

## **“NFTs: Future or Fad?” Excerpts From A Practical Discussion of NFT Use Cases and Copyright Concerns Raised by NFT Offerings**

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The current hype cycle surrounding non-fungible tokens, or NFTs, has been going on for close to two years. As we continue to move through this phase and into whatever is next, it is important to look at the current use cases out there and some of the intellectual property issues facing companies that avail themselves of this technology. What follows are excerpts from my contributions to a discussion panel that took place in November 2021, modified as necessary for clarity and for the purposes of this Article.

The first question one might ask is, “Why are companies choosing to enter into the NFT space in the first place?” I represent content owners—more specifically, large-scale content owners. For most of them, they’ve got a portfolio of content and they’re looking for ways to engage with their fans.

In the gaming industry in particular, there is an active and robust community that is very interested in new ways to interact with whatever property that community members have a specific interest in. So, for example, devoted fans of a game like *Halo* are going to be actively engaged in that game and may want to interact with the game in a different way. NFTs for the video game industry have offered a way for content owners to further fan engagement with particular games, in the same way that “skins” and various offerings for in-game avatars offered additional engagement for their fans. With NFTs, there’s an added dimension of ownership in a piece of property. They’re buying some sense of, “I get to be a part of this game, and I get to own a piece of property that’s related to the game.” So, from a content-owner perspective, NFTs are furthering the content owners’ reach within the community that they already have, and also providing the ability to expand into a new audience that might not otherwise have engaged with a game, because there is the new concept of, “Look, I get to actually participate in *and* own a piece of this game.” So NFTs offer a new way for fans to engage and interact with the games.

Once clients who are major content owners in the film and television industries choose to enter into the NFT space, the first thing we will ask is, “What rights do you have to grant?” Let’s say a content owner has a property that they really like and

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want to promote. Okay, that's great—but copyright is a "bundle of rights" that comprise the whole, and you have to figure out where each stick in the bundle goes.

The suit against Quentin Tarantino that was recently filed by Miramax is a perfect example of that.<sup>1</sup> In the Miramax-Tarantino suit, certain reserved rights were set forth in a separate agreement between Tarantino and the studio when he originally granted rights in *Pulp Fiction* to the studio. But where those rights fall and how to dissect them are things that we have to grapple with at the inception point. Certainly, if you're representing a major studio, they've got some rights. It's often just a matter of saying, "Okay, we're going to work through those issues later to determine which rights the studio actually has." What we typically do is work through the question of what the client wants to do—what rights do they want to grant to ultimate purchasers? We also consider how the client can effectuate that grant of rights through a platform that's going to allow them to engage with their community in a unique way. A lot of what I hear from my clients is: "We want to have an engaging environment with our community that allows us to further the property, the engagement with their community, the fan relationship that they've already had." And these are usually long-standing properties that they're looking to exploit in a way to further engagement.

So, I think we deal with the same issues at the inception point discussed by the other panelists regarding sifting through the rights a client possesses. But a lot of that is also tied into the question of what rights you want to grant, and how we are going to best effectuate that.

For one-off NFT sales or NFTs of things like magazine covers, we tend to look at the same issues, but we dissect it in a different way. We ask, "What's the safest way we can accomplish an NFT sale?" "How do we do it in such a way that we don't have to clear as many rights at the inception point?" In these types of cases, you're using covers for which the client generally retains all rights. It's the same questions for one-off sales, except it's just done in a different way and in a little bit simpler fashion. Or if you're doing things where you can kind of compartmentalize and have a simple answer on that inception point, you can then work towards those other more complex issues later on.

Another question that is often asked is what is actually being sold, or put another way: What is a purchaser actually getting when they purchase an NFT? When you're purchasing an NFT of a magazine cover, you're purchasing the token that points you to a digital file, containing the digital copy of that magazine cover. It's, in many cases, a unique digital file. In some instances, it'll be one of fifty. And it can depend on how you do it. It may be a limited run series. But it's the same as if you were to create limited edition prints of a poster. You're creating fifty, numbered one through fifty. When I buy my magazine cover NFT, my NFT that points to the digital file that has the magazine cover copy located in this file storage system, whether it be an Amazon Web Services, whether it be in the Inter-Planetary File System (IPFS),

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1. Johnny Diaz, *Miramax Sues Quentin Tarantino Over Planned "Pulp Fiction" NFTs*, N.Y. TIMES (Nov. 17, 2021), <https://perma.cc/PHZ9-JT6D>.

wherever that digital file lives, I'm getting the token. I'm acquiring the token that says that that copy is mine. It is a distinction that anyone who's working in the NFT space has to deal with. The idea that what you acquire is a token. In some cases, you get the digital file as well, but typically you do not. You're getting the token, and that token points you to the file and is your record of unique ownership of that file.

It's not like a hard copy of the magazine cover. The hard copy of the magazine cover was already on the magazine. In this concept, we're talking about a digital copy of that magazine cover. I've seen them done in many different ways, whether it be contextualized with some other bells and whistles at the creation point of an NFT. Or it can be as simple as a digital file of that magazine cover. Again, they're very iconic magazine covers. TIME magazine did some.<sup>2</sup> What they have are these moments in time. And you're purchasing, basically, an ownership right in that moment in time that is somewhat iconic.

When looking at from the content-owner perspective in these scenarios, we tend to advise clients, if they're going to auction off an NFT, to use the "safe" images first. Use ones that have fewer photographs in them, that you can clearly state you own the rights to, and then work through the problems on the others afterward. Can you make a claim that you've got all rights in those works? Is there an argument that you've transformed the work in some way, shape or form? Not if you're just doing a static image. But there are arguments that these are, to some degree, pieces of art. And if you can make that claim to it, whether you can make your claim that you've got the right to further exploit it depends on the underlying license agreement that you have, or the work-for-hire agreement that you had, when individuals were contributing.

Looking at a use case scenario, what are some of the interesting issues raised under the first sale doctrine of copyright law when an NFT is offered for sale that does not include a digital file, but instead only a physical item? For example, what if you were to try to sell an NFT of excerpts of a book? If you take an original digital file you receive, and that digital file were the item that you're trying to resell—by posting it online, then you get into the so-called *ReDigi* problem because the work is a digital work.<sup>3</sup> *ReDigi* found that the first sale doctrine doesn't apply to digital items, because each time a digital item is transferred, it is necessarily creating a copy of that digital item somewhere else. That violates the § 102 exclusive right to make copies, rather than the distribution right.

There is case law out there that has held that you are allowed to exhibit images of a physical item that you're trying to sell. So, to the extent that you're talking about taking a photograph of something that you want to sell online, there's a right to do that—you're allowed to do that in furtherance of your sale of that item. The distinction that I think we get hung up on is NFTs don't necessarily need to be tied to a digital file. You can tie them to a physical item. For example, if you were selling a book in total—the entirety of the book without having cut out the images—and you

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2. *TIME Releases Three Special Edition NFT Magazine Covers for Auction*, TIME (Mar. 22, 2021), <https://time.com/5948741/time-nft-covers/> [https://perma.cc/XZ36-A6U7].

3. *Capital Records, LLC v. ReDigi Inc.*, 910 F.3d 649 (2d Cir. 2018).

took a photo of the book and said, "Hey, I'm selling this, and you can see it's good quality, everything's fine with it, so purchase this book from me." There's no problem with that, because you are allowed to do that in furtherance of that sale as long as you're not selling a digital copy of it as well.

If you took photos of every single page of the book, posted it online and said, "Hey, you can purchase this," I think you might run into some issues. If you took photos of every single page and posted it online for everyone to look at, without any permission from the copyright owner, you're effectively just creating digital images and posting them online, distributing them broadly, without getting those rights from the actual copyright owner. That would be a problem. But just posting an image of the book cover and saying, "Hey, I'm selling this, come and buy it from me," doesn't run into a *ReDigi* problem.

In addition to the points made by the other panelists, there are a couple of other issues to keep in mind when looking at potential infringement claims related to NFTs and ways to avoid them. First, when looking at availing oneself of the DMCA safe harbors, one has to make sure they have the technical capability to take an NFT down off their platform. This is something from a content owner perspective we advise on from a different perspective, because with so many of the platforms that those entities are offering, there is the fear of what happens if the platform goes down. And what do you do to ensure, at least from a content owner perspective, that those who purchased the NFTs will still have the ability to access the content they paid for? From a content owner perspective that's really important, because you don't want to lose the trust of those that you've reached out to, the community that you're engaging with. And that's whether it be studio clients or whether it be gaming clients—they all have that interest; they don't want to lose that trust. A lot goes into the back end of what's going to happen to the portfolio of digital assets if this company doesn't make it, and they have to be able to be ported over to a different cloud-based system, if it's not IPFS. They're storing on some other platform, then we need to be able to port over those links in a manageable way, so that there's protection there.

Second, looking at it from a platform perspective, what protections can platforms avail themselves of, including DMCA protections? I think it's important to note that we've been talking about this from the OpenSea perspective, about people just creating their own NFTs and posting them for sale there. But a lot of these platforms are involved in the curation of these NFTs and creation of them. So, to the extent that the platform is involved in it and working with the content owners to create NFTs, it's going to be harder for them to avail themselves of DMCA protections. Putting aside whether or not they're actually complying with all the other requirements—whether they have a robust notice and takedown procedure, whether they've got red flag warning systems in place, all those kinds of things that you typically look at from a platform perspective—there's also this concept in the NFT world that these platforms are adding elements to the NFTs in many cases. Not necessarily in an OpenSea context, but if you're looking at it from the perspective of these marketplaces that are created and curated for the manufacture and sale of these NFTs, then they really are manufacturing and creating elements that go on top of

existing files. And to the extent they are doing that, it's going to be a really hard argument to say that they're not involved in the creation of the NFT, and that it's solely at the direction of the user that they're posting this material, because they're obviously involved in the creation of it.

Regarding some of the other potential intellectual property concerns that arise when discussing creation of NFTs, I think we've touched on a lot of the pertinent concerns today. There is right of publicity. There are trademark issues to the extent that you're going to feature someone else's mark in a way that creates the impression that they're associated with that entity.<sup>4</sup> I mean, those are obviously issues that you're diving into. There are securities law overlays to some of this, especially in the gaming world, to the extent that you're creating fractionalized NFTs. The concept of fractionalized NFTs is a big touchpoint in the securities world. I've tried to keep my remarks focused on copyright because I'm an IP lawyer by trade, but I've had to learn a lot of other fields, at least enough to talk with some knowledge about them.

Circling back to the Tarantino case, are there other potential claims out there for Miramax in that case? Certainly, there's a breach of contract claim that they have, because ultimately, they are arguing over a license agreement. You're going to get into some of the back-and-forth on license agreements. And I think that's something we've touched on today. From the large-scale content owner perspective, they're granting only limited licenses in the digital work of authorship that's being associated with the NFT. They're granting only limited licenses to that digital work, to display it and to copy it for certain purposes. So, the major claim that's going to come if someone violates that limited license is for breach of contract.

Now, inherent in that is the problem of how that limited license is being communicated to the purchaser. You do have to have some sort of presentation of the terms in order for someone to accept the agreement. So, we get into a lot of those discussions with platform owners with respect to making sure they present the terms in an open and obvious way so that a purchaser who's acquiring the NFT is able to view them. I think the Miramax-Tarantino example is an easy one because you've got contracts, but it's a little bit harder when you're talking about selling NFTs to a purchaser, and what potential claims you may have against the purchaser. How do you show that the terms were presented to them in an open and obvious way so that they could have accepted them?

What about fair use? Like anything in the fair use world, it will be incredibly fact-specific. I think the purpose and character of the use is going to be the primary consideration when you look at this early wave of NFTs. This early wave consists of NFTs that are being offered by creators that build off of social media posts or statements made by others about them. To the extent that you're commenting on that post or statement, creating an NFT for commentary purpose, even though there's a commercial aspect to what you're selling, that doesn't render it moot in terms of a

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4. For an example of a recent trademark suit arising from the sale of an NFT, see Blake Brittain, *Nike Cries Foul Over Virtual Shoes, Suing Retailer That Sells Sneaker NFTs*, REUTERS (Feb. 3, 2022), <https://www.reuters.com/technology/nike-cries-foul-over-virtual-shoes-suing-retailer-that-sells-sneaker-nfts-2022-02-04>.

fair use defense—it's one consideration. If you're creating millions of NFTs and just selling the same exact image or clip where you're creating a commentary, does that undercut the argument? Perhaps. But if you're creating, for example, a limited run of NFTs that are a digital clip of you creating a commentary based on someone's statement about your race or sexual identity or whatever it might be, those are pieces that I think would clearly qualify for fair use. So, it really comes down to a fact-specific analysis. Many NFTs are works of art. Since you can claim fair use in the art world, you can do so with an NFT as well.