

NFTs, Intellectual Property and Other Legal Considerations: A Wake-Up Call

Ahmad Saleh - Partner, Head of Innovation, Patents & Industrial Property - Innovation, Patents & Industrial Property (3IP)

ah.saleh@tamimi.com - Dubai International Financial Centre

Umme Salamah Tyejee - Senior Associate - Innovation, Patents & Industrial Property (3IP)

u.tyejee@tamimi.com - Dubai International Financial Centre

Reem Albudoor

R.Albudoor@tamimi.com - Dubai International Financial Centre

We are hearing a lot in the news, on social channels and even from friends and colleagues about NFTs. Some of us might have even minted some. But what exactly is an NFT? What IP and other legal considerations we should keep in mind while minting and listing NFTs? In this article, we break down and demystify some important technical and legal aspects relating to NFT's. This is a complex topic, which we broke down and simplified for ease of reading. After all, as Einstein said "if you cannot explain it simple, you don't understand it well enough".

What is an NFT?

A non-fungible token ("NFT") can be seen as a unique and immutable crypto-asset which sits on an NFT platform operating over Blockchain, where the NFT is normally designed to store a digital content and a smart contract associated to the way the NFT is being transacted over the platform.

NFTs can be used to represent digital items such as photos, videos, audios, artistic work, and other types of digital data encoded on the Blockchain.

Can an NFT be replaced or amended ?

Once an NFT is minted (created) and listed on the NFT platform, it will be time-stamped and cannot be swapped for an identical replacement, and neither will it be possible to edit or amend its digital content.

Can an NFT be removed from the NFT platform ?

Also, it will be very difficult to burn the NFT (remove from the NFT platform) once listed as normally only the creator and original owner of the NFT can burn it. Once the NFT is sold by the original creator/owner, ownership of the NFT is passed to the purchaser and the original owner/creator loses control over the NFT. A way to burn it would be for the original owner/creator to purchase back the NFT from the subsequent owner which might not be practically possible to do (i.e. high price due to substantial value fluctuations of crypto-assets, or refusal of the new owner to sell it back).

Are NFTs commercial?

Yes, once the NFT is listed on the NFT platform for transactional purposes. The latter can be seen as a marketplace for transacting NFTs. NFTs are sold and traded on NFT platforms typically through the cryptocurrency, Ethereum. Sellers can choose to list NFTs at a fixed price or an auction where they are listed on an open market.

An NFT can be transacted indefinitely over the NFT platform, where subsequent sale transactions may result in a royalty to the original owner/creator.

Why are NFTs becoming increasingly popular?

For NFT collectors, NFTs allow them to solely own unique digital content the value of which is associated to a crypto-currency which has been gaining increasing traction in recent years, and with an expectation from many to hike in the future.

For NFT creators, there has been an increasing need to display and sell items outside of the traditional physical space such as exhibitions, galleries, and salons. NFTs offered a good alternative to traditional online marketplaces, particularly for digital work.

What is the process of creating NFTs?

NFTs are created using digital information, which may include images, videos, sounds, text or a combination thereof (the “**NFT Content**”). The process implies creating the NFT Content and uploading the same on an NFT platform, which is typically on the Ethereum Blockchain. There are a number of NFT platforms which are used to mint and transact NFTs. Opensea is one of the most popular platforms for this purpose. Some NFT creators also post their NFT Content on social media, such as Instagram, for marketing purposes. In this case, the posts would include links to their respective NFTs on the NFT platform, which users can access to view the NFTs and purchase in case of interest.

What do I get when I purchase an NFT?

Purchasing an NFT only gives you ownership right to the NFT itself, unless expressly agreed otherwise between the seller and the buyer. You would also get an implicit IP right to use the digital content of the NFT to exploit the digital content on the NFT platform. Some NFTs are also associated with the sale of physical products, and in such cases the description of the NFT on the platform would mention that the physical product will be shipped to the purchaser upon completion of the transaction.

Do I have the right to the IP associated to the digital item when I purchase an NFT?

The short answer is No. IP rights associated with the NFT Content are not assigned to you as an NFT

purchaser. This is the same when you buy a physical item or product which gives you the right to the physical product itself and not to the underlying IP. This is unless expressly agreed by through a separate agreement between the IP owner and the NFT purchaser. The smart contract encoded within the NFT does not provide for the possibility to stipulate for such a transfer of IP rights though. Any such IP assignment (or license beyond the implicit license) must be provided under a separate agreement. The way an NFT listing is designed on popular NFT platforms allow the NFT creator to stipulate these rights in the description of the NFT listing, however the enforceability of these terms are currently uncertain and which would depend on the applicable laws.

What should NFT creators be aware of during the creation process?

It is very important for NFT creators to ensure that the digital content they use in their NFTs is legally compliant. This includes ensuring that the content does not infringe over other parties' rights such as privacy and intellectual property rights. NFT creators must note that digitalising existing content belonging to other entities, whether it is art, text or shapes of articles, would likely imply a high risk of intellectual property infringement, which is recommended to be avoided.

What kind of IP infringement are more likely to occur over an NFT platform?

The type of IP infringement would depend on the nature of the NFT Content and any associated physical item, and their associated IP rights. These may include copyright, industrial designs, patents, trademarks, and trade secrets.

What is an example of a possible copyright infringement associated with an NFT?

An example of copyright infringement may be minting the NFT using a digital copy of an existing work owned or created by another person, or reproducing the shape of a product or article. Such an existing work or article may be protected as a copyright by another entity. It is to be noted that in most jurisdictions, copyright has a term that spans throughout the life of the author plus either 50 or 70 years after the author's death.

Can I benefit from the exception of fair use on the NFT to avoid infringement?

The exception of fair use is unlikely to apply for listed NFTs in our opinion. Fair use requires use of a copyrighted material in specific scenarios prescribed under the law for non-commercial purposes. The commercial aspect is dominant in the case of listed NFTs, as minting and transacting NFTs involve

cryptocurrency payment whether through the initial sale price between the NFT sellers and the NFT purchasers and/or through the subsequent royalty payments to the original NFT creator in certain cases. Payment through cryptocurrency would amount to commercial consideration, in which the fair use exception would likely not apply.

How can an NFT creator avoid copyright infringement?

An NFT creator can:

1. Use his own independent creation without reproducing another entity's work;
2. Use content with no copyright associated to it;
3. Use content which is already on the public domain with expired copyright;
4. Seek a license from the copyright owner associated to the content used;
5. Use licensed content by purchasing these from licensed digital libraries or collection societies, and ensuring that the license extends to reproducing these images for NFT activities.

What is an example of a possible patent or industrial design infringement in an NFT?

Many companies protect the visual appearance associated with their products through industrial designs, as well as technical features underlying these products through patents. The patent/design owner can prevent third parties from making, offering for sale, selling, using or importing articles bearing or embodying a design or a feature protected by a patent or industrial design. Listing NFTs associated with articles protected by a patent or industrial design may lead to industrial design and patent infringement. Shipping such a physical product to the NFT purchaser may also amount to patent and design infringement.

What is an example of a possible trade secret infringement in an NFT?

Trade secrets protect confidential information against unauthorized disclosure, use or acquisition. Liability extends not only to the person who has unlawfully disclosed the information (such as an employee for example), but also to persons who use or acquire such information knowing that the information has been obtained or disclosed to them illegally without the trade secret's owner authorization. Negligence by a person who acquires and uses the information may be liable depending on the applicable law.

When the NFT Content includes unauthorized confidential information, the NFT creator and subsequent transacting users may be liable for trade secret infringement, if their activities are considered to be made in bad faith, breaching the trade secret owner's rights under the applicable law.

An example of such a breach is if a video is made about a confidential chocolate manufacturing process belonging to a specific company, and the video is minted and transacted as an NFT.

What other potential legal challenges should I keep in mind while transacting NFTs?

The legal regime associated with NFTs is still evolving and currently in most jurisdictions, there are no laws or regulations that specifically govern NFTs. Due to the technical complexity of Blockchain and the way it is quickly evolving, foreseeing all the possible actions over Blockchain and legal consequences associated with these will be a challenge to users and authorities alike.

Potential legal challenges and disputes include privacy rights, image rights, securities laws, fraud, consumer protection, taxation and others.

Which Court or Law will be applicable in case of legal dispute?

The question of competent jurisdiction and applicable laws is one of the complex legal aspects revolving around NFTs.

One of the complexities is that blockchain servers are decentralised and exist in many areas of the world, and therefore pinpointing where a legal breach occurred, and taking the necessary cross-border measures, may be extremely challenging.

The domicile of the seller, buyer, and/or the NFT platform are factors which may be taken into account for determining jurisdiction of a particular claim.

Would cyberspace and technology laws apply to Blockchain?

Yes, as long as they apply to the specific action conducted over Blockchain. However, the reality is that a Blockchain network does not exactly work in the same manner as traditional computer networks in cyberspace. This is because a blockchain is a “decentralised” network rather than a “centralized” network, meaning that information found on Blockchain may be stored over computer nodes rather than stored in a single server. This makes legal consequences associated with some actions made on the Blockchain different from those made on traditional centralized computer networks. Implications may vary depending on the type of entity involved, how the data is being stored, and the transactions taking place, such as data host liability for example.

What do we recommend to users?

NFT users are recommended to take a conservative approach while dealing and transacting NFTs as the existing applicable laws and regulations would still apply (subject to the appropriate interpretation) to the creation, use and exploitation of NFTs. As Blockchain is currently under regulated, many illicit, fraudulent or harmful activities may take place over NFT platforms and due diligence and care is recommended for NFT users. Also, it is recommended to speak with your attorney before engaging in any activities on an

NFT platform to avoid the risk of potential issues.

Purpose & Disclaimer

In this article, we simplified certain complex principles for ease of reading and understanding about this topic. We expect that readers, both NFT enthusiastic and legal professionals, build on the fundamental principles explained in this article to shape and expand on certain areas, which would help the advancement of this space. This article should be treated as general information only and not as a legal advice.

How can we help?

Al Tamimi & Company's Innovation & Patents Practice comprises IP lawyers, patent attorneys, engineers and technical experts, as well as business consultants regularly advising clients in wide range of Intellectual Property and commercial matters pertaining to R&D and innovations, including securing and enforcing IP legal protection for innovative products and technologies in various industries including Blockchain & NFTs. For further information please contact [Ahmad Saleh](#), Partner and Head of Innovation & Patents (a.saleh@tamimi.com).