

Hermès v. Rothschild Judgment:

Conflict between freedom of artistic expression and trademark owner's rights in a blockchain environment

Given the rapid development of new technologies, the question often arises as to what extent existing "traditional" legal concepts are able to encompass these developments and to what extent they can be applied to the reality of relationships arising in the metaverse or in blockchain.

A partial answer was provided by the District Court for the Southern District of New York with its judgment in Hermès v. Rothschild on 8 February 2023. This litigation has been widely followed, both by IP professionals and those seeking to capitalize on the opportunities presented by such novelty and the associated blurred boundaries in the world of blockchain and the metaverse. It was one of the first publicized cases in which the court addressed the boundaries between the rights to an NFT, the imaged (underlying) object, and the freedom of the creator of the NFT.

First, a brief explanation of what an NFT is: "NFT" stands for Non-Fungible Token. It is, in simple terms, a unique non-interchangeable token (as opposed to an interchangeable cryptocurrency token), a kind of certificate written in a blockchain database that is linked by metadata to an underlying digital object, often a visual work, which it authenticates, and to which it certifies certain, mainly property rights. NFTs are typically exchanged for cryptocurrencies, notably Ethereum. NFTs experienced a significant boom during the COVID-19 pandemic, when their most famous series, the "Bored Ape Yacht Club", a collection of 10,000 tokens with drawings of apes, appeared. At its peak last May, their market capitalization was more than \$4 billion. The success of "Bored Ape" attracted many creators of other NFT projects.

One such project was "MetaBirkin", in which Mason Rothschild created and subsequently sold 100 NFTs featuring modified images of the famous Birkin luxury handbags.

Hermès obviously did not approve of this, and considered it to be an infringement of its intellectual property and consequently brought an action against Mason Rothschild based on its trademark rights and protection against unfair competition.

Rothschild's defence was based primarily on the argument that the NFT "MetaBirkin" and the related use of the Hermès trademark was creative artistic expression and as such was protected by the freedom of expression guaranteed by the First Amendment to the United States Constitution. The court disagreed with Rothschild's defence and sided with Hermès, with the jury concluding that the "MetaBirkin" NFTs were created with commercial intent, were likely to cause a likelihood of confusion with the "Birkin" trademark, and that, therefore, the use of the trademark without the consent of its owner could not be justified under the protection of free speech.

This decision has been presented in some media as a precedent that will strengthen the position of trademark owners vis-à-vis creators of NFTs and other digital content in the metaverse in the future.

However, such a view is highly simplistic. Leaving aside the obvious fact that this is a decision of a court in the United States, which may not have a significant impact on the decisions of courts in other countries,

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and the fact that it is so far only a first instance decision, one has to wonder from a European perspective how courts in EU countries would rule in a similar dispute.

In this respect, it is crucial that the dispute concerned a specific situation where a world-famous trademark was used to create the NFT. It can be assumed with some degree of probability that in the circumstances (primarily the commercial intent of the creator, a well-known trademark with a good reputation), the courts in EU countries would probably also conclude that the creator/seller of the NFT had infringed the rights of the owner of such trademark, regardless of whether or not the trademark was registered for virtual goods and services related to the metaverse. However, it is highly uncertain that a court would rule in a similar manner in a case involving a conflict with a lesser-known trademark where the owner, for example, would be unable to prove its reputation.

Therefore, trademark owners who wish to protect their trademark in a metaverse environment (especially those trademarks that lack sufficient notoriety and reputation) should review the scope of the goods and services for which they have registered their trademarks and, where appropriate, extend such scope accordingly.

In this context, it is worth noting that last autumn the European Union Intellectual Property Office (EUIPO) sent out for consultation a draft revision of its Guidelines on Trade Marks, in which it addresses the classification of "virtual goods" and NFTs and the conditions that they must meet. The amended guidelines are expected to be issued in the coming weeks and will already be followed by the EUIPO when examining trademark applications.

This article was prepared by Hynek Peroutka, Partner and Leader of the firm's Intellectual Property practice and by Jakub Křivka, associate. No information contained in this article should be considered or interpreted in any manner as legal advice and/or the provision of legal services. This article has been prepared for the purposes of general information only. PETERKA & PARTNERS does not accept any responsibility for any omission and/or action undertaken by you and/or by any third party on the basis of the information contained herein.