards with a lucrative market among avid collectors. Notably, rookie cards of the all-time greats in various sports have been known to net exorbitant amounts of money. Examples to quantify the magnitude of the dollars can be found [here](#)⁸.



The ability to combine a highlight with the collectible trading card

Figure 3.1: Labs, Dapper. “LeBron James - Owned by Kylon.” *NBA Top Shot*

fanaticism has led to a virtual revolution in the sports collectible and sports media industries: NBA TopShot (“TopShot”). TopShot, created by Dapper Labs⁹, operate as NFTs, using block chain technology to create, validate and quantify virtual highlight trading cards. These “cards” (highlights) are then

⁸ Baum, A. (2020, December 03). 10 most expensive sports cards in the world. Retrieved March 29, 2021, from <https://www.groovewallet.com/most-valuable-sports-cards/>

⁹ Dapper Labs. (2020, October 01). Dapper labs opens nba top shot beta to all fans. Retrieved March 29, 2021, from <https://www.newswire.ca/news-releases/dapper-labs-opens-nba-top-shot-beta-to-all-fans-836002108.html>

purchased online and traded, sold or displayed. The owner of the TopShot proceeds to own the highlight as a NFT, giving the owner rights to the property (highlight clip). These properties are exclusive and novel with the owner essentially owning the chain of code providing proof of ownership. An analogy to this concept is owning a novel autographed by an author, the book (highlight) itself is not necessarily unique, however, when the author signs the book (NFT code) it becomes something unique and possesses a greater intrinsic value. In some instances of a rare play, there may only be one NFT produced, thus drastically increasing the value. Examples of these prices show the expanse of the market place and can be found [here](#)¹⁰.

This leads to several IP issues, notably, how does Dapper Labs have access and the rights to the NBA's highlights, who owns the highlights after the purchase, what rights do Dapper Labs retain in the TopShot and, lastly, what rights if any do the players have in their athletic feats being produced into art. These will be addressed in turn.

Dapper

11

Sports content, namely broadcasts, provided by leagues and their teams are often subject to strict copyright rules. Furthermore, contract provisions when purchasing sporting tickets often (if not always) disallow the reproduction and distribution of sporting events. So how does Dapper Labs have access to the NBA's vault of virtual content? Smartly, Dapper Labs, created its own full-stack block chain platform (Flow) to facilitate the industry. Led by Caty Tedman, who had prior experience with the NHL and NFL, they approached the NBA about being the first application of their Flow

¹⁰ Young, J. (2021, March 02). People have spent more THAN \$230 million buying and trading digital collectibles of NBA highlights. Retrieved March 29, 2021, from <https://www.cnbc.com/2021/02/28/230-million-dollars-spent-on-nba-top-shot.html>

¹¹ Dapper Labs. (n.d.). Retrieved March 29, 2021, from <https://www.dapperlabs.com/>

platform¹². The NBA, looking to expand into the block chain world, partnered with Dapper Labs providing them with access to some of the NBA's IP in exchange for the block chain exposure and platform provided. This relationship was furthered through backing by both the NBA and NBA Players Association¹³. This has resulted in Dapper Labs' platform Flow being the exclusive provider of TopShot highlights, somewhat monopolizing the early stages of this potentially transformative market place

Our next issue is the ownership of the highlight and the rights retained by Dapper Labs through their Flow platform after the purchase of the virtual card. Purchasing the highlight endows the owner of the NFT with complete ownership and a license to use, display and transfer the highlight. This allows the owner to do as they please with the NFT, within the scope of the user Terms and Conditions of the Flow platform provided by Dapper Labs. The Terms and Conditions aim to instill efficacy and validity in the market place while acting as a check to fraud and illegal distribution. It is worth noting, that Dapper Labs can unilaterally revoke your license, suspend or terminate your account and delete your highlight's description or image if there is a breach. Yet, this does not affect the already purchased NFT, just the highlight attached to it. Notable restrictions on the ownership are; the inability to modify the art, use the art to advertise for other third parties, selling or commercializing merchandise that includes or contains the art and to use the art in other forms of media¹⁴. In this sense, the user owns the rights to the art subject to the terms and conditions of the Flow platform and thus Dapper Labs, but retains absolute ownership in the NFT code itself.

Lastly, are the IP rights of the athletes whose likeness is used to create the images and thus are an integral part of the TopShot model. As discussed in class, athletic feats are not copyrightable. Due to the inability to choreograph

¹² Geron, T. (2021, March 13). How Dapper Labs scored NBA CRYPTO MILLIONS. Retrieved March 29, 2021, from <https://www.protocol.com/fintech/dapper-labs-nba-top-shots>

¹³ Gambino, D., & Kizitaff, Z. (n.d.). NBA top Shot moments – What are you actually buying? Retrieved March 29, 2021, from <https://www.jdsupra.com/legalnews/nba-top-shot-moments-what-are-you-3632095/>

¹⁴ *Ibid*

a live action game and the transient nature of sports, copyrights are not available for sporting events¹⁵. This extends through individual plays as well¹⁶. For instance, Kareem Abdul-Jabbar famously attempted to copyright his hallmark shot “the Sky-Hook” to no avail. Unfortunately, this implies that NBA players will not (at this time) profit off their plays and highlights through TopShot, as they do not have the exclusive copyright to their athletic feats. While athletes are for the most part very well compensated, this seems potentially inequitable. I would recommend a percentage of the revenue generated from a player’s highlights be payed to the player for the use of their feats, especially as this industry expands into other sports and grows as a potentially viable investment vehicle.

¹⁵ National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 41 U.S.P.Q.2d (BNA) 1585 (2d Cir. 1997)

¹⁶ FWS Joint Sports v. Copyright Bd., (1991) 129 N.R. 289 (FCA)

EARTH 2

Earth 2 is “a futuristic concept for a second earth; a metaverse, between virtual and physical reality...”¹⁷

Ultimately, Earth 2’s vision is

to create a 1:1 scale version

of Earth that is a fully

immersive virtual reality –

which the company

compares to the likes of

“The Matrix” and “Ready

Player One”. However, as it

stands in Phase 1, Earth 2 is a virtual

geographic representation of the Earth that

gives users the opportunity to purchase plots of land across the globe in the

hopes that the user can at some point in the future exist virtually in this

world and occupy these plots of land.



Figure 4.1: Earth 2 logo. Digital image. <https://earth2.io>.

The NFTs come into the picture with these commodified plots of land – the ownership of these plots of land are proven by their attached blockchain. At present, these plots of land have no *intrinsic* value other than the supply and demand that exists in the market for desirable property (anything from a beachfront acre on Marine Drive, to a Central-Park-Adjacent building, to the Eiffel Tower itself). The two main IP issues that the tokenization of virtual plots of land creates revolve around architectural copyright and trademarks that are associated with particular buildings or plots of land.

Architectural Copyright

For the purpose of our analysis of Earth 2, it is important to point to section 2 of the *Copyright Act* (“the Act”), which defines “artistic work” as including

¹⁷ Earth2, “Home | Earth 2”, Earth 2, <https://earth2.io/>

architectural works. Section 3(1) defines copyright in relation to a work as the following:

“the sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public...”¹⁸

Further, given the definition under Section 2 of “artistic work” we know that the rights granted under Sections 3(1)(c), (e), (f), (g), and (j) apply to architectural works. We can look to Section 13 to undertake a broad analysis of who owns the copyright generally in architectural works, at least in Canada. At the starting point of Section 13(1), the author (here, the architect), would be the first owner of the copyright. However, if the architect was designing a building as an employee of an architecture firm, then depending on their employment agreement and under Section 13(3) the employer would be the original owner of the copyright. Finally, the copyright could then be licensed or assigned to the ultimate purchaser of the building or the hiring real-estate developer.

However, absent an assignment or license to a developer, under the factors laid out in *Amusements Wiltron Inc. v Mainville*¹⁹, it is likely that the architecture firm as a contractor would maintain ownership of the copyright. The copyright will then last, in the case of individual ownership, for the life of the author plus 50 years from the end of the calendar year in which the author dies²⁰. In the case of joint ownership, which is likely the case in the event an architectural firm owns the copyright, the copyright would last until the end of the calendar year in which the last author dies.²¹

This is where copyright issues arise with respect to Earth 2:

- i. Is the sale of these architectural works along with the plots of land attached to the NFTs an infringement of the copyright owners?

¹⁸ *Copyright Act*, RSC 1985, c C-42, s 3(1).

¹⁹ [1991] 40 CPR (3d) 521 (Que. SC)

²⁰ *Copyright Act*, RSC 1985, c C-42, s 6.

²¹ *Ibid*, s 9.

- ii. What rights attach to the owner of a plot of land attached to an NFT?
- iii. What rights does the architect retain?
- iv. Is the ultimate reproduction of the buildings in the future of Earth 2 a breach of copyright?

With respect to the first issue, we need to ask whether or not the sale of tokenized plots of land and buildings that sit on the plots of land constitutes a reproduction of a substantial part of the work in a material form. If we look to *Apple Computer Inc v Mackintosh Computers Ltd*²² (“Apple v Mackintosh”), we know that a copy of a copy is still a copy. So, Earth 2 using a third-party mapping platform to copy the appearance of an existing architectural work and then copying that work into a tokenized version that can be sold as a plot would still constitute a copy of the original building. As well, we argue that under *Cinar Corp v Robinson*²³ (“Cinar”), although the virtual reproduction of an architectural work would disregard the structural components of the work, copying the surface-level appearance of the work would constitute a “substantial part” of the work.

Cinar stands for the proposition that an analysis of what constitutes a substantial part of the work should be based on quality rather than quantity. So, while the structural components of a building might make up a greater portion of the architect’s work, the appearance of a building is what makes it recognizable to the public and for the sake of value to the architect is certainly a substantial portion of his work. Earth 2 currently exists as a 2D medium comprised of satellite images provided by MapBox. Although these 2D images likely do not constitute a ‘reproduction’ of the architectural works, based on our argument above it seems likely that in future phases Earth 2 will have to reach licensing agreements with copyright owners.

²² [1990] 2 SCR 209

²³ [2013] 3 SCR 1168, 2013 SCC 73 (CanLII)

This issue has already been raised on a smaller scale. If you have played *Marvel's Spider-Man: Miles Morales* on PlayStation then you may have noticed that despite some of the buildings in New York being reproduced virtually, the Chrysler Building failed to make an



Figure 4.2: The Chrysler Building location in *Marvel's Spider-Man* (left) and *Marvel's Spider-Man: Miles Morales*. Digital Image. *Game Informer*.

<https://www.gameinformer.com/2020/11/20/spider-man-miles-morales-is-missing-this-major-new-york-city-landmark>

appearance²⁴. The Chrysler Building was previously reproduced in 2018's *Marvel's Spider-Man* but copyright issues prevented it from being reproduced in the 2020 edition of

the game. This issue was that the new owners of the Chrysler Building failed to reach an agreement with Insomniac (the game developer) prior to the game's launch. These facts indicate two things; first, that owners of the building have purchased and own the copyrights associated with the architectural work; and second, that *Earth 2* will have the daunting task of signing licensing agreements with any significant building or building covered by copyright in the entire world prior to a virtual reproduction.

With respect to what rights attach to the owner of the NFT, it is widely accepted that they only have the right to own, sell, lend or otherwise transfer the NFT itself. The NFT owner cannot make or sell copies of the digital work, transfer the copyright in the work, or create derivative works based on the

²⁴ Bankhurst, A. "Spider-Man: Miles Morales Doesn't Have the Chrysler Building Due to Copyright Issues". IGN. <https://www.ign.com/articles/spider-man-miles-morales-doesnt-have-the-chrysler-building-due-to-copyright-issues>.

original²⁵. So, while during Phase 1 of Earth 2 (the current 2D map-only stage) there does not seem to be any significant issues, once users can interact with and exist in the virtual world it will have to be determined to what extent the user can alter, sell or transfer the building itself once it has more tangibility outside of the blockchain code.

Theoretically the architect (or original owner of the copyright) should still retain the rights set out in Section 3(1) of the Act. However, it will be interesting to see whether or not architects will be able to profit in the future from entering into licensing agreements with NFT developers. Since copyright is made up of a bundle of derivative rights²⁶, architects could ‘slice-and-dice’ their right to make copies of the work into the right to attach the work to an NFT and license this specific right to developers.

Trademark

Although when you think of the Hollywood Sign, the Empire State Building, or the Space Needle you probably don’t immediately think of intellectual property rights, these buildings are in fact covered by trademark²⁷. As such, a final issue worth discussing is how Earth 2 could run into issues regarding trademarks. First, at its current phase of using 2D satellite images it is unlikely that these infringe on American trademark law at least. For this argument we

Figure 4.3: Rock and Roll hall of Fame, Cleveland, Ohio. Digital image. *Rolling Stone*. <https://www.rollingstone.com/music/music-news/rock-and-roll-hall-of-fame-october-30th-induction-cleveland-1135299/>



²⁵ Lizerbram Law. “NFTS & COPYRIGHT LAW”. David Lizerbram & Associates.

<https://lizerbramlaw.com/2021/03/11/nfts-copyright-law/>

²⁶ Festinger, J, “Copyright: Rights of Owners” (Virtual Lecture, Peter A. Allard School of Law, LAW 422, January 22nd, 2021.

²⁷ Patel, V. “Landmark Buildings as Intellectual Property”. Jayaram Law. Jan 15th, 2019.

<https://www.jayaramlaw.com/blog/2019/01/landmark-buildings-as-intellectual-property/>.

can point to *Rock and Roll Hall of Fame and Museum v Gentile Productions*²⁸ whereby it was held that a photograph of the Rock and Roll Hall of Fame was not a depiction of sponsorship or ownership, but rather was simply a photograph of a well-known and accessible public landmark.

The main purpose of trademark law is to prevent consumer confusion as to the source of a certain product or service. So, in Earth 2's current phase, as has been held by US courts, there is likely no confusion to consumers – these maps are only depictions of the land, which includes well-known public landmarks. Canadian courts would likely find the same outcome since under Section 20 the service that Earth 2 is providing is not the same service or purpose that the owners of the buildings are providing. Further, under Section 22 of the Act, as US courts have similarly held, there is no potential for confusion since consumers are likely associating the image with the building, not the real estate owner.

However, once Earth 2 reaches its future phases and starts to reproduce the buildings in a virtual world, this will be a greater issue. This could likely depend on how the court interprets the differences between a 'fully-immersive virtual reality' reproduction of the building and a simple 2D image. As well, there is still a strong argument to be made by Earth 2 that users are extremely unlikely to look at the virtual Empire State Building and associate this experience with Empire State Realty Trust – the company that owns the building. As a final note, Earth 2 might have more trouble when reconstructing areas like Disney Land or resorts worldwide where users would necessarily associate the virtual reproduction with the owner as the purpose and owner are one in the same.

²⁸ [1999] 71 F. Supp. 2d 755 (ND Ohio)