

Impact of digitalisation and legal tech on IP law: part four – NFTs

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The days when lawyers could afford to think that digitalisation was irrelevant in legal services and clients could afford to have lawyers who had no idea about technology are over. This series of articles discusses digitalisation and legal tech in the context of their use in IP law.⁽¹⁾ As part four of this series, this article explores the IP aspects of NFTs and how they interact with copyright and trademarks.

Concept of NFTs

Non-fungible tokens (NFTs) are proof of ownership of intangible goods (such as images, videos or soundtracks), which are usually sold as the digital equivalent of a physical work.

From a technical point of view, NFTs are simple datasets that contain information about a digital creation and its owner. What makes NFTs special is that they are based on blockchain technology. Information in connection with an NFT (such as, for instance, its creator, its owner and the digital creation to which the NFT is connected)⁽²⁾ is stored in the blockchain.⁽³⁾ Said information is unchangeable and objectively verifiable. The origin and the entire ownership history of each token can thus be unambiguously proven, and the rights to it securely transferred – which has made NFTs a much-desired digital asset in recent years. Therefore, NFTs are more comparable to physical works of arts (eg, a painting) than to conventional digital creations (eg, an image file) which can usually be copied freely.

Can third parties create NFTs linked to digital equivalents of branded products?

Whether third parties are allowed to create NFTs linked to digital equivalents of branded products depends firstly on whether the branded product is protected by copyright law. If this is the case, only the creator of the (physical) equivalent is entitled to mint a token under the Austrian Copyright Act, according to learned opinion (there is no case law yet in Austria). "Minting" means creating a token on a blockchain that is linked to the metadata of a digital creation and uploading it. In this context the view is taken that minting qualifies as "reproduction" within the meaning of section 15 of the Austrian Copyright Act if all data records of a digital work are recorded in an NFT. If the NFT is uploaded and stored on a public blockchain, its creation should also be considered as making available to the public within the meaning of section 18a of the Austrian Copyright Act.

Therefore, the right to create an NFT linked to a digital creation of a copyright-protected branded product would lie with the rights owner of the physical work (or with a third party having obtained this right from the initial rights owner). The rights holders could raise all claims provided for by the Copyright Act (ie, cease and desist claim, removal claim, claim for information, claim for rendering account or claim for money).

In case the owner of the copyright-protected physical work has transferred the rights of use and exploitation to a third party, it is questionable and probably unlikely that the transfer of the right of use also covers the creation of an NFT if a right to create NFTs is not also granted.

If the branded physical product is not protected by copyright, the right of the trademark holder to fight NFTs linked to digital equivalents depends on the question of whether the brand owner also owns a trademark for NFTs linked to digital products (there may be exception as the *Hermès* case had shown but in general the owner of the branded products would also need a trademark for NFTs linked to the digital equivalents).

What to pay attention to when purchasing NFTs: transferred rights in NFT transactions

The transfer of an NFT leads to a (new) entry in the blockchain, usually designating the new "owner" of the NFT. However, in the absence of any legal regulation or case law regarding the transfer of an NFT, all legal consequences of the transfer must be laid down in the respective purchase or licence agreement. In particular, attention should be paid to the fact that the mere acquisition of "ownership" of an NFT under property law⁽⁴⁾ does not automatically grant the right to commercially use the NFT. It is thus crucial to specify exactly which rights are transferred and which are not, in particular in regard to reproduction rights and right of making available to the public (under sections 15 and 18a of the Austrian Copyright Act).

Is it possible to file trademark applications for NFTs?

In its 12th edition of the Nice Classification, which has been applicable from 1 January 2023,⁽⁵⁾ the EU Intellectual Property Office (the EUIPO) has incorporated the new term "downloadable digital files authenticated by non-fungible tokens [NFTs]" into class 9 of the Nice Classification, listing NFTs separately for the first time.

In its guidelines, EUIPO provides that it treats NFTs as "unique digital certificates registered in a blockchain, which authenticate digital items but are distinct from those digital items". The NFT application must specify the specific type of digital creation that is authenticated by the NFT (eg, "downloadable music authenticated by NFTs") – the term "NFT" alone is not considered to be enough. The goods covered by the application are the digital creations linked in the NFT (not the dataset itself).

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Endnotes

(1) For other articles in this series, please see:

- ["Impact of digitalisation and legal tech on IP law: part one – blockchain and smart contracts"](#);
- ["Impact of digitalisation and legal tech on IP law: part two – cloud computing and SaaS"](#); and
- ["Impact of digitalisation and legal tech on IP law: part three – e-commerce challenges for companies distributing products online"](#).

(2) The digital creation to which the NFT is connected can either be integrated directly into the NFT (on-chain NFT) or – which is usually the case due to the size of the data – linked via a hyperlink in the NFT (off-chain NFT).

(3) Part one of this series explains the concept of blockchain technology (for further details, please see ["Impact of digitalisation and legal tech on IP law: part one – blockchain and smart contracts"](#)).

(4) Since NFTs are code that is stored in a decentralised manner (on a blockchain), according to the prevailing opinion in the Austrian literature, they cannot be qualified as a "physical" thing. However, since ownership can exist not only in corporeal things but also in incorporeal things (eg, claims), according to the prevailing opinion in the Austrian literature, there can also be ownership in NFTs.

(5) Available [here](#).