



Second Life - A New Dimension For Trademark Infringement

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The New Virtual World

Millions must have marveled at the new horizons described in the conceivably prophetic 1982 movie “Blade Runner”, which portrayed the existential boredom cloaking our planet and humans’ endeavor to relocate to new outer worlds. Merely twenty years later, in 2003, San Francisco-based Linden Research, Inc. (a/k/a Linden Lab), has opened the door to, arguably, a pro tem alternative to travels to a new world, all without leaving the comfort of an armchair, as long as an Internet-connected computer is within the reach of the “explorer’s” hand. The new world’s name is Second Life.

In common terminology, Second Life (SL) is a massive multiplayer online role-playing game (MMORPG) that enjoys an astonishing popularity on a global scale. SL is not a traditional online multi-player game, with losers, winners, points and levels, and the capability to defy gravity, but rather a virtual universe (also called “in-world”) in its own right, with characteristics usually ascribed to the physical, real life (RL) world. It has large and exponentially growing interacting populace, and the society functioning along the rules of the modern RL society, including quasigovernance, with its strengths and shortcomings, all within certain (albeit virtual) territoriality.

The interaction between the SL inhabitants, called avatars or residents, is akin to that in the RL society. However, the two primary factors that differentiate the in-world from the RL are the absence of geographically demarcated borders (other than virtual property lots) and the three branches of power. Linden Lab, being the supreme body - the service provider - imposes on all residents the Service Agreement (also known as “Terms of Service”) and maintains the absolute power to discontinue any or all aspects of service and terminate any account (inter alia, under §2.6 of Terms of Service), effectively “killing” the avatars. However, as all avatars subject themselves to Terms of Service, Linden Lab specifically disclaims regulation of content and interaction between avatars (§1.2 of Terms of Service), nor does it function or wish to function as an arbiter in case of conflicts beyond the cases clearly defined as “harmful practices”, e.g., dissemination of obscene or hateful data, spamming, etc. This approach leaves it up to the residents to resolve their conflicts in either in-world interaction or before the real world judicial fora. This specifically pertains to the Intellectual Property matters, as discussed further below.

De facto, SL is a user-built world, a self-governed republic (as long as such activity does not



encroach on Linden Lab's interests), with no specific objectives other than those defined by the avatars or, in effect, the RL users behind them. Yet, SL is quite different from most other multi-player interactive online games in two very distinctive ways:

First, the users do not just play the game but actively build the game and its content and create their own rules of interaction, modeled on the RL society. In particular, and very notably, the users have the right to own the property they create, including Intellectual Property (§3.2 of Terms of Service).

Second, the users not only pay fees for "living" in the SL, but they also build a real market economy by creating, buying or selling virtual tangible (seemingly, an oxymoron) and intangible property. In the process, avatars attach certain monetary value to such property, using the SL legal tender - the Linden Dollar (L\$), which is already exchangeable at several currency exchanges for the physical world's U.S. dollars as well as other currencies.

According to the recent data, there were more than 16 million SL transactions in the month of November alone, with the monthly turnover during the 2007 fiscal year ranging from US\$ 20 million to US\$ 35 million.

Thus, the SL is no longer one of the many virtual entertainment fantasy worlds inhabited by fictitious characters created by the RL users for their amusement and enriching only the service provider (game creator). It is to a degree self-sustaining economy, moving assets in transactions that can be measured in the real currency, and having quite tangible repercussions in our good ol' Real World.

Trademark Infringements in the Virtual World

Quite predictably, avatars' activities in the SL are accompanied by multiple instances of both innocent as well as willful trademark infringement. While the trademark enforcement mechanisms are well established in the RL, whether the trademark owner faces encroachment on its rights in the common law (following the "first-to-use" rule) or the civil law (the "first-to-file") jurisdictions, such unauthorized trademark use in the in-world is not presently regulated by any specific body. As noted above, this is especially true since the SL universe is not bound by any legal boundaries nor, more importantly, does it have a sovereign power to oversee and enforce compliance with real world laws.

Section 3.2 of the Linden Lab Terms of Services unequivocally places the burden of understanding the Intellectual Property laws applying to the SL content on the users' shoulders, and specifically disclaims Linden Lab's liability for residents' actions and their legal consequences. This creates an especially precarious situation in view of the explicit grant of in-world Intellectual Property rights to its creators, and paves way to the clash of rights held under different real world legal systems. It is moreover true since SL avatars "come" from more than 100 countries, and only 30% of users are U.S.-residents. By late December 2007, the total in-world population (judging by the number of accounts) has exceeded 11 million, even not considering that one user may create multiple avatars.



Though in the last few years legal commentators and net gurus have expressed multiple and oftentimes contradicting opinions on the issue of on-line Intellectual Property rights' enforcement, as well as application of the trademark territoriality principle to instances of online infringements, the situation may be further distinguished in the case of the SL in-world.

Besides the General Provisions section of the Terms of Service, establishing that users accessing the service from other locations are responsible for compliance with applicable local laws, the only specific language dealing with trademark protection (defined as "other Intellectual Property rights") is found in §3.2 of the Linden Lab Terms of Service, granting rights in the SL content to its creators, to the extent that the latter have "such rights under applicable law". This vague provision effectively bestows multiple scenarios of possible conflicts, for example, a trademark conflict between creators of two rival in-world contents; a conflict between the owner of an established RL world trademark and the creator of similarly trademarked junior content in the in-world; or a conflict between owners of two real world trademarks "teleported" to the virtual world. Further ambiguity in establishing priority in the in-world trademark rights is added by the fact that the Civil Law jurisdictions see trademark rights as stemming primarily from registration, whereas Common Law jurisdictions recognize rights based on the priority of trademark use in commerce.

In turn, Linden Lab does not and cannot effectively police and enforce trademark rights for the simple reason that it does not possess sufficient resources or tools to do so. Though the U.S. Digital Millennium Copyright Act deals with copyright "safe harbors" for service providers, e.g. Linden Lab, there is no similar legislative provision for trademarks. As recently reported, apparently as a preemptive step, Linden Lab has decided to pursue a more aggressive policy against cases of egregious trademark infringement it becomes aware of, even if a formal complaint is not filed by the trademark owner. It is yet unclear how such policy will be implemented.

In summary, in consideration of the fact that the overall number of registered SL users already exceeds 11 million, with the continuously active SL community of avatars counting hundreds of thousands, the intricacy of effective policing and prevention of unauthorized trademark use in the Second Life world is relatively self-evident. Should Unauthorized In-world Trademark Use Be Actionable In The Real World?

In advance of a more detailed analysis of possible solutions for fighting in-world misuse of trademarks, it is important to understand why such activities by the Second Life residents actually constitute infringement actionable in the physical world, just as any conventional case of trademark trespass.

An obvious question is why and how an avatar selling virtual Prada sunglasses or Escada jeans at his or her virtual stand infringes trademarks protected in the real world. For example, such jeans are priced at less than US\$1 (L\$ 265), and both parties to such virtual transaction are virtual characters, while the actual users behind them are clearly aware that the transaction does not involve the genuine (physical) item from the real world vendor. Indeed, the proponent of an anti-regulation approach would claim that such activity does not cause actual damage,



e.g. loss of sales, to the trademark owner. Further, at least so far, the vast majority of trademark owners do not have authorized vendors in the Second Life dimension.

However, a careful analysis of the scenario should lead the trademark owner and its legal counsel to the conclusion that it should be treated as an instance of trademark infringement, with clear potential for inflicting significant damage and causing brand dilution.

A comparative example from the real world is an imaginable situation of unauthorized (unlicensed) assembly and sale of BMW cars by a shady entity in 1970's Albania, one the world's poorest nations at the time, at the price of US\$1,000. Such activity would have clearly constituted trademark infringement, causing trademark dilution and lasting, possibly irremediable, injury to the brand value. On one hand, it would be next to impossible to find any loss of original BMW sales in the Albanian market, and it would be equally difficult to imagine the case of consumer confusion as to the origin of such backyard-welded cars.

Nonetheless, the cornerstone trademark law principle followed in the vast majority of real world jurisdictions is that a trademark acts as source identifier. It is thus clear that the hard-earned goodwill and reputation enjoyed by the trademark owner will be irreparably damaged if the mark is associated (e.g., mentally linked in consumers' minds) with goods of inferior quality, especially since shoppers would expect the owner of a respectable brand to fight any association of substandard products with its name. Further, in cases of unauthorized use of the established brand not only on related but also on unrelated subpar products, the consumers are likely to erroneously believe that there is at least an implied, if not explicit, license to use the mark in connection with such merchandise. This theory explains why the real world owners of famous brands vehemently object to attempts of usurpation in connection with unrelated goods.

Moreover, since many brand owners are now knocking on the SL door and speeding their entry into its commercial space, ignoring such aspect of consumer confusion and the risk of resulting damage to the mark would be an imprudent legal and business decision.

Though there may not yet be Gucci or Bottega Veneta boutiques or Lexus dealerships on the Second Life's equivalent of Rodeo Drive, there are already numerous unscrupulous back alley avatars that flash Second Life residents with fake (in all senses) Rolex watches and peddle virtual "counterfeited" Nike sneakers.

Such uncontrolled encroachment on famous brands presents a real world threat to established trademarks and leads to their dilution in both worlds, especially as millions of the in-world residents become more and more accustomed to the fact that famous brands for which they have to pay considerable amounts in the RL can be bought by their avatars in the virtual world for a fraction of RL price. Such unabated activity would superimpose on the perception of real world's consumers in the primary targeted strata (age 18 to 35, representing close to 65 percent of SL users), causing rebound dilution of trademark value, rise of demand and proliferation of counterfeited goods, and the resulting losses of sales by the brand owners.



Trademark Enforcement Options

In view of the above, unauthorized trademark use in the Second Life universe can be compared to the avalanche of uncontrolled trademark infringements in the third world jurisdictions suffering from ailing and ineffective trademark enforcement mechanisms. Thus, brand owners should not view the SL as a petty and transient nuisance, but rather take a proactive position in enforcing their legitimate rights and curtailing encroachment, combining consumer education efforts with consistent trademark rights enforcement.

Naturally, just like in the real world, it would be counterproductive (and possibly detrimental to the trademark owner's reputation) to chase after every instance of trademark misuse. An overly vigilant position may recoil and create a negative public image for big corporations muscling out accidental infringers that, in many instances, may unwittingly commit such acts. On the other hand, it is of paramount importance to educate SL residents and foment respect of trademarks as private property. It is equally imperative to instill the understanding that ownership of genuine trademarked items presents to the buyers certain value, both tangible and intangible.

Clearly, it was and will be up to the real world's judicial fora to resolve trademark conflicts, and this will hold true also with respect to the SL conflicts, at least until there is an in-world equivalent for resolution of such disputes. No decisions on the merits have yet been rendered in connection with in-world Intellectual Property, including trademarks. However, two cases have already reached the real world courts - *Eros, LLC v. John Doe a/k/a Volkov Catteneo a/k/a Robert Leatherwood* (copyright and trademark infringement case in the U.S. District Court for the Middle District of Florida, Tampa Division, judgment by default in mid-November 2007), and *Eros, LLC et al. v. Thomas Simon a/k/a Rase Kenzo et al.* (copyright and trademark infringement case in the U.S. District Court for the Eastern District of New York, settled by judgment by consent in early December 2007). Consequently, it is only a matter of time until a U.S. (or, possibly, foreign) court renders a decision with comprehensive discussion of the Intellectual Property protection aspects in the SL universe.

Nevertheless, as the Second Life world resembles more and more the real world society, with foreign governments opening in-world embassies (Sweden, Estonia), leading commercial banks (ABN Amro) establishing virtual branches, and multinational law firms (Field Fisher Waterhouse) inaugurating SL offices, it is only logical to expect naissance of a body that will regulate or at least oversee trademark matters in the Second Life world.

Just as real world trademarks are registered with national or regional Trademark Registries, a possible solution to the existing lacuna in the in-world may be a virtual Trademark Office where legitimate trademark owners will be able to deposit (i.e., register) their real world trademarks, or where SL residents can seek protection for marks created in the course of their in-world activities.

The SL world does not enjoy a clearly defined legal system and, to a significant extent, is self-governed. Thus, creating a quasi-Trademark Office in this extra judicio space may open



the Pandora's Box by facilitating migration of trademark conflicts from the real world to the virtual universe, or lead to a clash of legal doctrines, e.g. "first-touse" versus "first-to-file". Nonetheless, in the vast majority of cases and at least with respect to renowned and well established real world brands, such Trademark Office may, despite raising ire of many SL community residents, significantly reduce the presently widespread incidence of infringements, even on the modest assumption that only a single digit percentage of monthly SL transactions may involve unauthorized trademark use.

In fact, such a body already exists. The SLPTO (Second Life Patent and Trademark Office), owned by several SL residents and content creators, opened its virtual doors a couple of months ago. The SLPTO is still at the testing stage, and though it disavows its role as a legal authority, limiting itself to assistance to rights' owners in establishing and protection of their Intellectual Property, this may well be an important first step towards prevention of usurpation of SL residents' rights as well as real world rights.

It is yet unclear whether the SLPTO will conduct (or be able to conduct) examination of trademark "applications" on relative grounds. Similarly, by disclaiming the role of a legal authority, it is unlikely to be in a position to conduct inter-partes proceedings, such as oppositions to conflicting marks. Moreover, many SL residents may suspect dubious motives behind the SLPTO being run by fellow users, and opt to not to use its services. And yet, even though it is possible that without backing by Linden Lab as the service provider or by professional non-governmental organizations (e.g., INTA), or even the USPTO, the SLPTO will not evolve into an efficient tool, the tendency for the SL self-regulation is commendable and should be encouraged.

Conclusion

In summary, in view of Second Life's growing popularity among general public as well as the business community, trademark owners should no longer ignore SL as a passing "fad" but rather use it to advance their business and marketing programs (as many industrial leaders, such as Adidas, Dell, Sony, Toyota, etc., have already done), for example by opening virtual liaison offices or stores. In other words, the SL world should be treated as a newly emerged jurisdiction where trademark owners may wish to implement their regular trademark policy, including marks' clearance and registration (through SLPTO or similar organizations yet to come), trademark licensing for SL use, as well as policing and enforcement of trademark rights via available in-world and real world channels.

Though it is yet early to judge the SL long-term survival prospects, it is next to obvious that new virtual universes will evolve out of it or emerge in its stead, with issues of trademark use and protection in the virtual space to entertain business and legal communities for years to come.



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