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NFTs and Trademark Infringement—Real-World IP Rights in the Virtual Space?

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This year, we are increasingly seeing how real-world IP rights can be protected and enforced in the ever-expanding virtual world. Case law, especially in the United States, is developing how digital assets are bound by real-life intellectual property law. In particular, we have kept an eye on two cases of trademark infringement involving the sale of non-fungible tokens (NFTs): *Hermès v Rothschild* and *Yuga Labs v Ryder Ripps*.

Every new medium births its own landmark lawsuit—for NFTs, it is *Hermès v Rothschild*. In a much-anticipated ruling, Hermès International and Hermès of Paris, Inc. (Hermès) were awarded $133,000 in damages against Mason Rothschild, artist and creator of the "MetaBirkin" series of NFTs.

The MetaBirkins consist of 100 NFTs linked to digital images depicting a furry handbag resembling a Birkin bag. The NFTs were initially priced at $450 USD, with Rothschild receiving 7.5 % of secondary sales. They ultimately sold for up to $65,000 USD each.

In response to the MetaBirkins drop, Hermès instituted action against Rothschild in January 2022. Hermès asserted Rothschild was seeking to profit off of their "real life" trademarks, by swapping them for virtual rights. Hermès claimed Rothschild's use of the Birkin mark was to refer and promote the NFTs themselves. According to Hermès, the MetaBirkins were causing actual consumer confusion (it was demonstrated at trial articles in the media had mistakenly tied Hermès to the MetaBirkins project and were later corrected).

Rothschild, for his part, asserted the furry NFTs were inspired by the wave of fashion's fur-free initiatives. He further pointed to a disclaimer on the MetaBirkins website to show he did not intend to mislead consumers, but instead contended the project was within the bounds of free speech in the form of artistic expression.

On February 8, 2023, a jury in the U.S. District Court for the Southern District of New York found Rothschild liable on all counts raised by Hermès: trademark infringement and dilution (of the Birkin name and handbag appearance), and cybersquatting.

In parallel, *Yuga Labs v Ryder Ripps* is underway. Yuga Labs Inc. is the parent company of the Bored Ape Yacht Club (BAYC), a well-known NFT collection depicting ape portraits in various fanciful outfits. Ryder Ripps, a conceptual and web-based artist, created his own NFT project, called RR/BAYC, using online digital images taken directly from the BAYC

NFT collection by generating new NFTs using URLs embedded in the BAYC smart contracts.

In June 2022, Yuga Labs filed a federal lawsuit against Ripps claiming, amongst a slurry of causes of action, trademark infringement of various BAYC word marks and logos, including BAYC, BORED APE YACHT CLUB, APE, and BORED APE.

First Amendment and Rogers Test

At this point, we should mention that the legal concepts discussed here are rooted in US trademark law. In particular, the Hermès and Yuga Labs cases seek to oppose artists' free speech under the First Amendment and trademark rights using the *Rogers* test. Simply put, this is the equivalent to copyright fair use, in a trademark context. Under Canadian trademark law, there is no explicit "fair use" or parody defense. However, s. 4 of the *Trademarks Act*, which defines trademark use in connection with goods and services, could in fact serve as a comparable gatekeeper.

Under the *Rogers* test, the use of a trademark in an artistic work is actionable only if the mark 1) has no "artistic relevance" to the underlying work; and 2) explicitly misleads as to the source or content of the work.

Rothschild sought to invoke the *Rogers* test in an earlier failed motion to dismiss. Analogizing Andy Warhol's "Campbell Soup Cans" series, Rothschild claimed his MetaBirkins are artistically relevant, and do not mislead consumers. Hermès replied that Rothschild's use of "MetaBirkin" to identify and promote his (albeit "artistic") activities is the essence of trademark use. The Court reserved determination on the *Rogers* defense. On the merits, the Court concluded that while the MetaBirkins are indeed artistic works, the "MetaBirkin" mark was "explicitly misleading" as to the source of the artwork. This was based, in part, on evidence of actual confusion as to an association between the MetaBirkins NFTs and Hermès' BIRKIN trademark, as well as Rothchild's bad faith intent to profit from the BIRKIN mark, notably through accessorial marketing activities tied to the NFT project, all the while using the mark in relation to lesser-quality goods.

Ripps, for his part, also filed a motion to dismiss (in addition to an anti-SLAPP motion to strike), arguing *Rogers*. Ripps claimed the lawsuit intended to silence the protest to unmask the alleged alt-right and neo-Nazi imagery underlying the BAYC NFTs. Unlike Rothschild's motion, here the Court concluded that *Rogers* did not apply because the RR/BAYC NFTs were not an artistic work; they did not express an artistic idea or point of view, but instead point to the identical online digital images associated with the BAYC collection. The Court relied on Ripps' activities designed to sell the alleged infringing NFTs, rather than express artistic speech, such as the lack of critical commentary and the use of the BAYC logo. The Court compared it to be no more artistic than the sale of a counterfeit handbag and dismissed the motion.

Notable Takeaways for IP Rightsholders and Users

While the jury in *Hermès* found that "MetaBirkins" were not shielded by the First Amendment, this does not mean that NFT art assets are broadly barred from free speech protection. In Hermès, the Court found that NFTs can be artistic works, and thus subject to the *Rogers* test. On the other hand, the Yuga Labs case highlights the importance of understanding the technology that underpins NFTs in an intellectual property context. Indeed, the Court did not consider RR/BAYC as artistic works, and thus subject to *Rogers*, since they lacked creativity, being identical copies of the BAYC assets.

It will be interesting to see how the *Rogers* test's nuance develops further in the virtual space and is applied in future cases involving purely conceptual art in the realm of NFTs. While the comparison to Warhol's "Campbell's Soup Cans" did not stick in the Hermès case, there may well eventually be a permutation of NFTs akin to Warhol's Soup Cans—that are artistically relevant, without being misleading as to their source.

Further, despite the instinct of IP lawyers and artists to presume a copyright issue, both of these NFT cases center instead around trademarks. Hermès, for its part, could only rely on trademark and related rights, since handbags (even luxury fashion bags) are typically not protected by copyright in North American law, since they are considered to be useful articles. Hermès's claims were therefore founded in infringement of its BIRKIN trademark and appearance of the Birkin bag, which itself is trademarked.

As for Yuga Labs, perhaps the uncertainty as to whether AI-generated images are indeed copyright-protected prompted the plaintiff to exclude a copyright claim. Interestingly, Ripps counterclaimed that there is no copyright in the BAYC images since most of the 10,000 BAYC images are not created by a human, but instead are assembled by an AI model.

The potential (and limits) of IP law will undoubtedly be further explored as more cases come out of the virtual world. The *Hermès* case tells us that trademarks and their infringement exist in the virtual world. In particular, it highlights the increasing importance for brand owners to register their marks for use on virtual goods and services, or "metaverse classes."

From a commercial standpoint, businesses are increasingly interested in exploring how to take advantage of NFTs and their inherent brand value. For example, NFTs offer a way of anchoring business activities in the virtual landscape, with or without actual revenue streams. However, as IP rights in the virtual world are still being defined, the potential benefit of developing a brand identity in the virtual realm should be considered in relation to the potential risks associated to branding efforts in this developing space.

Finally, it must be kept in mind that US district court opinions are not binding on other district courts, courts of appeal, nor, of course, Canadian courts—but may nonetheless have some persuasive effect, especially in this burgeoning area of IP law. Brand owners and NFT creators ought to watch out for a potential *Hermès* appeal, the Yuga Labs decision when it issues, as well as other cases involving NFTS, like *Nike v. StockX*. Rothschild, for his part, has brought a renewed motion for judgment based on errors he believes the court made, which could lead to a new trial. We are therefore unlikely to see the end of this matter any time soon.