

ther the Paris Convention nor the TRIPS Agreement have been domesticated, the Court held their provisions are not binding and cannot be relied upon in Court.

## Analysis

Whilst in monist states, international treaties are directly applicable in the domestic legal system and may even take precedence over conflicting domestic laws, dualist states treat international and domestic law as two separate systems. For a dualist state, the applicability of an international treaty is determined by a domestic law authorizing the application of that international norm. As nearly all British Commonwealth states follow the dualist approach (David Sloss, *Domestic Application of Treaties* (2011) 3), the issue of the domestication of international treaties in Africa is a recurring one.

The validity and enforceability of African Regional Intellectual Property Organization (ARIPO) trade marks is a long-lasting debate. ARIPO provides for a simplified application system for trade marks under the Banjul Protocol, whereby applicants can designate countries in which they wish to obtain protection for their mark (an African mini-Madrid). ARIPO member states retain their national intellectual property (IP) legislation and have national offices that issue and register titles of industrial property valid domestically.

Whilst there are 12 members of the Banjul Protocol, only 6 have expressly domesticated the Protocol (Botswana, Malawi, Mozambique, Namibia, São Tomé & Príncipe and Zimbabwe), prompting recurrent questions related to the domestic application of the Banjul Protocol and the secureness of the registration. Till now, no member state has found an ARIPO trade mark to be invalid. ARIPO trade mark owners may further rely on *Anglo Fabrics (Bolton) Ltd v African Queen Ltd* by the High Court of Uganda recognizing ARIPO trade marks designating Uganda as valid in the country (HCT-00-CC-CS 632 of 2006). In Lesotho, ARIPO trade mark owners may rely on the general rules on the domestication of international instruments, which would include the Banjul Protocol.

## Practical significance

The above case is a reminder that the mere signature of international treaties is often not enough. International organizations and governments frequently put forward the signature of a treaty as a major accomplishment, without ensuring its practical application. Today, owners of well-known trade marks find themselves with limited protection due to an oversight of the Nigerian government. Owners of well-known trade marks should

therefore consider defensive trade mark registration in Nigeria. Whilst often seen as an unnecessary expense, a defensive trade mark mitigates the risk of trade mark dilution and of cybersquatting. Until Nigeria domesticates the TRIPS Agreement and the Paris Convention, it remains the most appropriate solution, in consideration of the local laws.

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## ■ Chinese court rules on NFT transactions and responsibility of trading platforms

*Shenzhen QiCeDieChu Cultural and Creativity Co. v. Hangzhou Bigverse Technology Co.* (2022), *Hangzhou Internet Court Civil First Judgement No. 1008, 20 April 2022*

**The Hangzhou Internet Court decided that an NFT transaction is covered by the right of communication through information networks and that NFT trading platforms shall bear a higher duty of care.**

## Legal context and facts

The plaintiff, QiCe Company, was authorized by cartoonist Ma Qianli to exercise the exclusive rights in his creation, the 'I am not a fat tiger' series. A user minted and released an NFT of Ma's 'Fat Tiger Vaccination' (one cartoon image of the 'I am not a fat tiger' series) for RMB 899 on the metaverse platform of Defendant Bigverse, involved NFT trading platform operated by Bigverse (NFTCN).

The plaintiff alleged that the defendant had infringed its right of communication through information networks (Article 10(12) of Copyright Law of the People's Republic of China (2020 Amendment): the right of communication through information network, that is, the right to make available to the public by wire or by wireless means, so that public may have access to the work at their chosen time and place). According to the plaintiff, the defendant had failed to perform its monitoring obligation to review and verify the ownership of the digital work behind the NFT, while charging a certain percentage of transaction fees. It requested that the defendant cease the infringement and compensate damages for RMB 100 000.

In response, the defendant claimed that it should not be liable for users' own infringements as its function is merely that of offering a third-party platform, which is only required to review the contents after they are uploaded. In addition, it had already removed the works from its servers permanently, thus fulfilling the obligation to 'notice and takedown'. The defendant further noted that the existing laws do not expressly require it to disclose the specific blockchain and location of nodes, as well as the details of the applicable smart contract of the disputed NFT.

## Analysis

The Hangzhou Internet Court decided that the defendant was subjectively at fault by failing to exercise the monitoring obligation and duty of care and that its behaviour constituted contributory infringement of the right of communication through information networks.

In so doing, the Hangzhou Internet Court explored major challenges to the regulation of NFT transactions with regard to *inter alia* the nature of NFT transactions and NFT platforms, as well as the applicability of a higher duty of care to NFT platforms.

The Hangzhou Internet Court adopted the term 'NFT digital works' to refer to digital works in the field of literature and art traded via NFTs. The court concluded that NFTs merely record the non-interchangeable data units of certain digital works (p. 9). Under the NFT trading model, each copy of a digital work is represented by a unique unit of metadata, resulting in the 'uniqueness' and 'scarcity' of an NFT. Consequently, when a copy of a digital work is displayed in the form of an NFT on a trading platform, that copy is specified as a particular 'digital good', generating a property right over the tokenized digital work (p. 18).

Regarding the nature of NFT transactions, the court held that trading an NFT is essentially the transfer of ownership of a particular 'digital good' (p. 18). After purchasing the tokenized digital work, the acquirer obtains a digital property right, rather than either a licence to exploit a digital property or a transfer or licence of an IP right (p. 19).

Furthermore, the court decided that an NFT transaction is covered by the right of communication through information networks rather than the right of distribution, whereas distribution under current Chinese Copyright Law is limited to the transfer of ownership of tangible copies of works (p. 19). As the court explained, the transaction of NFTs primarily involves the act of uploading and offering for sale. The former is manifested by copying the digital work stored on the minter's

device to the web server, and the latter is demonstrated by displaying an NFT on the platform for the purpose of sale, thus allowing the public to access the digital work at a time and from a place individually chosen by them (pp. 19–20). Therefore, Bigverse infringed upon the right of communication through information networks by making the copies of disputed digital works available to the public in a copyright sense. Additionally, the court stated that the exhaustion doctrine, which is based on the indivisibility of works and their tangible carriers, does not apply to transactions of NFTs (p. 20).

Based on a comprehensive evaluation of the NFT trading platform's pattern of trade, technical features, capability to control and manage, and profit model, the court concluded that the platform in question should be regarded as an Internet Service Provider (ISP; this notion generally includes subjects that provide information storage space services, searching and linking services, and automatic access services, etc. to the public through the network) rather than an Internet Content Provider (this notion refers to subjects that provide information to the public through the internet) and should bear a higher duty of care as it received economic benefits directly from transaction fees and gas fees (pp. 21–23).

This said, a platform like Bigverse should introduce *ex ante* review mechanisms to conduct a preliminary review of the authenticity of NFTs traded on its platform, including to determine whether the users minting NFTs have provided *prima facie* evidence that they are the actual rights owners (pp. 23–24). Bigverse should also develop an appropriate infringement prevention mechanism to conduct effective monitoring to prevent and curb infringement at the source. If necessary, Bigverse should require users who mint NFTs to provide guarantees or warranties to the greatest extent possible that the NFTs are not infringing (p. 24).

The court concluded that Bigverse failed to fulfil the duty of care by not conducting any preliminary review and not taking necessary measures to effectively cease the infringement after knowing about its user's own infringement, so it should bear the corresponding responsibility of contributory infringement (p. 25).

## Practical significance

Although the ruling avoids the most challenging task of clarifying the legal status and nature of NFTs, it sheds light on the liability for IP-related NFT transactions. This allows to fill in a judicial gap in the domestic NFT industry. In the absence of clear legal provisions, this first NFT

judgment sets a course for the subsequent judicial and business practice of IP-related NFTs in China.

First, this decision reflects the state's policy to 'demonetize' and 'de-financialize' NFTs. The attitude towards NFTs in this judgment is in line with the purpose of 'curbing the tendency of financial securitization of NFTs and strictly preventing the risk of illegal financial activities' stipulated in the *Initiative on Preventing Financial Risks Related to NFTs* jointly issued by the Financial Regulatory Authorities on 13 April 2022.

Second, in response to the heated debate on whether the transaction of NFTs constitutes an act of communication through information networks or an act of distribution, this ruling opts for the former and underscores the inapplicability of the exhaustion doctrine to NFTs. Obviously, the court did not clearly distinguish between digital goods and digital property and even interchanged the two terms to a certain extent. However, digital goods refer to specific virtual assets that exist in the digital form, while NFTs are uniquely identifiable digital representations of physical or digital items. The rightholder can use NFTs to transfer the ownership of digital goods electronically, while the acquirer of an NFT obtains merely proprietary interests over the set of metadata, rather than ownership of the tokenized digital work.

Third, in practice, NFT trading platforms not only receive economic benefits directly from transactions, but also have the capability to review and control the uploaded contents. NFT trading platforms are considered to be ISPs and are required to assume a higher duty of care and even a monitoring obligation. Therefore, according to Article 1195 of Chinese Civil Code and

Article 15 of Chinese Regulation on the Protection of the Right of Communication through Information Network, platforms should comply with their obligation to take necessary and effective measures to identify and remove infringing contents upon notice, including to remove the infringing contents from the server permanently to cease infringement. Furthermore, in terms of ex ante obligation, platforms should set up a pre-review and prevention mechanism to review the legality and authenticity of digital collections and conduct effective monitoring to prevent potential infringement.

This judgment was criticized by Chinese academia primarily for severely stifling incentives for creators and the growth of digital economy. Some argue that the court adopted 'digital good' to refer to proprietary interests over tokenized digital works, which adds to the complexity of the legal status of NFTs. Others suggest that the court omitted the fact that trading of digital works via NFTs constitutes an act of providing copies of the works to the public by way of sale and thus should be covered by the right of distribution. Others further argue that it is necessary to expand the legal connotation of distribution by applying the right of distribution and exhaustion doctrine to the digital environment, since the sale of digital works online is functionally equivalent to the sale of tangible works offline.

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