

Kluwer Copyright Blog

NFTs and Copyright: Some Burning Issues

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The last couple of years has seen the emergence of Non-Fungible Tokens (NFTs) as an important medium for the creation, sale and collection of art, with numerous instances of big money purchases of NFTs. NFTs began as a sub-culture of sorts for artists to sell work in a digitised format, but they are now increasingly becoming mainstream, with many major businesses and fashion houses creating their own NFT projects.

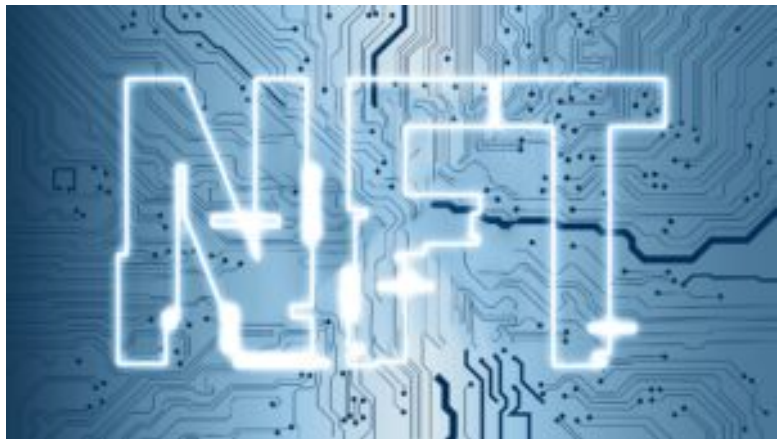


Image by Riki32 via Pixabay

The popularity of NFTs has also led to an increase in disputes amongst competing parties aiming to cash in on potentially large profits. For instance, production house Miramax has sued Quentin Tarantino for creating the ‘[Tarantino NFT Collection](#)’, a project created by the famous director in partnership with SCRT Labs. The project includes NFTs associated with the handwritten version of the script of the film Pulp Fiction, along with exclusive commentary from Tarantino. Similarly, Bigverse, a platform that aids the creation and sale of NFTs, [was successfully sued](#) in China for its contribution in the unauthorised sale of an NFT related to a cartoon depicting a chubby tiger receiving a vaccine from the cartoon series known as ‘Fat Tiger’.

Since the underlying asset in NFTs is primarily art, disputes in relation to NFTs bring up interesting questions pertaining to copyright law, the answers to which have the potential to shape the evolution and growth of NFTs as a medium to create, distribute and collect art. In this post, we briefly explore issues related to copyright infringement, intermediaries’ liability and remedies from the perspective of the general principles of copyright law (for previous analyses of NFTs and copyright on this blog, see [here](#)).

The Right to Create and Sell NFTs

The question is whether the creation and sale of NFTs is included in any of the exclusive rights

provided to the copyright owner. If it is included, then the NFT can only be created by the owner or a party to whom the owner has granted such authority. In this context, we discuss the process of minting an NFT and whether it violates the communication to the public right, reproduction right and distribution right of copyright owners.

The creation or ‘minting’ of an NFT involves the creation of a digital token that is encoded with the underlying work that the NFT is associated with. The NFT may be encoded in one of two ways: [either by the creation of an alpha-numeric signature](#), or ‘hash’, by passing the underlying work through an algorithm or by including an URL that contains the underlying work. Once minted, an NFT is available on the blockchain for the public to view. Significantly, the vast majority of NFTs do not include a copy of the underlying work ‘as is’, but rather, only include the alpha-numeric signature or URL that is associated with the underlying work, although some low-resolution artwork is stored on the blockchain with the NFT.

The communication to the public right

The communication to the public right includes the right to make available to the public the work by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them. In the context of NFTs that include the URL containing the underlying work, [commentators have argued that the communication right of the owner is violated](#). We would agree with this view because once an NFT is minted, the URL is available on the blockchain for the public to see and can be accessed at any time of an individual’s choosing.

The reproduction right

The reproduction right includes the right to prevent the copying of the underlying work in any manner. Commentators have argued that since NFTs do not include a copy of the work, but rather only include the associated ‘hash’ or URL, [the reproduction right is not violated by the creation of an NFT](#). While this cannot be disputed in the context of NFTs that contain URLs, it is arguable that since the process of creation of a ‘hash’ is deterministic (that is, a given work and algorithm will always create a definite alpha-numeric code), the ‘hash’ constitutes a translation of the underlying artistic work and would be covered in the reproduction right of the copyright owner. An analogy may be drawn to [a case decided before the Supreme Court of Canada](#), in which it was held that the copying of code originally written in assembly language (which is expressed in the form of text) as hexadecimal code (expressed in the form of alphanumeric code) violated the reproduction right of the copyright owner. While it is not clear what position courts will take on this issue in any given jurisdiction, if a ‘hash’ is not considered to be a reproduction of the underlying work, it may lead to the odd conclusion that the right to create NFTs containing URLs belongs to the copyright owner, while the right to create NFTs containing the ‘hash’ does not.

The distribution right

The distribution right includes the right to issue copies of the work to the public. The distribution right is, however, limited by the principle of exhaustion, which provides that a copyright owner’s

right to control copies of their work is ‘exhausted’ on its first sale by the copyright owner or with their consent. Thus, if the underlying work has been put in circulation with the authority of the copyright owner, then the distribution right is exhausted and further sales by third parties do not violate this right.

It is worth noting that in jurisdictions such as the EU, the principle of exhaustion has lost some of its relevance in the context of digital works after the decision of the Court of Justice of the European Union (CJEU) in *Tom Kabinet*. In this case the CJEU noted that the principle of exhaustion applies differently to works released digitally and works released through physical carriers such as books or CDs. The court [made this distinction](#) because, amongst other things, the principle of exhaustion extinguishes the copyright owner’s right to distribute a particular copy of the work or the ‘container’ of the work, rather than the work itself. Since no such ‘container’ exists in the digital context, a secondary sale would only involve the transfer of the underlying work and therefore, the principle of exhaustion would not apply. Rather, the CJEU noted that making ‘secondary copies’ of digital works available for permanent download would be better covered by the communication to the public right, which is not subject to the principle of exhaustion. Consequently, [the principle of exhaustion is rendered moot in the digital context](#).

In the context of NFTs, since the underlying work is created and circulated digitally, tokenising and selling it as an NFT would not violate the distribution right, and may be more properly dealt with, especially in jurisdictions such as the EU, under the communication to the public right.

Liability of NFT Platforms

The marketplace for NFTs is supported by various platforms or intermediaries, such as [OpenSea](#), that allow users to mint, purchase and sell NFTs online (see e.g. [here](#)). If it is found that NFTs infringe the rights of copyright owners, it is relevant to consider whether platforms that aid and assist in the minting and sale of NFTs should also be liable for copyright infringement.

In most jurisdictions, the liability of intermediaries is typically determined by one or any combination of the following approaches: (i) the ‘awareness’ or ‘actual knowledge’ approach; (ii) the notice-and-takedown approach; and (iii) the more burdensome ‘active role’ approach. In the context of copyright law, the ‘actual knowledge’ approach imposes liability on intermediaries only if they are found to have actual knowledge of the infringing act. The notice-and-takedown approach only places responsibility on intermediaries if they continue to host infringing content in relation to which they have received a notice for takedown. The ‘active role’ approach places responsibility for infringing acts on all intermediaries that play an active role in organising content; that is, only those intermediaries that play a passive role in hosting content (however defined under applicable law) are disclaimed from liability for infringing acts on their platform. In determining the liability of intermediaries, the terms of service may also play an important role (see, for e.g. [the terms of service of OpenSea](#)).

The *Bigverse* case before the Hangzhou Internet Court in China is here relevant. The NFT platform Bigverse was held liable for copyright infringement in a situation where a third party used the platform to mint and sell an NFT without the authorisation of the copyright owner. The court provided several reasons for taking the active role approach, noting that: (i) NFT platforms charge fees for minting and selling NFTs and must therefore ensure that these activities are lawful; (ii)

platforms have significant control over the digital works and possesses the ability to review and monitor the IP without incurring additional cost; i.e. during the minting process, platforms only request that the user submits the picture of the NFT artwork, name, introduction, description, tags etc., and can add proof of IP ownership to this list (this may still be potentially problematic in jurisdictions where registration of copyright is not mandatory); (iii) ensuring that NFTs are created with requisite authority is important for the NFT eco-system; and (iv) once on the blockchain, it is difficult to remove an NFT when compared with infringing copies on the internet (although it must be noted that the underlying work does not reside on the blockchain – what is there is just a reference to it).

It remains to be seen what approach different jurisdictions will take in the context of holding NFT platforms liable for the illegal activities of users, which will inevitably have a significant impact on future NFT-related activity.

Remedies

NFTs pose an interesting challenge at the remedy stage as well, owing to the underlying blockchain technology. In typical cases where the infringing copies are in physical form, the infringing copies are seized and destroyed. In cases where infringing copies are found on the Internet, jurisprudence has developed in various jurisdictions to take down websites that contain infringing copies and other websites that facilitate the creation or access to infringing copies. However, with an NFT, neither the owner of the NFT, nor the platform can ‘destroy’ the NFT.

The issue of destruction arose in the *Bigverse case*, where the Chinese court noted that an NFT can be made redundant by sending it to an ‘eater address’ or ‘burn address’, which exists on the blockchain. While this does not destroy the NFT in a way that is comparable to physical destruction, it renders the NFT unusable. This is because once sent to the eater address, the NFT cannot be transferred further; i.e., the act of sending an NFT to an eater address is irreversible. It must be noted, however, while NFTs are not considered infringing copies and therefore could not be targeted, it could still be possible to target servers where infringing copies of the work are hosted.

Conclusion

The emergence of NFTs has been disruptive to the world of art. While NFTs have now slowly been adopted in the mainstream and have [evolved into a more familiar product with time](#), there continue to exist legal and regulatory uncertainties around them.

As we have just seen, one set of legal uncertainties arises from questions of copyright law. This has led to litigation in several jurisdictions and has also recently prompted two members of the US Senate’s intellectual property subcommittee to request that the US Patent and Trademark Office (USPTO) collaborate to [study the impact of NFTs on intellectual property rights](#).

We have discussed three copyright law questions that have arisen in the context of NFTs, illustrated by examples of specific jurisdictions. The first of these is the question of who has the right to create and sell NFTs. This issue is perhaps the most significant as it will ultimately

determine who can profit from NFTs. If courts determine that the right to create and sell NFTs falls within the exclusive rights of the copyright owner, it will bring clarity to a number of NFT disputes.

The second question discussed is the liability of intermediaries. This is significant, because the level of liability placed on intermediaries in the context of copyright infringement will impact the ease with which NFTs can be minted and sold on NFT platforms, which will in turn affect the number of NFTs that are minted and sold online.

The final question discussed here pertains to remedies available to copyright owners if it is found that the creation or sale of an NFT has violated their exclusive rights. This issue is also significant to copyright owners and will impact the protection and enforcement strategy they adopt for their works.

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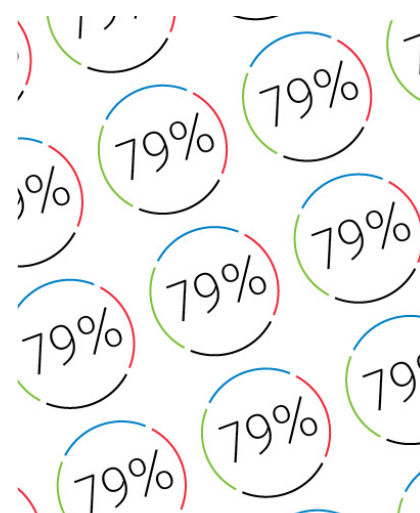
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