

Taming NFTS with Trademark Law Tools: Future Challenges for Sri Lanka

by Wathsala Ravihari Samaranayake *

Abstract: When NFTs were first introduced, it was generally believed that they would foreclose avenues for trademark counterfeiting owing to their innate characteristics. Despite all the optimism, NFTs have given rise to a number of unprecedented trademark issues. Thus, the question arises whether the traditional trademark law regime is sufficiently equipped to tackle NFTs-related trademark issues. Although it ostensibly involves a mere extension of the existing trademark law principles to a new phenomenon, in effect, it entails an arduous exercise infused with intricate legal issues. To be more explicit, the complexity of the legal issues posed by NFTs has baffled many sophisticated legal regimes in the world including the USA and EU. The legal issues that surfaced in *Hermès Int'l v. Rothschild*, 590 F. Supp. 3d 647 (S.D.N.Y. 2022), *Nike Inc. v. StockX LLC*, 1:22-cv-00983 (S.D.N.Y. February 3, 2022) and *Juventus F.C. v Blockeras s.r.l.*, (Docket No. 32072/2022, Court of Rome IP

Chamber, 20/07/2022) bear testimony to this fact. As far as Sri Lanka is concerned, however, to the best of the author's knowledge, the courts have not encountered any NFTs-related trademark disputes so far. But this does not mean that it will be immune from such issues in the future. The concept of NFTs has become so pervasive that it is no longer limited to sophisticated jurisdictions. Therefore, in this paper, an attempt is made to critically evaluate the adequacy of the existing legal regime on trademarks in Sri Lanka to grapple with the legal dilemma created by the proliferation of NFTs in the virtual realm. This paper will also look at the developments in comparative jurisdictions, specifically, the USA and EU with a view to shedding light on how the international experiences and best practices can be used to ameliorate the Sri Lankan trademark landscape, in view of the growing menace of NFTs.

Keywords: NFTs, Trademarks, Nice Classification, Misleading Similarity, Exhaustion, Nominative Fair Use, Immutability

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A. Introduction

- 1 The exponential growth in disruptive technologies is reshaping modern society and its business models. Perhaps, the best example is the metaverse phenomenon which is a revolutionary breakthrough in human-technology interaction. The metaverse is a sophisticated, shared and immersive three-dimensional virtual universe¹ which mimics the

physical world. The following excerpt is a lucid explanation of what it constitutes:

“The [m]etaverse is an integrated network or social sphere that operates in the digital space. It is a continuum of several immersive virtual experiences in the digital spaces. All the synchronous experiences enhance the sensation of interactions (...). Users of the [m]etaverse or augmented reality world would meet and socialize with other participants using personalized avatars in real-time. The different range of activities is accessible using specialized devices like virtual reality headsets, smartphones, digital glasses, goggles, and more. In short, the [m]etaverse is an embodied internet that provides a scaled-up world in the virtual space. Just like the world where we are in, it is a place where we connect

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1 ‘Metaverse’ is a virtual space parallel to and independent of the real world, an online virtual world that mirrors the real one, and it is increasingly real’: Zhao Guodong, Yi Huanhuan and Xu Yuanzhong, *Metaverse* (Kindle Edition 2021).

with our families, friends, work colleagues, clients, and other significant people.”²

- 2 The metaverse, which is often accoladed as the next iteration of the internet is ‘a concept for a cyberspace realm that [is] built on the existing infrastructure of the internet using the emerging technologies of blockchains, cryptocurrency, and [Non-Fungible Tokens (NFTs)].’³ Although NFTs can be conveniently dissociated from the metaverse owing to their mutually independent existence, the fact that the metaverse ascribes singular and significant importance to NFTs cannot be thrust into oblivion.⁴ It has been observed that ‘NFTs are currently used in the metaverse as collectibles, access keys, investments, deeds of ownership, voting and governance tokens for decentralized autonomous organizations (DAOs), and facilitators of services or experiences’.⁵ NFTs have thus become extremely popular today, with the Metaverse gaining momentum in the past few years.
- 3 Notably, the history of NFTs is traced back to two sources. While some believe that Kevin McCoy’s “Quantum” NFT minted on the Namecoin blockchain in 2014 is the first ever NFT, others are of the view that Colored Coins designed on the Bitcoin network in 2012 are in fact the very first NFTs to exist.⁶

2 Vitali Lazar, *Cryptocurrency Investing Guide and Metaverse Explained: Absolute Beginner Guide to Start Trading and Understand Blockchain Technology, Bitcoin, NFT and Altcoins* (Kindle Edition 2022)

3 Michael D. Murray, ‘Trademarks, NFTs, and the Law of the Metaverse’ (2023) 6 Arizona Law Journal of Emerging Technologies (forthcoming) (footnotes omitted). See also, Darell Freeman, *Metaverse for Beginners: An Ideal Guide for Beginners to Understanding and Invest in the Metaverse: NFT Non-Fungible Token, Virtual Land, Real Estate, Defi, Blockchain Gaming and Web 3.0* (Cryptosphere Accademy 2022) 58: ‘A metaverse is ‘a persistent online world where users can experience a richer immersive experience than existing online services through virtual and augmented reality interfaces’; Fouad Sabry, *Immersion Into Virtual Reality: The perception of being physically present in a non-physical world* (One Billion Knowledgeable 2022): ‘A combination of the words “meta” and “universe”, the phrase “metaverse” was first used in the science fiction book Snow Crash, which was published in 1992’.

4 See Georgia Weston, ‘NFTs and their Role in the “Metaverse”’ (101 blockchains, 24 December 2021) <<https://101blockchains.com/nfts-and-metaverse/>> accessed 2 December 2022 (noting that ‘The metaverse is a massive concept, and NFTs can serve as a key concept in the broad ecosystem’).

5 Murray (n 3).

6 See Benjamin Hor et al, *How to NFT* (CoinGecko 2022) 10

Nonetheless, ‘the genesis of the spread of NFTs can be traced back to 2017, and it is linked to the funny phenomenon of “Cryptokitties”’.⁷ Since then, thousands of NFT projects including Beeple’s \$69 million NFT auction piece⁸ have been launched.

- 4 The most intriguing question which defies a precise answer is what an NFT constitutes. Although the contours of an NFT remain largely undefined, its meaning can be gleaned to some extent from its basic characteristics. The primary characteristic of an NFT is that it is non-fungible. In contrast to fungible objects which are equivalent in value, NFTs are unique one-offs. The upshot of this is that whilst fungible objects like money or bitcoins are mutually interchangeable, non-fungible tokens cannot be exchanged with one another. For this reason, NFTs have been likened to ‘items of artistic or historical significance, or rare trading cards’.⁹ An equally important characteristic of an NFT is that it functions as a token¹⁰ capable of attributing an immutable proof of ownership to an underlying artwork or a virtual or physical asset. However, the “Token” in an NFT is “truly a digital item designed to track the asset by its ‘TokenID’ and attribute ownership to the current owner”.¹¹ These dual characteristics are portrayed by the very term ‘Non-Fungible Tokens’.

- 5 Another vexing issue that is linked to the previous issue is the lack of a uniform definition for NFTs. Interestingly, however, a survey of existing literature on NFTs reveals that there are primarily two types of definitions of NFTs, one that alludes to a digital certificate and the other that characterizes an NFT as a digital asset. The EUIPO defines NFTs as “unique digital certificates registered in a

7 Andrea Sestino, Gianluigi Guido and Alessandro M. Peluso, *Non-Fungible Tokens (NFTs): Examining the Impact on Consumers and Marketing Strategies* (Springer Nature 2022) 13.

8 ‘Beeple, a digital artifact, was the first digital artist to make history by selling NFT- backed artwork at an auction house. The sale brought in \$69 Million dollars’: Josh Caine, *NFT for Beginners: Ultimate Guide for Creating, Buying, Selling, and Trading Non-fungible Tokens (Make Profit with Digital Crypto Art and Collectables)* (Kindle Edition 2022).

9 Lennart Ante, ‘The Non-Fungible Token (NFT) Market and Its Relationship with Bitcoin and Ethereum’ [2022] FinTech 216.

10 For a definition of the term ‘token’ see Sestino, Guido and Peluso, (n 7) 12. (‘In IT, a token is a set of digital information able to identify a specific purchasable object.’)

11 Madison Yoder, ‘An “OpenSea” of Infringement: The Intellectual Property Implications of NFTs’ (2022) 6 The University of Cincinnati Intellectual Property and Computer Law Journal, art 4, 4.

blockchain, which authenticate digital items but as distinct from those digital items”.¹² A similar idea has been expressed by Lennart Ante who remarked that ‘NFTs are unique certificates of authenticity on blockchains that are usually issued by the creators of the underlying assets’.¹³ In fact, the Collins English Dictionary which announced ‘NFT’ as the buzzword of year 2021, defined an NFT as a unique digital certificate, registered in a blockchain, that is used to record ownership of an asset such as an artwork or a collectible.¹⁴ All these definitions treat NFTs as digital certificates. By contrast, Vicky V. Choudhary defines an NFT as ‘a cryptographic asset on the blockchain that consists of unique identification codes and metadata that allows them to be distinguished from one another’.¹⁵ In a similar vein, Clark Griffin asserts that NFTs are ‘[c]ryptocurrency assets that act as a rare and unique project, whether virtual or physical, for example[,] digital art or real estate’.¹⁶ Both Choudhary and Griffin hold the view

that NFTs are cryptographic assets. The important point to be noted is that characteristics possessed by a digital certificate are necessarily different from those of digital assets. It is obvious therefore that the definition of NFTs is full of controversies that, as we would see later in this article, mirror the legal dichotomies underlying NFTs.

- 6 The key attributes of NFTs include ‘unicity’, ‘scarcity’, ‘authenticity’, ‘transparency’, ‘transferability’ and ‘indivisibility’. The unicity of NFTs stems from their quality of being unique. Each NFT is unique, like for example, a custom-made silver necklace. There is no replica of an NFT owing to the fact that ‘each NFT has a specific digital identifier (...), such that the pair “contract address-token ID” is unique within the reference ecosystem (i.e., the blockchain)’.¹⁷ Guadamuz expounds on this so-called ‘pair’ in the following statement:

“The first core element of an NFT is a number known as the tokenID, which is generated upon the creation of the token; the second is the contract address, a blockchain address that can be viewed everywhere in the world using a blockchain scanner. The combination of elements contained in the token make it unique; only one token in the world exists with that combination of tokenID and contract address.”¹⁸

- 7 Indeed, it is the uniqueness that NFTs are imbued with, which makes them rare and not mutually interchangeable. The view has been expressed that ‘by leveraging their unicity, NFTs may be used to simulate and create the concept of “scarcity”’.¹⁹ It appears therefore that ‘scarcity’ is a direct consequence of uniqueness; as NFTs are associated with one digital or physical object they provide scarcity in the market.²⁰ Importantly, the element of scarcity has an intriguing effect on NFTs embodying digital art. It has been observed that ‘Digital art has mostly failed to generate value for creators because it is not seen as rare; it can be copied or manipulated

Fungible Tokens and Digital Art (Top Notch International 2022). See also John Potts, *The Near-Death of the Author: Creativity in the Internet Age* (University of Toronto Press 2022): ‘An NFT –or non-fungible token– is a digital asset that is not fungible, that is exchangeable; rather, it is held to be unique object.’

- 12 ‘Virtual Goods, Non-Fungible Tokens and the Metaverse’ (EUIPO European Union Intellectual Property Office, 23rd June 2022) < https://euipo.europa.eu/ohimportal/en/news-newsflash/-/asset_publisher/JLOyNNwVxGDF/content/pt-virtual-goods-non-fungible-tokens-and-the-metaverse> accessed 2nd January 2023. However, this definition has sometimes been criticized. For example, see Katfriedr Paolo Maria Gangi, What is an NFT? A comment to the EUIPO Guidance on NFTs (*The IPKat*, 14 July 2022) <<https://ipkitten.blogspot.com/2022/07/guest-post-what-is-nft-comment-to-euipo.html>> accessed 28th December 2022 (‘First, the EUIPO describes NFTs as “certificates registered in a blockchain” but this sounds a bit like a devaluation of what an NFT is, since it is primarily a “token”, meaning a digital asset created using some specific technological standards, the most common being ERC-721 and ERC-1155, and which can be traded or transferred within a blockchain (or a market place) eco-system according to specific rules written in the smart contract (like the automatic payment of royalties to the NFT creator)’).
- 13 Ante (n 9). See also Sestino, Guido and Peluso (n 7) 1: (‘NFTs– that is, the cryptographic ownership certificates of digital objects’).
- 14 However, certain authors have also defined NFTs as tokens or proofs of ownership. For example, see Freeman (n 3) 61: ‘NFTs are tokens that exist on the blockchain and can be used to prove ownership of connected digital assets’. See also Hor et al. (n 6) 6: ‘(...) an NFT is a token that possesses a unique identifier and has additional parameters that allow you to store certain information on it’.
- 15 Vicky V. Choudhary, *Non Fungible Token (NFT): Non Fungible Token (NFT): Delve Into The World of NFTs Crypto Collectibles And How It Might Change Everything?* (Vicky Virendralal Choudhary 2022) 11.
- 16 Clark Griffin, *Mastering NFT: Create, Sell and Invest in Non-*

- 17 Sestino, Guido and Peluso (n 7) 14.

- 18 Andres Guadamuz, ‘Non-fungible tokens (NFTs) and copyright’ [2021] WIPO Magazine 1, 34.

- 19 Sestino, Guido and Peluso (n 7) 14

- 20 See World Intellectual Property Organization, *Blockchain technologies and IP ecosystems: A WIPO White Paper* (WIPO 2022) 23.

in ways that undermine the principles of scarcity and originality that drive art markets'.²¹ But this loophole has been remedied by the advent of NFTs which are unique and irreplicable. Here, the point one must remember is that 'while it is true that anyone can take a screenshot of an art NFT, this screenshot will not have any of the identifying information or the creator's digital signature that comes with the purchase of the NFT, nor will it have the record of past transactions going back to its creation'.²² A mere screenshot of the digital art embodied in the NFT is distinct from the NFT. It is the NFT that cannot be easily duplicated and which thereby retains its scarcity.²³ This also explains why sometimes the decision to buy an NFT would be fueled by purely a desire to seize the so-called 'bragging rights'. People buy NFTs not so much to claim legal ownership rights but for the clout associated with the ownership of a unique and one-off item.

- 8 Authenticity is an equally important characteristic of an NFT. An NFT contains built-in authentication, which serves as proof of ownership.²⁴ The digital infrastructure of NFTs is composed of blockchain technology and smart contracts. 'NFTs take advantage of smart contract technology to store and record unique information on the blockchain'.²⁵ 'The integrity of the blockchain²⁶ network on which NFTs [reside], ensures their authenticity by preventing them from being altered, removed, or replaced'.²⁷

21 Greg Hearn, *The Future of Creative Work: Creativity and Digital Disruption* (Edward Elgar Publishing 2020) 88

22 Yoder (n 11) 4.

23 See Daniel Plumley and Rob Wilson, *The Economics and Finance of Professional Team Sports* (Routledge 2023) 157: ('This stands in stark contrast to most digital creations, which are almost always infinite in supply.')

24 See *ibid.*

25 Hor et al (n 6) 8

26 By definition, a blockchain is a distributed, decentralized, immutable ledger used to store encrypted data.

27 Farhan Khan et al, 'Advancements in Blockchain Technology with the Use of Quantum Blockchain and Non-Fungible Tokens' in Mahendra Kumar Shrivastava et al (eds.), *Advancements in Quantum Blockchain with Real-Time Applications* (IGI Global 2022) 216. See also Harsh Vardhan Singh Rawat et al, 'Rise of Blockchain-Based Non-Fungible Tokens (NFTs): Overview, Trends, and Future Prospects' in Vaclav Skala (eds.), *Machine Intelligence and Data Science Applications: Proceedings of MIDAS 2021* (Springer Nature 2022) 7: 'NFTs records of ownership cannot be modified as the information is maintained at all times in the blockchain ledger.'

'Blockchains make it nearly impossible to hack into the system or change the transaction records in any way, so before buying a (...) NFT, a user is able to look at its records to see who originally created it, as well as all of its previous owners'.²⁸ Evidently, therefore, '[b]lockchain-enabled NFTs facilitate asset provenance or tracking, and verify asset ownership or authenticity'.²⁹

- 9 The next attribute of NFTs, transparency, is linked to their immutability. The immutable records of ownership create transparency in the transaction in three ways: to know whom you are dealing with, to know your rights and to know the previous owner of the asset, if any.³⁰ It has in fact been observed that '[t]ransparency is an inherent part of the architecture of blockchains, and NFTs are built on top of them. This suggests that, in a sense, NFTs were designed to be shown'.³¹ Be that as it may, the transparency in NFTs helps to create trust between buyers and sellers. Apart from transparency, NFTs are also infused with 'transferability'. NFTs can be transferred within the blockchain ecosystem subject to the rules specified in the smart contract.³² Accordingly, NFTs can be bought and sold multiple times through digital platforms.³³ Due to the reason that NFTs can be identified with a unique ID number, NFTs possess a higher level of transferability than many other assets living in the blockchain.³⁴ Another striking feature

28 Yoder (n 11) 2. See also Hor et al (n 6) 8 ('NFTs mitigate issues such as fraud and plagiarism, which is a common problem all non-fungible goods face. Rather than hiring an expert, we can verify the authenticity of an NFT using the blockchain')

29 Hearn (n 21) 88

30 See Ramakrishnan Ramanan and Benson Edwin Raj, 'The World of NFTs (Non-Fungible Tokens): The Future of Blockchain and Asset Ownership' in Adel Ben Mnaouer and, Lamia Chaari Fourati (eds.) *Enabling Blockchain Technology for Secure Networking and Communications* (IGI Global 2021) 99. See also Yoder (n 11) 3 ('In addition to being able to view an NFT's previous owners, one is also able to view the original creator of the NFT, or whoever first minted it.').

31 Milkyway Media, *Summary of Matt Fortnow & QuHarrison Terry's The NFT Handbook* (Milkyway Media 2022).

32 See Singh Rawat et al (n 27) 7 ('NFTs are quite easy to transfer from one owner to another with the help of smart contracts that are executed in the background').

33 See Sestino, Guido and Peluso (n 7) 14 ('Due to their peculiar characteristics, NFTs can be proposed, traded, sold, or transferred through digital platforms').

34 See Yvonne Landry, *Nft: All You Need to Know About Investing in Nft (Application and How to Make Money With Non-fungible*

of NFTs is that they are indivisible.³⁵ The ensuing position is that an NFT ‘can only stay in existence as an individual token, unlike the cryptocurrencies which act as [fungible tokens] and are divisible. This means that the NFTs cannot be used for transaction at parity and are independent of the cryptocurrency market, unlike fungible tokens’.³⁶

- 10 NFTs, which are sometimes called ‘digital diamonds’ have undoubtedly become a digital trend in the current era due to these characteristics. It has been pointed out that:

“(....) There is a growing interest in using NFTs to stimulate a new paradigm around business value propositions and intellectual work. The *momentum* is driven mainly by three factors: the opportunity for creators to exercise and transmit the rights associated with such items; the possibility for users to boast about owning such objects; and the facilitation of marketing and advertising strategies that can leverage such items.”³⁷

B. The Kinship between NFTs and Trademark Law

- 11 It has been observed that ‘[i]n a space where nearly anything can be minted and sold as an NFT,³⁸ from a tweet to a digital luxury good, the potential legal implications [of NFTs] are endless for both buyers and sellers, as well as NFT trading platforms’.³⁹ While it is true that NFTs can tokenize any form of valuable data capable of being stored digitally, what needs to be appreciated from a legal perspective is that the NFT is distinct from the virtual or the physical asset or the digital artwork which underlies the NFT.⁴⁰ Most importantly, when ‘an NFT represents a

Tokens) (Kindle Edition 2022).

- 35 See Sestino, Guido and Peluso (n 7) 13: ‘Whereas [fungible tokens] are divisible into fractions, NFTs are not mutually interchangeable and thus totally indivisible.’. (citations omitted)
- 36 Singh Rawat et al (n 27)
- 37 Sestino, Guido and Peluso (n 7) 13.
- 38 See Guadamuz (n 18) 33. ‘Any digital work, including physical goods, which can be represented in digital form, such as a photo, video or a scan can be turned into a non-fungible token’.
- 39 Yoder (n 11) 1.
- 40 See Murray (n 3) (noting that ‘NFTs are separate from the items that are “tokenized” by the NFT (i.e., linked to the

virtual good or is linked to a physical good, each NFT is only a marker (or pointer) to the virtual good or the physical good, but it is not the “the good” itself’.⁴¹ It follows that NFTs often contain a web link to the original work ‘because the non-fungible token is not the work itself, rather a unique digital signature that is linked in some way to an original work’.⁴² At this point, one may wonder why people sometimes pay astronomical prices to purchase a mere web link that points to a virtual or a physical asset or some digital artwork,⁴³ if the concomitant transfer of ownership or possession of the underlying asset is not envisaged by an NFT sale. The answer is simply that: ‘[t]his is not ownership in a traditional sense, and yet the money flows into the NFT marketplace where the bragging rights and “ownership” value of being recorded on the blockchain as the registered owner of a digital or physical item exceeds the value of the uninhibited right to possession and use of the item’.⁴⁴ Thus, digital bragging rights are valued more than the asset itself.⁴⁵

- 12 Evidently, therefore, ownership of an NFT does not necessarily guarantee the ownership of the underlying asset nor the intellectual property rights pertaining to such asset. A corollary of this

NFT by the process of minting the NFT))’.

- 41 MLL Meyerlustenberger Lachenal Froriep Ltd, ‘NFTs and Trademarks – What You Need to Know’ (MLL News Portal, 8th April 2022) < <https://www.mll-news.com/nfts-and-trademarks-what-you-need-to-know/?lang=en> > accessed 27th December 2022.
- 42 Guadamuz (n 18) 34.
- 43 See Liew Voon Kiong, *Web3 Made Easy: A Comprehensive Guide to Web3: Everything you need to know about Web3, Blockchain, DeFi, Metaverse, NFT and GameFi* (Liew Voon Kiong 2022) 127 (‘In fact, the NFT purchaser owns nothing more than a unique hash on the blockchain with a transactional record and a hyperlink to the file of the original creation.’) (citations omitted)
- 44 Murray (n 3).
- 45 See Robert Barbera, *Retire and Refire: Financial Strategies for People of All Ages to Navigate Their Golden Years with Ease* (Kindle edition 2022): ‘People are paying money, tens and hundreds and sometimes millions of dollars, for the bragging rights of owning a digital piece of art.’ See also Peter Cramer and Brendan O’Rourke, ‘As NFTs Blur the Line between “Receipt” and “Product”, Trademarks Owners Fight over New Virtual Markets’ (2022) 42 *The Licensing Journal*, art 5, 5: ‘Often, it is ownership of the NFT itself—and the associated benefits, such as entry into specific communities, self-branding on social media, or participation in business ventures, not to mention potential for return on investment—that the purchaser desires’.

is that an NFT does not eliminate the possibility that someone other than the owner of the NFT holds property rights over or intellectual property rights in the underlying good itself.⁴⁶ Axiomatically, therefore, NFTs can impinge upon the rights of a trademark owner where the NFT displays or otherwise incorporates a trademark that belongs to a person other than the one who minted the NFT.⁴⁷ This is in fact ironic because there was a lot of anticipation that the NFTs would inhibit misuse and exploitation of intellectual property owing to their unique authentication system.⁴⁸ Whilst it is true that the immutability of ownership records in NFTs means that the avenues for the misappropriation of a trademark will be limited if not foreclosed where the NFT is minted by the trademark owner himself or by any other person with his permission⁴⁹; the converse happens when the creator of the NFT incorporates a third party's trademark without permission.⁵⁰ In effect, this may not only be prejudicial to the interests of the trademark owner but can even be detrimental to consumers as such NFT can cause consumer deception. Kathryn Park points out that:

"In the wild-west environment, trademark risks abound. First, sales that rely on the goodwill of a brand may accrue to someone other than the brand owner (...). Second, customers who purchase a fraudulent NFT may end up disgruntled that an

expensive item is not an authorized branded one, as the value they have invested in the NFT disappears."⁵¹

13 Additionally, trademark owners' rights can also be affected due to the proliferation of bad faith trademark filings in respect of Metaverse or NFTs. It has been pinpointed that, 'bad actors are trying to usurp valuable trademark rights in the metaverse with preemptive filings. Bad faith applications for metaverse trademarks abound.'⁵² In fact, well-known brand owners, having now realized their vulnerability in the crypto world, are accordingly taking steps to remedy the situation by filing applications to register their marks for NFT-associated goods or services, notwithstanding the classification turmoil⁵³ that exists. Taco Bell, Coca-Cola, and Nike are just a handful of the big-name brands that are making their initial forays into the NFT world.⁵⁴

14 However, the fundamental question remains whether the conventional trademark law regime is sufficiently equipped to grapple with the legal conundrums which NFTs have unveiled. Whilst some legal experts believe that trademark issues connected with NFTs can be addressed by the existing trademark law⁵⁵, others offer dissenting views. It has been cautioned that '[t]he enormous price tags [NFTs] carry will undoubtedly spawn hotly

46 See K. S Divyashree and Achyutananda Mishra, 'Blockchain Technology in Financial Sector and its Legal Implications' in Mousmi Ajay Chaurasia and Chia-Feng Juang, *Emerging IT/ICT and AI Technologies Affecting Society* (Springer Nature 2022) 225 ('Buying an NFT does not mean that one is buying the underlying [intellectual property] rights in a given content').

47 Yoder (n 11) 5: 'Some brands are claiming that NFTs have infringed upon or diluted their trademarks, whether that be in a piece of digital art or fake store locations in virtual cities'

48 See Julia Bishop et al, 'NFTs, Brands, and the Metaverse' (INTA, 16th February 2022) <<https://www.inta.org/perspectives/features/nfts-brands-and-the-metaverse/>> accessed 3rd January 2023. ('Brand owners see anticounterfeiting applications as one of the strongest cases for using blockchains, as NFTs can be used to authenticate physical products and provide a product's transaction history').

49 As duplication of the NFT is difficult if not impossible.

50 See Yoder (n 11) 14: 'Even corporate trademarks are not safe in the Metaverse, with other opportunists quick to profit from associating their NFTs with famous brands in their quest to become the next Beppe. The number of IP infringement issues continues to grow with the NFT industry's popularity, leading to new precedents being set both in the physical world and in the Metaverse'.

51 Kathryn Park, 'Trademarks in the metaverse' [2022] WIPO Magazine 1, 30.

52 ibid 31. The author further notes that: 'In the United States, for example, bad faith applications for metaverse marks have been spotted recently for fashion brands like Prada and Gucci. These bad filings are a major challenge for trademark owners because combatting such bad faith applicants has a price; potentially huge legal fees and a drain on corporate resources'.

53 This point will receive further discussion below.

54 Mansi Jain, 'Trademark Protection in NFT's' (Law Daily, 15th July 2022) <<https://www.lawdaily.cslr.in/2022/07/trademark-protection-in-nfts.html?m=1>> accessed 6th December 2022.

55 See for example Mary Kate Brennan, 'Nike's Trademark Fight Against StockX Moves Offline' (IPWatchdog, 18th May 2022) <<https://ipwatchdog.com/2022/05/18/nikes-trademark-fight-stockx-moves-offline/id=149098/>> accessed 28th December 2022: 'Navigating the legal world of NFTs can seem confusing because many consumers and brands are not well-versed in the technology, legal regulations are sparse, and no case has yet made it to a decision on the merits. That said, basic legal principles – especially trademark and other intellectual property laws – should apply'.

contested legal challenges if something goes awry'.⁵⁶ Therefore, and also for the purpose of establishing legal certainty, it is important that the adequacy of a country's trademark law regime to tackle NFTs-related issues is periodically assessed.

- 15 Notably, NFTs-related trademark issues have surfaced prominently in the USA and the controversial legal issues that cropped up in the cases of *Hermès Int'l v. Rothschild*⁵⁷ and *Nike Inc. v. StockX LLC*⁵⁸ have seemingly baffled the USA courts. In *Hermès Int'l v. Rothschild*, the defendant minted a collection of NFTs depicting digital images of handbags titled "MetaBirkins," which Hermès claimed, did infringe its famous BIRKIN trademark used for luxury handbags. By contrast, Nike case concerned NFTs which were linked to physical goods. The dispute arose when StockX launched its Vault NFT collection, with each NFT tied to a physical item that StockX sold, including well-known Nike sneakers.⁵⁹ Nike specifically alleged that:

"Without Nike's authorization or approval, StockX is 'minting' NFTs that prominently use Nike's trademarks, marketing those NFTs using Nike's goodwill, and selling those NFTs at heavily inflated prices to unsuspecting consumers who believe or are likely to believe that those 'investible digital assets' (as StockX calls them) are, in fact, authorized by Nike when they are not."⁶⁰

- 16 Similarly, in *Juventus F.C. v Blockeras s.r.l.*⁶¹ where a European court for the first time looked at trademark infringement issues in the context of NFTs, the

allegation of Juventus F.C. was that the NFTs sold by Blockeras featuring an Italian football player wearing a Juventus jersey 'infringed its word marks for 'JUVE' and 'JUVENTUS' and figurative mark consisting of the black and white striped jersey with two stars on the chest,'⁶² The unprecedented legal issues that came to light in these cases, unmistakably bear testimony to the fact that technology has outstripped the traditional legal structures. Against that backdrop, the quintessential question that this article delves into is whether the law governing trademarks in Sri Lanka can withstand the issues posed by NFTs. The law relating to trademarks in Sri Lanka is encapsulated primarily within the Intellectual Property Act No. 36 of 2003.⁶³ Apart from the statutory legal regime, the common law action of passing off is also invoked in the context of trademark disputes in Sri Lanka. However, close and careful scrutiny of Sri Lanka's traditional legal regime on trademarks reveals certain gaps where NFTs are considered. The complexity of these issues is exacerbated by the extremely sophisticated nature of the technology deployed by NFTs, the enigmatic characterization of NFTs as well as the relative newness of the concept of NFTs in Sri Lanka. The popularity of the concept of NFTs has just begun to rise in Sri Lanka. Several projects involving NFTs have been launched during the year 2022 and Dialog Axiata PLC, one of Sri Lanka's largest telecommunications service providers and the country's largest mobile network operator recently introduced Sri Lanka's first fully immersive Metaverse which also incorporates NFTs.⁶⁴ However, unlike the crypto community, the legal experts and the judiciary of Sri Lanka do not seem to have still had the time or opportunity to acquaint themselves with these concepts.

- 17 The issue of whether Sri Lanka's existing legal regime on trademarks can tackle the challenges posed by NFTs is addressed below under four specific headings (i) Registration and classification issues (ii) establishing misleading /confusing similarity between virtual and physical goods in cases involving unauthorized registrations/ uses (iii) application of the exhaustion and nominative fair use defenses (iv)

56 Park (n 51) 33

57 *Hermès Int'l v. Rothschild*, 590 F. Supp. 3d 647 (S.D.N.Y. 2022)

58 *Nike Inc. v. StockX LLC*, 1:22-cv-. 00983 (S.D.N.Y. February 3, 2022).

59 See Andrew Rossow, 'The Nike v. StockX Lawsuit Could Determine What Type of NFTs Can Be Created' (*Nftnow* 26th May 2022) < <https://nftnow.com/features/the-nike-v-stockx-lawsuit-could-determine-what-type-of-nfts-can-be-created/> > accessed 12th January 2023.

60 Brooks Kushman, 'Nike v. StockX Case Highlights Many Unanswered Questions About IP and NFTs' (*JDsupra* 7th September 2022) < <https://www.jdsupra.com/legalnews/nike-v-stockx-case-highlights-many-9205701/> > accessed 15th January 2023. See also: 'Nike files trademark infringement lawsuit against StockX NFTs' (*Retail Insight Network* 7th February 2022) <<https://www.retail-insight-network.com/news/nike-stockx-lawsuit/>> accessed 8th December 2022.

61 *Juventus F.C. v Blockeras s.r.l.*, Docket No. 32072/2022, Court of Rome IP Chamber, 20/07/2022

62 'Are trade marks protected in the metaverse?' (EUIPO European Union Intellectual Property Office, 23rd June 2022) <https://euipo.europa.eu/ohimportal/en/web/guest/key-user-newsflash/-/asset_publisher/dlGJZDH66W8B/content/id/14049958?>> accessed 10th June 2023.

63 Intellectual Property Act No. 36 of 2003 of Sri Lanka (Hereinafter 'IP Act').

64 'Dialog Launches 'Futureverse' - Sri Lanka's First Fully Immersive Metaverse' (*Dialog*, 1st January 2023) <<https://dlg.dialog.lk/news/dialog-launches-futureverse-srilanka-first-fully-immersive-metaverse>> accessed 5th January 2023.

application of certain statutory remedies to NFTs. In exploring these issues, examples shall be drawn from comparative jurisdictions, particularly, the USA.

I. Registration and classification issues

18 It is undisputed that '[f]iling (or re-filing) trademark registrations embracing goods and services related [to] the metaverse, online world, digital art, and NFT to protect your trademarks in the online world may result in better protection'.⁶⁵ Importantly, however, the registration of trademarks is carried out in Sri Lanka based on the international classification of goods and services. In terms of Section 106 (1) (d) of the IP Act, an application for registration of a mark shall *inter alia* contain 'a clear and complete list of the particular goods or services in respect of which registration of the mark is requested, with an indication of the corresponding class or classes in the international classification, as may be prescribed.' Notably, however, Sri Lanka is not a party to the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks.⁶⁶ Yet, Sri Lanka 'follows in substance the classification recognized therein'.⁶⁷ In fact, Regulation 16 of Intellectual Property Regulations No. 01 of 2006⁶⁸ incorporated the international classification of goods and services embedded in the Nice Agreement.⁶⁹

Although the Regulation in essence incorporated the 2006 version of the Nice Agreement, the National Intellectual Property Office (NIPO) of Sri Lanka as a practice follows the latest version of the so-called Nice Classification, albeit the legitimacy of such adoption could be in question. As such issues fall outside the remit of this paper, it is apposite only to consider how the NFTs-related goods or services can be designated in a trademark application in Sri Lanka.

19 Until the 12th edition of the Nice classification was adopted in 2023, it suffered from not having NFTs-related goods or services specifically listed in the classification.⁷⁰ The problem of not having a particular item specifically listed in Nice Classification is that on the one hand, it gives broad leeway to the national offices to adopt divergent approaches in accommodating or refusing to accommodate applications designating such goods or services; and on the other, it creates legal uncertainty in trademark registration disputes, especially where the similarity of goods or services of the marks in question is challenged.⁷¹ However, even before the 12th edition of the Nice Classification was introduced, taking cognizance of the sudden upsurge in the number of trademark applications seeking registrations for Metaverse and NFTs associated goods and services; 'the European Intellectual Property Office (EUIPO), which has responsibility for EU trademark registrations, issued guidance on its approach to classifying virtual goods and NFTs'.⁷² The EUIPO stated that NFTs fall under

65 Jain (n 54).

66 Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (as amended on September 28, 1979) <<https://www.wipo.int/wipolex/en/treaties/textdetails/12617>>. (Hereinafter 'Nice Agreement'). See also Wipo-Administered Treaties (WIPO IP Portal) https://www.wipo.int/wipolex/en/treaties/ShowResults?search_what=C&treaty_id=12 accessed 4th January 2023. See further Jessie N. Roberts, *International Trademark Classification: A Guide to the Nice Agreement* (Oxford University Press 2012) 13 (Introduction) ('Its purpose was to create a classification system for goods and services that would be used by as many countries as possible to promote consistency in trademark classification within national trademark offices.')

67 D M Karunaratna, *Elements of the Law of Intellectual Property in Sri Lanka* (Sarasavi Publishers 2010) 25.

68 Intellectual Property Regulations No. 01 of 2006 published in the Extraordinary Gazette No.1445/10 dated May 17, 2006.

69 Regulation 16 states that 'The application for registration of a mark may relate to goods or services of any one class of the international Classification set out in the fourth

Schedule hereto'.

70 It is noteworthy that in *Juventus F.C. v Blockeras s.r.l.*, (n 61) the court found that defendant's NFTs infringed the plaintiff's trademark registration (in particular for class 9) covering goods not included in the Nice Classification and that are inherent to downloadable electronic publications. See further 'Are trade marks protected in the metaverse?' (EUIPO European Union Intellectual Property Office, 23rd June 2022) <https://euipo.europa.eu/ohimportal/en/web/guest/key-user-newsflash/_asset_publisher/dIGJZDH66W8B/content/id/14049958?> accessed 10th June 2023

71 In the absence of NFTs specific registrations it has been commented that: 'As a consequence, a rigorous interpretation of trademark law would infer that there is no trademark infringement because the goods and services are unique. At the time, there is no case law in this area, therefore courts may take a different approach': Jain (n 54).

72 Roisin Culligan and Jane Gallagher, 'Brand Protection in the Metaverse: EUIPO Updates Guidance on Trade Mark Applications for NFTs and Virtual Goods' (*William Fry* 14th July 2022) < <https://www.williamfry.com/newsandinsights/news-article/2022/07/14/brand-protection-in-the>

- Class 9 of the Nice Classification list. It further stated that: '[f]or the Office, the term *non fungible tokens* on its own is not acceptable. The type of digital item authenticated by the NFT must be specified. Services relating to (...) NFTs will be classified in line with the established principles of classification for services'.⁷³ Thus, examples of acceptable specifications include: "*downloadable music authenticated by NFTs*" in class 9 [and] "*providing an online virtual environment for trading virtual art and virtual art tokens*" in class 35'.⁷⁴ It appears however that in issuing this guideline, EUIPO took inspiration from the proposed revision to the Nice Classification.
- 20 The 12th edition of the Nice Classification which became effective on the 1st of January 2023, for the first time, referred to the term NFTs. It includes the specific item- 'downloadable digital files authenticated by non-fungible tokens [NFTs]' in class 9. This is undeniably a much-needed extension of the Nice classification in the digital age. Notably, however, the wording of the new item is premised on the cardinal principle that the NFTs are distinct from their underlying assets.⁷⁵ It has been remarked that:
- 21 Only the content linked to the NFT is included in the classification, not the NFT itself. So the code sequence itself cannot be registered, as it is neither a good nor a service. Protection as a computer program is also rightly to be denied to the individual token. In this respect, it is consistent to tie in the content linked to the NFT when expanding the classification.⁷⁶
- 22 This could be the reason why the classification is silent about NFTs linked to physical assets. The idea is perhaps that when an NFT is authenticating a physical asset as opposed to a digital asset or digital artwork, it can be protected by the existing categories of goods to which the particular physical asset belong for the reason that it is not the NFT that is deemed relevant for trademark registration purpose but the underlying asset. But this posits the question of whether the existing classification of physical goods can adequately ensure protection for the phenomenon of 'phygital NFTs'.⁷⁷ It could be argued that the Nice Classification should be further expanded to incorporate 'phygital NFTs' as owners of trademarks used in relation to phygital NFTs will find themselves in the vexing situation of not having a definite class in which they can file the relevant trademark applications.⁷⁸
- 23 Although no mention has been made of the NFTs-related services, it has been observed that 'they will be classified in line with the established principles of classification'.⁷⁹ Needless to say, this is controversial. In fact, the Court of Justice remarked in *IP Translator*⁸⁰, the purpose of the registration system, part of which is the Nice Classification, is that "economic operators must be able to acquaint themselves, with clarity and precision with registrations or applications for registrations made
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- [metaverse-euipo-updates-guidance-on-trade-mark-applications-for-nfts-and-virtual-goods](#)> accessed 10th January 2023.
- 73 Virtual Goods, Non-Fungible Tokens and the Metaverse (n 12).
- 74 'EUIPO guidance on classifying virtual goods and NFTs' (Walker Morris, 1st December 2022) <<https://www.walkermorris.co.uk/in-brief/euipo-guidance-on-classifying-virtual-goods-and-nfts/>> accessed 23rd December 2022. (emphasis is original).
- 75 See 'EU intellectual property office publishes approach for classifying virtual goods and NFTs' (CMS Law-Now 22nd August 2022) <<https://cms-lawnow.com/en/ealerts/2022/08/eu-intellectual-property-office-publishes-approach-for-classifying-virtual-goods-and-nfts>> accessed 27th December 2022. ('The term is not understood to mean the digital item itself, but instead is the means of certification and cannot be accepted for classification purposes. An acceptable example would be 'downloadable digital art, authenticated by an NFT')
- 76 'Trade mark law: new Nice Classification to enter into force, including digital goods with NFTs' (Pinsent Masons 15th December 2022) < <https://www.pinsentmasons.com/>
- [out-law/news/neue-nizza-klassifikation-umfasst-digitale-gueter-mit-nfts](#)> accessed 29th December 2022.
- 77 'Physical NFTs: Bridging the Gap Between Digital and Physical Worlds' (Binance Blog 22nd September 2022) <<https://www.binance.com/en/blog/nft/physical-nfts-bridging-the-gap-between-digital-and-physical-worlds-7460772280213595786>> accessed 8th January 2022. ('Physical NFTs are digital tokens tied to real-world assets. Also referred to as phygital NFTs, these assets combine the digital and physical and can be used to prove ownership over real-world assets, such as artworks, fashion goods, property deeds, tickets, and more.'). See also Alex Borden <<https://www.borden.com/insights/what-are-phygital-nfts/>> 'What Are Phygital NFTs? : Everything to Know (With Examples)' (NFT Lately 6th December 2022) accessed 4th January 2023; where the author cites as an example of a phygital asset 'the RTFKT x Fewocious collaboration in which, buyers of an NFT would receive an actual pair of shoes featuring art by NFT artist Fewocious'.
- 78 However, it may also be necessary to determine if such hybrid goods with both physical and digital properties fit in with class 9 goods, or whether they can be categorized under a totally different class.
- 79 EU intellectual property office publishes approach for classifying virtual goods and NFTs (n 75)
- 80 *CIPA v Registrar of Trade Marks (IP Translator)*, Case C-307/10

by their actual or potential competitors and thus to obtain relevant information about the rights of third parties.”⁸¹

- 24 The most intriguing question remains, of whether a trademark registration for the physical goods would automatically extend to the corresponding virtual goods tokenized by NFTs. At this juncture, it is of paramount importance to draw the distinction between digital artwork and virtual goods; both of which can be tied to an NFT. For example, in *Hermès Int’l v. Rothschild*⁸², the Court recognized that ‘an NFT could link to a digital media file that is just an image of a handbag or could link to a different kind of digital media file that is a virtual handbag that can be worn in a virtual world’.⁸³ Whilst the degree of similarity between a physical commodity and a mere digital artwork representing the physical commodity may be too low to exclude this possibility; the question that has frequently been posed is whether the degree of similarity between a physical commodity and its virtual counterpart is sufficiently high to automatically extend a registration of the former to the latter.

- 25 The following excerpt highlights this point:

“For example, while the sale of *physical* fashion items both in the real world and via metaverse is likely to be protected by the trademark registration for “clothing” in Nice Class 25, the question for fashion brands intending to sell *virtual* goods via the metaverse is whether virtual versions of the clothing could also be covered by Class 25 or whether this might require additional trademark registrations in other goods and services classes. Again, this question is rather important for smaller, less established brands in particular, as well-known brands are more likely to be able to rely on their already established reputation and therefore can claim cross-class trademark protection.”⁸⁴

- 26 Although ‘the Nice Classification in registration disputes must not be decisive for deciding similarity

between the products’⁸⁵ it gives indications that can be used in the assessment of identity or similarity of goods/services. It has been pinpointed that:

“(…) Nice Classification provides significant guidance when deciding [similarity between the products], in particular in registration disputes where the products of the conflicting marks are documented, for the senior trademark as part of the registration certificate, and for the junior mark as part of the application. In infringement disputes, the EU trademark legislation stresses the influence of the products for which the senior trademark is registered.”⁸⁶

- 27 Even in Sri Lanka, the Nice classification serves more than a pure administrative function. The examining officer of the NIPO relies on the Nice Classification when conducting the requisite trademark database search to determine whether the mark under examination conflicts with a mark already filed or registered with the NIPO. So, the criticism that ‘the new version of the Nice Classification provides no answer as to what extent digital goods can be confused with their real counterparts from [a trademark] law point of view – for example, whether the digital handbag is similar to the physical handbag’⁸⁷ cannot be easily ignored. Perhaps, had there been no omission on the part of the Nice Classification to specifically categorize ‘virtual goods’ under a particular class, this anomaly could have been avoided. Classifying it under class 9, for example would have provided the necessary guidance to the examining officers and the courts. For instance, the EUIPO and USPTO guidelines have explicitly provided for ‘virtual goods’ in class 9.⁸⁸ On the contrary however, it can be argued that ‘downloadable digital files authenticated by non-fungible tokens’ categorized under class 9 does cater to both digital artwork and virtual goods and that

85 Laustsen (n 81) 332

86 *ibid.*

87 Trade mark law: new Nice Classification to enter into force, including digital goods with NFTs (n 76).

88 For EUIPO guidelines see Virtual Goods, Non-Fungible Tokens and the Metaverse (n 12): ‘Virtual goods are proper to Class 9 because they are treated as digital content or images. However, the term virtual goods on its own lacks clarity and precision so must be further specified by stating the content to which the virtual goods relate (e.g. downloadable virtual goods, namely, virtual clothing)’; for USPTO guidelines see: USPTO, ‘Registering trademarks for newer technologies: NFTs, blockchain, cryptocurrency, and virtual goods’ <<https://www.uspto.gov/sites/default/files/documents/TM-Newer-Technologies-handout.pdf>> accessed 2nd January 2023.

81 Rasmus Dalgaard Laustsen, *The Average Consumer in Confusion-based Disputes in European Trademark Law and Similar Fictions* (Springer 2020) 88.

82 *Hermès Int’l* (n 57)

83 *ibid.* The Court further emphasized that the fashion industry has just started ‘offering virtual fashion items that can be worn in virtual worlds online (most commonly, for now, in the context of videogames, but with potential to expand into other virtual worlds and platforms as those develop), and NFTs can be used to create and sell such virtual fashion items’.

84 MLL Meyerlustenberger Lachenal Froriep Ltd (n 41).

the question of whether a digital good associated with an NFT is similar to the corresponding physical good is now an issue for 'substantive law'.⁸⁹

- 28 There is no doubt that prospective registrants of goods associated with NFTs will benefit from the addition of the new item 'downloadable digital files authenticated by non-fungible tokens' to class 9 of the Nice Classification. As NIPO of Sri Lanka by practice follows the latest edition of the Nice Classification, a person seeking registration for NFTs-related goods in Sri Lanka will definitely benefit from this extension. Nevertheless, there are still gaps in the classification vis-à-vis the categorization of NFTs-related goods or services both at the global and domestic levels. Until a solution is reached at the international level, some guidelines can be issued by the Minister on these murky classification issues. As per Section 204 (2) (b) of the IP Act, the Minister is vested with powers to make regulations in respect of *inter alia* the classification of goods and services for the purposes of registration.

II. Establishing misleading / confusing similarity between virtual and physical goods in cases involving unauthorized registrations/ uses

- 29 The ambiguity concerning the similarity between the physical goods and their corresponding digital goods can have a serious impact on opposition matters, infringement suits and nullity actions, if the claimant is required to establish 'likelihood of confusion' under such action. It is trite law that '[i]n addition to similarity between the sign and the mark, the similarity of goods and services for which the signs are or shall be used must also be taken into consideration for assessing likelihood of confusion'.⁹⁰ Whilst it was highlighted in the previous discussion

that the Nice classification is silent on the point whether a virtual good could be considered similar to its physical counterpart (perhaps, rightly so), it is pertinent to look at whether the traditional tests for assessing similarity between goods and services espoused by the judiciary throw any light upon the issue. One of the most widely accepted tests on the assessment of similarity between the goods or services is to be found in the EU case, *Canon KK v Metro-Goldwyn-Mayer Inc.*⁹¹ where the European Court of Justice laid down a non-exhaustive list of criteria to be considered⁹²:

"In assessing the similarity of the goods or services concerned, all the relevant factors relating to those goods or services themselves should be taken into account. Those factors include, *inter alia*, their nature, their end users and their method of use and whether they are in competition with each other or are complementary."⁹³

- 30 The multifactor test introduced in Canon is considered to be less strict⁹⁴ than the test laid down in the UK case, *British Sugar plc v James Robertson & Sons Ltd.*⁹⁵ The view has been expressed that '[t]his liberal approach to similarity of goods should make it easier to demonstrate actionable confusion, and consequently will reduce the number of situations in which [trademark] owners will have to tolerate others from sharing their marks.'⁹⁶ Nonetheless,

89 See Lionel Bently et al, *Intellectual Property Law* (Oxford University Press 2022) 1053 (footnotes omitted).

90 Annette Kur, *European Intellectual Property Law: Text, Cases and Materials* (Edward Elgar Publishing Limited 2019) 251. In *British Sugar PLC v. James Robertson & Sons LTD.*, [1996] RPC 281, (EWHC), it was held that 'likelihood of confusion' was only to be considered after it had been established sequentially that the goods and the marks were similar. See also Catherine Seville, *EU Intellectual Property Law and Policy* (Edward Elgar Publishing 2016) 324. ('Likelihood of confusion presupposes both that the mark applied for and the earlier mark are identical or similar, and that the goods or services covered in the application for registration are identical or similar to those in respect of which the earlier mark is registered').

91 Case C-39/97 *Canon KK v Metro-Goldwyn-Mayer Inc* [1998] ECR I-5507

92 Laustsen (n 81) 332

93 *Canon KK* (n 91) I - 5509

94 See Helen Norman, *Intellectual Property Law Directions* (2nd edn, Oxford University Press 2014) 32

95 *British Sugar PLC* (n 90). The test required the following factors to be considered: (a) The respective uses of the respective goods or services; (b) The respective users of the respective goods or services; (c) The physical nature of the goods or acts of service; (d) The respective trade channels through which the goods or services reach the market; (e) In the case of self-serve consumer items, where in practice they are respectively found or likely to be found in supermarkets and in particular whether they are, or are likely to be, found on the same or different shelves; (f) The extent to which the respective goods or services are competitive. This inquiry may take into account how those in trade classify goods, for instance whether market research companies, who of course act for industry, put the goods or services in the same or different sectors.

96 Ilanah Simon Fhima, 'Same Name, Different Goods-Death of the Principle of Specialty' in Ilanah Simon Fhima (ed), *Trade Mark Law and Sharing Names: Exploring Use of the Same Mark by*

extension of this test to the assessment of similarity between physical goods and their virtual replicas does not seem to yield desirable results for the trademark owner, as the very nature, end users, methods of use and marketplace of NFTs-related virtual goods would naturally be different. For instance, the excerpt below highlights the peculiar and distinct nature, marketplace and consumer base of virtual garments which stand in stark contrast to those of the physical goods:

“Fashion companies can now reach new audiences that don’t typically interact with brands in physical formats, stay ahead of the curve with younger consumers, monetise their digital assets in communities accustomed to paying for premium experiences, and test which designs are most attractive to users, so that they may subsequently direct their productive efforts towards those who buy designs for their avatars.”⁹⁷

- 31 To elaborate this point further, where the physical clothing is compared with the virtual garment tokenized by an NFT, it is self-evident that the nature of the goods juxtaposes with one another- one being a physical asset, the other a digital manifestation embodied in an NFT. Their end-users are different, as the coveted luxury garments are often purchased by luxury customers and the virtual garments are presumably purchased by gamers, collectors or crypto enthusiasts.⁹⁸ The idea has in fact been expressed that ‘[t]he target market for these NFTs is not necessarily fashionistas. In many cases, buyers of virtual garments are investors interested in their fashion value (...).’⁹⁹ The method of use of the goods would be different as virtual clothing would be used to dress an avatar or as a collectible. ‘It will mean creating a completely new relationship with clothes. Fashion [in its traditional sense] has been considered

a highly hedonic category that needs to be touched and worn to be fully enjoyed. The tactile experience has been considered very important [with regard to materialistic outfits]’.¹⁰⁰ Contrastingly, virtual clothing does not evoke similar sensations in consumers. At the same time, the two products can hardly be said to be in competition although in rare situations they could be complementing each other.¹⁰¹ This is because the physical bags are sold in traditional markets or e-commerce platforms¹⁰² whereas NFTs are sold in the crypto or NFT marketplaces. Thus, the application of the multi-factor test seems to go against any finding of similarity between the physical goods and their digital twins.

- 32 Another murky issue is the similarity between digital artwork embodied in NFTs and their physical counterparts. Even if one concedes that the Nice Classification provides some guidance on the assessment of similarity between digital artwork authenticated by NFTs and their corresponding physical goods by the sole fact of classifying them in distinct classes, (except in situations where the concerned physical goods also fall under Class 9), it may still be necessary to gauge the proximity between these two types of goods by resorting to traditional criteria, especially in trademark disputes involving third parties. In *Hermès Int’l v. Rothschild*, where the defendant Mason Rothschild created digital images of faux-fur-covered versions of the luxury Birkin handbags of plaintiffs Hermès and titled these images “MetaBirkins” and sold them using NFTs, the plaintiff *inter alia* claimed trademark infringement under the Lanham Act.¹⁰³ Interestingly,

100 *ibid* 165 (citations omitted).

101 For example, where the NFT is used to authenticate a physical good.

102 See Pengtao Li, ‘Emerging Trends of E-Business’ in In Lee (ed.) *Encyclopedia of E-Business Development and Management in the Global Economy* (IGI Global 2010) 1162: (‘Traditional commerce is defined as trade that occurs in traditional retail environments, such as face-to-face or over the phone. (...) E-commerce is trade that occurs over a retail website (...).’).

103 *Hermès Int’l* (n 57). See also Yoder (n 11) 11 (‘Trademark infringement, Hermès’ first cause of action, is the unauthorized use of a trademark on or in connection with goods in a manner that is likely to cause confusion, deception, or mistake about the source of the goods. (...) Hermès has registered its BIRKIN trademark with the USPTO well before filing this the complaint, so its primary focus in the lawsuit will be on the likelihood of confusion between Hermès’ BIRKIN mark and Rothschild’s MetaBirkin mark. A likelihood of confusion between trademarks exists when “the marks are so similar and the goods for which they

Multiple Undertakings (Edward Elgar Publishing 2009) 116

97 Mercedes Rodriguez Sanchez and Guillermo Garcia-Badell, ‘Dressing the Metaverse. The Digital Strategies of Fashion Brands in the Virtual Universe’ in Ana Cristina Broega et al (eds.), *Advances in Fashion and Design Research: Proceedings of the 5th International Fashion and Design Congress, CIMODE 2022, July 4-7, 2022, Guimarães, Portugal* (Springer 2023) 395.

98 See Anndy Lian, *NFT: From Zero to Hero* (Anndy Lian 2022) 27 (noting that ‘The current NFT market participants are mostly crypto users’). See also *ibid* 393: ‘From the outset of this organic link between fashion and NFTs, digital native brands have forged the path that traditional analogue firms have followed. Lacking physical storefronts or well-known logos, their products have, nevertheless been embraced by a more technologically advanced cryptographic community’.

99 Claudia E. Henninger et al, *Sustainable Fashion Management* (Routledge 2023) 166

it has been observed that:

“What may prove tricky for Hermès is showing that the physical goods it is known for are so closely related to Rothschild’s digital MetaBirkins that consumers are likely to assume they originate from the same source. There are obvious differences in the products each party sells; the most glaring of which is that Hermès sells luxury tangible goods while MetaBirkins are intangible NFTs that only exist on a blockchain. At first glance, it may appear that MetaBirkins are the furthest thing from any product that Hermès sells, regardless of the name, but as more and more brands venture into the Metaverse, the likelihood of Hermès winning this argument increases.”¹⁰⁴

33 As pointed out in the above excerpt, the similarity between a physical good and a digital artwork representing such a good appears to be very remote at least at the first glance. But, in this case, Hermès has already produced evidence of actual confusion on the part of consumers about Hermès’s affiliation with Rothschild’s MetaBirkins collection.¹⁰⁵ Interestingly, the application of the multi-factor test to determine the similarity between phygital goods associated with NFTs and their physical counterparts would not be easy, yet, would be less challenging than applying the test to virtual goods or digital artwork tied to NFTs. However, when one takes into consideration the unconventional nature of NFTs, one is made to ponder whether the traditional tests of assessing similarity between goods and services are apt and fitting in the context of NFTs.¹⁰⁶

34 Evidently, the assessment of similarity between goods and services becomes important where a statutory provision embodies the specialty principle. In fact, when one looks at the scheme of the IP Act of Sri Lanka, it appears that several sections of the IP Act are based on the so-called specialty principle in trademark law. The principle of specialty denotes that ‘trademarks can only be protected in relation to the same or similar goods or services covered by their registration or use.’ A limited exception to this

are used are so related that consumers would mistakenly believe they come from the same source.”). (footnotes omitted).

104 Yoder (n 11) 12.

105 See *Hermès Int’l* (n 57).

106 See Jain (n 54) (‘Many companies have yet to submit trademarks for metaverse, digital art, or NFT, owing to the fact that NFTs are still relatively young. As a consequence, a rigorous interpretation of trademark law would infer that there is no trademark infringement because the goods and services are unique.’).

principle is envisaged in the case of well-known trademarks. Thus, Section 104 (1) (a) of the IP Act denies registration to a mark that is misleadingly similar to a mark that is registered or filed by a third party for identical or similar goods or services. Similarly, Section 104 (1) (b) of the IP Act denies registration to a mark that is misleadingly similar to a mark used earlier in Sri Lanka for identical or similar goods or services. In like manner, Section 104 (1) (d) first limb, refuses registration to a mark that is misleadingly similar to a mark well-known in Sri Lanka for similar goods or services. Furthermore, Section 160 (2) of the IP Act stipulates that ‘any act or practice carried out or engaged in, in the course of industrial or commercial activities, that causes, or is likely to cause, confusion with respect to another’s enterprise or its activities, in particular, the products or services offered by such enterprise, shall constitute an act of unfair competition’. Therefore, when applying these sections, the courts or the NIPO will have to ascertain inter alia the similarity between the concerned goods or services. However, the ostensible lack of harmony that persists between traditional criteria for assessing similarity between goods or services and NFTs-related products or artwork leave room for ample legal uncertainty.

III. Application of the exhaustion and nominative fair use defences

35 The principle of exhaustion which is recognized in both USA¹⁰⁷ and EU denotes that the trademark owner’s exclusive right to control the distribution of a trademarked good ‘does not extend beyond the first sale of the product and that the resale by the first purchaser of the original article under the producer’s trademark is neither trademark infringement, nor unfair competition’.¹⁰⁸ It must be noted however that exhaustion occurs, only with respect to the ‘goods’ which bear the trademark and which have been put on the market by the owner of such mark or with his consent. It by no means vitiates or transfers the trademark ‘right’ itself.¹⁰⁹ This is why, without

107 Sometimes, in the USA, this is referred to as the doctrine of first sale.

108 See Shubha Ghosh and Irene Calboli, *Exhausting Intellectual Property Rights: A Comparative Law and Policy Analysis*, (Cambridge University Press 2018) 66 citing *Sebastian International, Inc v Longs Drug Stores Corporation* 53 F 3d 1073, 1074 (9th Cir. 1995) (emphasis added).

109 Only those rights of resale and distribution which are available on that particular piece of good will get exhausted and other rights including the right to apply the mark on new products and commercialize such products shall remain exclusively with the trademark right holder.

Nike's permission, one can sell old Nike sneakers at garage sales, yet cannot manufacture and sell Nike-branded shoes.¹¹⁰ But most importantly, exhaustion doctrine encapsulates the idea that where trademark rights have been exhausted after the first sale of genuine trademarked goods by the trademark owner or with his consent, resellers not only enjoy the freedom of reselling, but they are also free to use the trademark in advertising that brings the further commercialization of the goods to the attention of the consumers.¹¹¹ The Court of Justice of the European Union recognized this principle in *Parfums Christian Dior SA and Parfums Christian Dior BV and Evora BV case*.¹¹² The court observed that:

"If the right to prohibit the use of his trade mark in relation to goods, conferred on the proprietor of a trade mark under Article 5 of the Directive, is exhausted once the goods have been put on the market by himself or with his consent, the same applies as regards the right to use the trade mark for the purpose of bringing to the public's attention the further commercialization of those goods. (...) If the right to make use of a trade mark in order to attract attention to further commercialization were not exhausted in the same way as the right of resale, the latter would be made considerably more difficult and the purpose of the 'exhaustion of rights' rule laid down in Article 7 would thus be undermined."¹¹³

- 36 The complex issue that arises in the context of NFTs is whether the use of an NFT by a reseller of genuine trademarked goods for the purpose of authenticating such physical goods, is tantamount to a mere exercise of the trademark owner's exhausted right to attract attention to further commercialization. However, the answer to that question depends on how one would characterize an NFT. It follows that, if

an NFT can be relegated to 'an advertising tag' on the physical goods legitimately purchased, then such use may not amount to trademark infringement. Yet, according to the court, what would be protected in terms of the exhaustion principle is the 'reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade'.¹¹⁴ Therefore, even if one considers an NFT as a mere advertising tag in this instance, the question remains whether its use constitutes an 'advertisement method that is customary in the relevant sector of trade'. The ensuing legal confusion undoubtedly reflects the friction between technology and law.

- 37 Furthermore, the court pinpointed in *Parfums Christian Dior SA and Parfums Christian Dior BV and Evora BV case* that the defence of exhaustion cannot be invoked 'where there are legitimate reasons for the proprietor to oppose further commercialization of trade-marked goods, especially where the condition of the goods is changed or impaired after they have been put on the market'.¹¹⁵ The court construed the term 'legitimate reason' to include even 'damage done to the reputation of a trademark'.¹¹⁶ Thus, it is axiomatic that the ability of the NFT owner to rely on this defence is further curtailed by the so-called legitimate interests of the trademark owner. Thus, the extension of the exhaustion doctrine to NFTs-related matters is a daunting task.

- 38 An equally confounding issue is the applicability of the 'nominative fair use defence' to situations where the NFT is used merely for the purpose of authenticating a physical product. Nominative fair use is a judge-made doctrine that allows the use of a trademark by a [non-owner] to describe the trademark owner's goods or services if that use does not cause consumer confusion.¹¹⁷ Hence, 'use of a mark to identify the mark holder's product or service, rather than the secondary user's is nominative fair use'.¹¹⁸

- 39 A three-part test has been developed in the USA case

110 Cramer and O'Rourke (n 45) 2.

111 See Martin Senftleben, 'Intermediary Liability and Trademark Infringement: Proliferation of Filter Obligations in Civil Law Jurisdictions?' in Giancarlo Frosio (ed.) *Oxford Handbook of Online Intermediary Liability* (Oxford University Press 2020) 390. See also: Apostolos G. Chronopoulos and Spyros M. Maniatis, 'Common Law and Civil Law Approaches to Trademark Exhaustion in Europe: The Distribution Function of Trademarks' in Irene Calboli and Jane C. Ginsburg, *The Cambridge Handbook of International and Comparative Trademark Law* (Cambridge University Press 2020) 572 ('a trademark proprietor has no authority to control by virtue of their exclusive right the further commercialization of trademarked goods already placed on the market with their consent').

112 *Parfums Christian Dior SA and Parfums Christian Dior BV and Evora BV case* (Case C-337/95) [1997] ECR I-6013

113 *ibid* I - 6046

114 *ibid* I-6049 (emphasis added).

115 *ibid* I - 6048

116 *ibid*.

117 Jordan Phelan, 'Infringement or Identification?: Nominative Fair Use and the Resale of Luxury Goods' (2022) 91 *Fordham L Rev* 757, 759.

118 Aaron Schwabach, *Internet and the Law: Technology, Society, and Compromises: Technology, Society, and Compromises* (2nd edn. ABC-CLIO 2014) 110.

New Kids on the Block v. News America Publishing, Inc.,¹¹⁹ for evaluating nominative fair use: (1) whether a product or service can be easily identified without using the trademark; (2) whether the mark is only used so much “as is reasonably necessary” in order to identify the product or service; and (3) whether the user of the mark can do anything that, in combination with the use of the mark, would imply that the trademark holder endorsed or sponsored the use.¹²⁰ The issue that crops up in the context of NFTs is whether the use of an NFT to authenticate genuine products of the trademark owner can be justified on the ground of ‘nominative fair use’. The answer however depends largely on how NFTs are characterized. Even then, the NFT owner might find it challenging to establish that the use so contemplated by the NFT does not exceed the limitation imposed by the second criterion. The second criterion, in essence, involves ‘an evaluation of whether the use was unreasonably excessive in the context of an otherwise legitimate use’.¹²¹ Aaron Schwabach, for example, states that the use of the Volkswagen logo (rather than merely the name) to advertise the repair shop’s services would not be insulated against liability on the basis of nominative fair use as such use would be deemed as “more than reasonably necessary to identify the service”.¹²² Despite the perplexing legal issues that emanate from the extension of the defences of exhaustion and nominative fair use to the NFTs authenticating physical assets; one must understand that protecting the resale market is of singular importance.¹²³ This principle would apply equally to the resale market involving NFTs. It has also been highlighted that:

“It has been repeatedly acknowledged that the producer of a good cannot prevent others from using the good’s mark to truthfully describe the good. This basic belief is the foundation for both nominative fair use and first sale defenses, and “reflects the simple insight that anybody should be free to refer to goods and services by their brand names.”¹²⁴

119 971 F.2d 302 (9th Cir. 1992).

120 *ibid* at 306, 308. See Phelan (n 117) 773.

121 Chronopoulos and Maniatis (n 111) 550.

122 Schwabach (n 118) 234. (emphasis added).

123 See Yvette Joy Liebesman and Benjamin Wilson, ‘Trademark Exhaustion and the Internet of Resold Things’ in Irene Calboli and Edward Lee (eds.), *Research Handbook on Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar 2016) 439 (‘Protecting the resale market increases consumer choice and spurs mark owners to innovate and bring new and improved products to the market.’).

124 *ibid* 431.

40 In the ongoing case of *Nike Inc. v. StockX LLC*,¹²⁵ the USA courts will be compelled to wander into this hazy legal terrain. The case involves Nike filing a lawsuit against StockX, the operator of an online resale platform that sold NIKE sneakers amongst other things, on the ground that “[w]ithout Nike’s authorization or approval, StockX is ‘minting’ NFTs that prominently use Nike’s trademarks, marketing those NFTs using Nike’s goodwill, and selling those NFTs at heavily inflated prices to unsuspecting consumers who believe or are likely to believe that those “investible digital assets” (as StockX calls them) are, in fact, authorized by Nike when they are not’.¹²⁶ StockX contends however, ‘that each of its Vault NFTs is tied to a specific product, such as a pair of Nike sneakers it bought second-hand from its rightful owner, which is being sold on its marketplace’.¹²⁷ Furthermore, StockX ‘opines that Nike’s complaint ignores “settled doctrines of trademark law, including the doctrines of first sale and nominative fair use,” and argues that their NFTs are more like claims tickets, title trackers, or receipts than products’.¹²⁸ However, an interesting feature of this NFTs-related reselling scheme is that ‘[t]he purchaser will not get possession of the sneakers unless the purchaser gives up the NFT (StockX calls this “redeeming” the NFT)’.¹²⁹ But the crucial question is whether StockX’s use of the NFT embodying the NIKE trademark can be justified in terms of the doctrine of exhaustion and nominative fair use. The view has been expressed that:

“Together, First Sale and Nominative Fair Use are why the product-receipt distinction matters: A new product, including a virtual product bearing another entity’s trademark, cannot be offered for sale without permission from the mark’s owner, whereas a mere receipt (which could take the form of a physical piece of paper, an email, or a digital token

125 *Nike Inc.* (n 58).

126 Case 1:22-cv-00983 <<https://www.documentcloud.org/documents/21565635-nike-v-stockx>> accessed 15th January 2023.

127 Kushman (n 60).

128 Cramer and O’Rourke (n 45). See also Brennan (n 55): ‘StockX further answered that its NFTs do not violate any of Nike’s rights for the following three reasons: (i) StockX’s resale of genuine Nike products is protected by the first sale doctrine; (ii) StockX’s use of images and names of genuine Nike products tied to “Vault NFTs” constitutes nominative fair use; and (iii) consumers are unlikely to be confused by StockX’s Vault NFTs’.

129 Murray (n 3).

on a blockchain) requires no such permissions.”¹³⁰

- 41 Thus, according to this approach, the applicability of the two defences will depend on whether an NFT is characterized as a ‘product’ or ‘receipt’. However, as already highlighted, the deep-rooted problem of the characterization of NFTs is wrapped in controversy and is manifested by the definition muddle of NFTs. Apart from the bizarre nature of NFTs, their incredible commercial value also adds to the complexity of the problem. For example, it has been commented that an ‘NFT is the actual thing being purchased, and it is the valuable item in an ownership and “ownership” sense’.¹³¹ Hence, ‘the NFT obviously is separate in value as indicated by the pricing of the sneakers alone vs. the pricing of the Vault NFT, and the NFT is a different item because you cannot possess both the NFT and the sneakers’.¹³² Specifically, with regard to the NIKE scenario, It has been pointed out that ‘this price disparity suggests that, at least in the mind of some consumers (...) there was confusion about whether Vault NFTs were merely a means of authenticating and demonstrating ownership of physical sneakers or were a unique asset with a value distinct from their physical asset counterparts’¹³³. Notably, ‘[i]f Vault NFTs are determined to be separate assets, then StockX’s argument that it is protected against Nike’s claims of trademark infringement by the first sale doctrine becomes more tenuous’.¹³⁴ Although when one looks at the NFT architecture an NFT hardly qualifies as an independent asset, when one considers its extremely high commercial value, designating an NFT as a mere receipt or ticket would seem to be a misnomer.

- 42 In any event, treating this question as simply a problem of nomenclature is an oversimplification of the issue. Finding a proper definition alone will not

be dispositive of this problem, as one also needs to look into more intricate issues such as whether the legitimate interests of the owner of the trademark warrant the invoking of the doctrine of exhaustion or whether the criteria used to evaluate nominative fair use justify the use of the principle. However, where the Sri Lankan legal landscape is concerned, the problem appears to be even more complicated. The law relating to trademark exhaustion in Sri Lanka is laid down in Section 122 (b) of the IP Act. The said Section states as follows:

Section 122 -The registration of the mark shall not confer on its registered owner the right to preclude third parties –

(b) from using the mark in relation to goods lawfully manufactured, imported, offered for sale, sold, used or stocked in Sri Lanka under that mark, provided that such goods have not undergone any change.

- 43 Unfortunately, it is not at all clear from this provision whether this Section recognizes national or international exhaustion. In the absence of clear statutory language, the term ‘lawfully imported goods’ can even encompass goods lawfully purchased by third parties from markets outside the national borders. Based on this interpretation, the argument can be advanced that Section 122 (b) of the IP Act does recognize ‘international exhaustion’. Yet, as the term ‘lawfully imported’ is not defined in the IP Act and there is an absolute dearth of judicial precedents delineating its scope, this interpretation is open to debate.¹³⁵ Thus, the controversy stemming from this ambiguous statutory provision can raise problems where the product which is authenticated by the NFT is in fact a parallel import. In such a case, the creator of the NFT cannot legitimately rely on the principle of exhaustion if Section 122 (b) does not recognize international exhaustion. Conversely, however, if Section 122 (b) is construed as allowing parallel imports then the NFT owner can rely on the principle of exhaustion in such a situation, provided other legal impediments are successfully removed. By way of contrast, the particular scheme of exhaustion embraced by certain other jurisdictions has sometimes been judicially or statutorily affirmed creating legal certainty. In the EU for example, the courts have confirmed the applicability of the principle of regional exhaustion.¹³⁶ Even with regard

130 Cramer and O’Rourke (n 45). See also Andrew C. Michaels, ‘NFT Litigation is Raising Novel Trademark Questions, Law’ [2022] Law360 <<https://www.law360.com/articles/1521677/nft-litigation-is-raising-novel-trademark-questions>> accessed 24th December 2022. (The author expresses a similar idea when he raises the question: ‘Does buying a trademarked item give the buyer the right to create NFTs depicting the item? The answer may depend on whether the NFTs are considered a separate — or materially different — product, or whether the NFTs are — as StockX claims — merely a technological means to enable secondary trading and track ownership of a physical item’).

131 Murray (n 3).

132 *ibid.*

133 Kushman (n 60).

134 *ibid.*

135 For a discussion on the principle of exhaustion, see Karunaratna, (n 70) 262.

136 See Irene Calboli, ‘Trademark Exhaustion in the European Union: Community-Wide Or International? The Saga Continues’ (2002) 6 *Marquette Intellectual Property Law Review* 84. (‘At least for the time being, the ECJ has made clear that EEA-wide exhaustion is the only applicable criterion within the internal market, and national rules

to the USA, it has been acknowledged that it 'follows a system of international exhaustion with respect to trademark law and trademarked products'.¹³⁷

- 44 It is appropriate at this juncture to also mention the anomaly which pervades the nominative fair use defence paradigm in Sri Lanka. There is no explicit recognition of the nominative fair use defence in the IP Act. However, other than Section 122 (b), the only provision which contemplates a diminution of the legal rights granted to the registered trademark owner is Section 122 (a) which provides as follows:

"The registration of the mark shall not confer on its registered owner the right to preclude third parties – (a) from using their bona fide names, addresses, pseudonyms, a geographical name, or exact indications concerning the kind, quality, quantity, destination, value, place of origin or time of production or of supply of *their goods and services*, in so far as such use is confined to the purposes of mere identification or information and cannot mislead the public as to the source of the goods or services"¹³⁸

- 45 But a cursory reading of this provision reveals that it seeks to curtail the rights of the trademark owner on the basis of descriptive fair use rather than nominative fair use. It protects third parties who use registered trademarks for the purpose of designating the kind, quality, quantity, destination, value, place of origin or time of production or of supply of *their goods and services*. This clearly juxtaposes with the nominative fair use defence which protects third parties who use the registered trademarks to reference the *trademark owner's products or services*.¹³⁹ If the courts in comparative jurisdictions display a receptive mindset towards the defence of nominative fair use in NFTs-related matters, the non-recognition of the defence both in terms of the IP Act and judicial precedents in Sri Lanka can be extremely prejudicial to the owners of NFTs. Contrastingly, in the USA, under the law of trademark infringement nominative fair use is judicially created, whereas, under dilution law, the defense is statutory, established by the Trademark

Dilution Reform Act¹⁴⁰ of 2005.¹⁴¹ In a similar vein, the referential use defence which is the EU counterpart of the nominative fair use doctrine, is statutorily embedded. It is recognized in Article 14 (1) (c) of the EUTMR No. 2017/1001.¹⁴²

IV. Application of statutory remedies to NFTs.

- 46 Another grim issue is the enforcement of injunctions and certain other remedies against the creators of infringing NFTs. For example, a court order demanding the creator of the infringing NFT to remove from commerce or delete the impugned NFT could prove very tricky. In *Juventus F.C. v Blockeras s.r.l.*,¹⁴³ the Rome Court of First Instance issued an injunction ordering Blockeras inter alia to 'withdraw from the market and remove from every website and/or from every page of a website directly and/or indirectly controlled by the same on which such products are offered for sale and/or advertised, the NFTs (non-fungible tokens) and the digital contents associated therewith or products in general covered by the injunction'.¹⁴⁴ However, the infringing NFTs still appear on the relevant blockchain.

- 47 The reason is that 'none of the data in the blockchain can ever be deleted -That is by design. Therefore, all [the] data, once exposed cannot be deleted or changed'.¹⁴⁵ This quality of NFTs is attributable to the so-called immutability of the blockchain technology that underlies NFTs.¹⁴⁶ Nevertheless, several other

140 15 U.S.C. § 1125(c) (3).

141 Samuel M. Duncan, 'Protecting Nominative Fair Use, Parody, and Other Speech-Interests by Reforming the Inconsistent Exemptions from Trademark Liability' (2010) 44 University of Michigan Journal of Law Reform 219, 227.

142 Article 14 (1) (c) states that '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'.

143 *Juventus F.C.* (n 61)

144 Trevisan and Cuonzo, 'Unofficial Translation' <https://www.trevisancuonzo.com/static/upload/juv/juventus-nft-order---en.pdf> accessed 10th June 2023.

145 Chris Duffey, *Decoding the Metaverse: Expand Your Business Using Web3* (Kogan Page 2023) 130

146 See Dwayne Anderson, *Non Fungible Tokens NFTs* (Estalontech 2021)11

providing other exhaustion regimes are in contrast with Article 7(1) of the Trademark Directive').

137 Irene Calboli, 'The (avoidable) effects of territorially different approaches to trademark and copyright exhaustion' in Irene Calboli and Edward Lee (eds), *Trademark Protection and Territoriality Challenges in a Global Economy* (Edward Elgar 2014) 158.

138 Section 122 (a) of the IP Act (emphasis added).

139 See Mary Minow and Tomas A. Lipinski, *The Library's Legal Answer Book* (American Library Association 2003) 98.

means are available to the NFT owner to prevent its further circulation. Thus, the view has been expressed that '[e]ven though you can't delete an NFT, you can technically "burn" an NFT. Burning an NFT sends the NFT to a null or "burn" address. While the NFT still exists on the blockchain, it is effectively out of circulation and distribution'.¹⁴⁷

48 In *Nike Inc. v. StockX LLC*¹⁴⁸, Nike has *inter alia* sought an order that StockX be required to deliver to Nike for destruction any and all Vault NFTs bearing Nike's marks.¹⁴⁹ If the court actually grants the relief requested by Nike, the next question is how they can effectuate the destruction of the infringing NFTs. The idea has in fact been expressed that 'the most practical thing for Nike to do would be to send the NFTs to a so-called burner wallet. This wouldn't destroy them but still achieve the same purpose.'¹⁵⁰ This has in fact been compared 'to a luxury brand seizing knock-off goods and then sticking them in a secure warehouse and throwing away the key'.¹⁵¹

49 Where the Sri Lankan trademark legal regime is concerned, the IP Act offers a blend of criminal and civil remedies to an owner of a trademark. However, several provisions of the IP Act dealing with criminal and civil remedies available to a trademark owner make reference to the term 'destroy'. For instance, Section 170 (3) (a) of the IP Act which deals with civil remedies for infringement of intellectual property rights recognized under the IP Act states that:

"The court shall have the power to order—

147 'How do you delete an NFT? What does it mean to burn an NFT and how to do it through Etherscan' (*Saminacodes* 30th June 2022) <<https://samina.dev/how-do-you-delete-an-nft>> accessed 5th February 2023. See also 'What Is Burning An NFT? A Complete Guide And Explanation' (*NFTexplained.info* 2023) <<https://nftexplained.info/what-is-burning-an-nft-a-complete-guide-and-explanation/>> accessed 23rd December 2023; (An NFT can't be 'deleted', however it can be 'burned'. Once an NFT is minted or uploaded to the blockchain, it is considered immutable; this means it will exist on the blockchain forever. An NFT can be 'burned' by being sent to an inaccessible address, as it is removed from circulation.)

148 *Nike Inc.* (n 58).

149 Case 1:22-cv-00983 <<https://www.documentcloud.org/documents/21565635-nike-v-stockx>> accessed 15th January 2023.

150 Jeff John Roberts, Nike Wants to 'Destroy' Unauthorized NFTs—How Will That Work? (*Decrypt* 1st April 2022) <<https://decrypt.co/96456/nike-destroy-unauthorized-nfts-how-will-that-work>> accessed 12th January 2023.

151 *ibid.*

(ii) the infringing goods to be disposed of outside the channels of commerce or to be destroyed without the payment of any compensation";

50 Similarly, Section 186 (5) of the IP Act which provides for criminal sanctions in relation to 'other offences as to marks and trade descriptions' stipulates that:

"The Magistrate may, whether the alleged offender is convicted or not, order that every chattel, article, instrument or thing by means of or in relation to which the offence has or might have been committed shall be destroyed or declared forfeit to the State or otherwise dealt with as he may think fit."

51 If the local courts encounter NFTs-related trademark infringement cases in the future, it remains to be seen if the courts will leverage their creativity and interpret the word 'destroy' to include 'burning' in the context of infringing NFTs.

C. Conclusion:

52 The above analysis reveals several pitfalls in the current trademark legal regime in Sri Lanka with regard to NFTs-related trademark issues. Although it may still be premature for the Sri Lankan legal regime on trademarks to embrace fully blown, stand-alone legal provisions relating to NFTs, certain improvements can be made to the existing law with a view to enhancing its ability to tackle NFTs. For instance, some objective parameters can be laid down to establish its character, including, whether an NFT is to be treated as a cryptographic asset, a digital certificate or a unique unit of data, when it authenticates a virtual good, a physical good and digital art respectively, since adopting a bright-line definition for NFTs may be a challenging task. With regard to the gaps that exist in the classification vis-à-vis the categorization of NFTs-related goods or services, some guidelines can be issued by the Minister using the powers vested in him by the IP Act itself. Judiciary should be enlightened on the inappropriateness of faithfully adhering to the traditional judge-made criteria for assessing similarity between goods and services, where NFTs are concerned. It is also high time that Sri Lankan trademark law regime resolves the puzzling issue of whether it recognizes international or national exhaustion. At the same time, it is prudent to statutorily recognize the defence of nominative/referential fair use. The last two suggestions will have an overarching effect on the entire trademark ecosystem in Sri Lanka and specifically on the trademark defences legal landscape. Although NFTs-related trademark disputes have not yet been reported in Sri Lanka, one cannot guarantee that there will be no such disputes in Sri Lanka in the near

future. Therefore, this paper advocates a proactive approach to NFTs-related legal issues in Sri Lanka, taking into consideration the developments in the USA and EU.