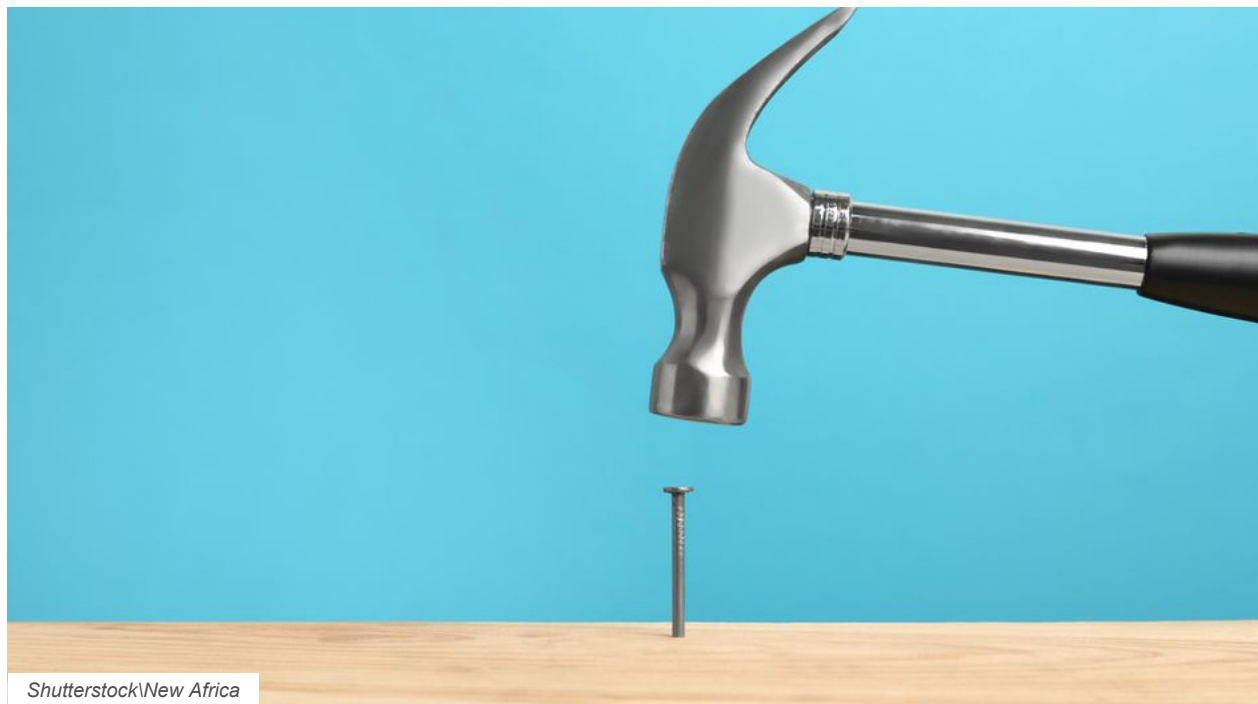


The nail and the hammer: the role of copyrights and trademarks in NFT projects

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A recent dispute involving Bored Ape Yacht Club highlights how trademark law, rather than copyright law, provides a cleaner way for centralised NFT project creators to enforce their IP rights as a way of preventing knock-offs and unauthorised monetisation by third parties

On 24 June 2022, Yuga Labs (Yuga), the creator of the immensely popular Bored Ape Yacht Club (BAYC) non-fungible token (NFT) collection, filed suit against an artist named Ryder Ripps (Ripps) for Ripps' creation of a copycat NFT collection called RR/BAYC (*Yuga Labs, Inc. v. Ryder Ripps*, 2022 WL 2482268 (CD Cal)).

The suit alleges that the Ripps collection consists of "'knock-off' (but identical) versions of the art" in the BAYC collection. It contends that, since May 2022, Ripps' campaign has turned towards minting NFTs that use the original BAYC art and promoting them using Yuga's trademarks. It adds that the RR/BAYC NFTs resemble the authentic Bored Ape NFTs as closely as possible to confuse consumers into buying them (for example, it notes that Yuga's original Bored Ape NFTs were assigned a unique number and individuals request new RR/BAYC NFTs by referring to this same corresponding Yuga-known number).

On [the RR/BAYC website](#), meanwhile, Ripps claimed to have "discovered extensive connections between BAYC and subversive internet nazi troll culture", and characterised his RR/BAYC as a "re-minting" of the original BAYC images for purposes of "satire and appropriation to protest and educate people regarding The Bored Ape Yacht Club."

BAYC is one of the most successful NFT projects of all time, in terms of fame and trading volumes. It was a significant catalyst in popularising profile picture (PPF) NFTs, artwork NFTs that can be used as an online identity, especially as a way for a purchaser to "flex" on social media. BAYC is so popular that we are still living with the ramifications of it going mainstream, with many incorrectly believing NFTs are just art.

Yuga, as the creator of the artwork for each Bored Ape, licenses its copyright in the artwork to the NFT's purchaser. Art is the quintessential creature of copyright law. And yet, searching Yuga's complaint against Ripps, the word "copyright" does not appear once. Instead, Yuga provides a series of examples where it alleges Ripps infringed its trademarks. Among these examples are the two NFTs pictured below.



RR/BAYC #362 (left) and #863 (right).

In characterising its alleged injury in the filed complaint, Yuga states that these images are “identical” to those with the same numbers in the BAYC collection. While Yuga could have alleged copyright infringement for the making of “fake NFTs” employing artwork “identical to their official BAYC counterparts” – the clear gravitas of the harm it is alleging – it instead ignores the copyright claim entirely and focuses solely on the fact that Ripps’ commercial use of these NFTs creates a cause of action for trademark infringement. When referencing the two specific NFTs above, the infringement alleged is for the use of Yuga’s trademarks in each NFT (for #362 on the hat and for #863 on the t-shirt), not the entire image.

Put another way, Yuga has chosen to rely on trademark law rather than copyright law to protect the core IP in its BAYC project. This article examines why Yuga may have made this decision, and what the case teaches us about the business and ethical constraints on the use and enforcement of IP rights by those managing NFT projects embodying an underlying ethos of decentralisation.

The nail: copyright law and NFT collections

As discussed above, in simplified terms, Yuga licenses its copyright in the applicable Bored Ape image to each NFT purchaser. However, this characterisation glosses over the legal mess PFP NFTs create under copyright law and how NFT project creators try to clean it up. In its terms of service, Yuga states that a BAYC NFT purchaser owns “the underlying Bored Ape, the Art, completely”. Yet, a paragraph later, Yuga grants the purchaser a “worldwide, royalty-free license to use, copy, and display the purchased Art” for enumerated purposes.

If the purchaser owns the art “completely”, why does Yuga also grant it a license to the “Art”?

The contradiction is the result of the collision between the promise of free and clear ownership of NFTs and retained ownership under copyright law. Yuga markets its NFTs as something over which purchasers should feel as if they have “complete” ownership. This spirit reflects the promise of NFTs, pursuant to which only the purchaser who is assigned to the unique index of a specific Bored Ape should control the destiny of that Bored Ape.

Yet, availing itself of the flexibility conferred by copyright law, Yuga elects to retain ownership of the original artwork, with the digital art asset – merely a copy of the creator’s original – licensed by the creator, not transferred as property owned free and clear by the purchaser.

The crosscurrents in Yuga’s license are a reflection of the tension PFP NFTs often create regarding copyrights associated with the NFT artwork. The ambiguity puts Yuga in an awkward position regarding the alleged infringement by Ripps. While the foundational IP – the nails of the project’s structure – is copyright, Yuga likely does not turn to copyright infringement claims because pursuing such claims would force Yuga to publicly adopt arguments that are clearly in conflict with the free and clear ethos of the NFTs it has sold. Put another way, as it relates to Bored Apes #362 and #863, if the owners of these NFTs are the owners of the depicted apes free and clear, then what basis would Yuga have to sue for copyright infringement, whether for itself or on behalf of these owners? What if the owners of these NFTs would gladly agree to permit Ripps to freely use their NFTs’ images in his art? There is tension between the project’s creator as the licensor of the applicable copyrights on the one hand, and the purchasers as the owners of the NFTs on the other.

Yuga does not care to pluck at this overdrawn string when it has another path to address the knocking-off and unauthorised monetisation of its Bored Ape collection through its trademark rights.

The hammer: trademarks and NFT collections

Whereas copyright claims risk implicating unsettled questions of NFT ownership, trademark claims do not involve the same fuzziness. First, Yuga is the owner of the BAYC trademarks as registered with the USPTO. Second, BAYC trademarks are used as a source identifier for the collection as a whole (although, as we saw with Bored Apes #362 and #863, they can be used within

the artwork itself), not as part of the NFT the user purchases. Of course, when a person purchases a Bored Ape, that person is purchasing a piece of the brand these marks represent, the same way a person purchasing a pair of branded shoes is purchasing into the brand affixed to the shoes.

All things considered then, trademark law provides a cleaner way for centralised NFT project creators like Yuga to enforce their IP rights as a way of preventing knock-offs and unauthorised monetisation by third parties. NFT project creators can draw a line at their trademarks without concern about conflict with a background ethos of free and clear NFT ownership. Trademarks are the wrapper for the project and not directly equated with the IP a holder is purportedly purchasing.

Consequently, Yuga can use trademark law as a hammer – a tool to confer value on each Bored Ape and to build integrity for the collection, and a weapon to protect the project as a whole. And because the name of the project – BORED APE YACHT CLUB – is itself a pending registered mark, there is little risk this wrapper trademark will become separated from the individual copyrights with which it is associated. Even the name used to identify each individual NFT, a BORED APE, is a pending trademark. This integration makes the tie between a project creator entity's trademarks and the individual owner's licensed copyright nearly impossible to sever in practice. And it allows Yuga to protect its project, including on the individual NFT level, without having to confront the contradiction the NFT terms of use create under copyright law.

A lesson for entities managing decentralised IP

The Yuga versus Ripps dispute has important ramifications for NFT projects moving forward. It shows that trademark law can provide a simple and relatively seamless lever for an NFT project creator to maintain control of a project that is otherwise inherently decentralised. We expect that NFT project creators will continue to vigorously defend their trademarks – in fact, following the Ripps complaint, Yuga has already been active in other disputes in an effort to defend its trademark, recently seeking to block a California company from registering BORED APE. Furthermore, we anticipate NFT project creators will continue to wield the power of overlapping trademarks and copyrights, as Yuga has done with Bored Apes #362 and #863. However, while blending trademarks and copyrights is advisable for NFT project creators for the power it affords, creators must be mindful to delicately balance this power with principles of decentralisation, else the collection's value will decrease by making the project appear more centralised. An overly zealous hammer will simply damage the structure.

This recognition reflects the difference in the inherent nature of copyrights versus trademarks. Copyright is inherently asset-specific – an artist creates an original work and copyright attaches to that work the instant it is recorded in a tangible medium of expression. In the BAYC collection, each Bored Ape art asset is unique, and the copyright associated with each could be assigned to a purchaser (even if the terms of use don't clearly do so). This contrasts with trademark law, which seeks to protect a category of items originating from a common source – for NFTs, this implicates a mark's relation to the collection it identifies. For an NFT project creator in the awkward position of having to take centralised action on behalf of a decentralised project, trademark law presents the cleanest path to enforcing IP rights in the project.

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