Professional Perspective

Applying US Trademark Law to NFTs

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Non-fungible tokens (NFTs) are an unprecedented convergence of technology, art, branding, and commerce. Brand owners are struggling to take advantage of new opportunities and to cope with new challenges using trademark doctrines developed for different contexts and different times.

While US trademark law is not currently ready for NFTs, there are proactive steps that brands can take in the meantime to protect their intellectual property. This article summarizes the basics of NFTs, examines legal doctrines applied to some high-profile cases, and offers best practices for brands and creators in the space.

The Basics

A token is a digital asset recorded on a blockchain. A cryptocurrency unit such as a bitcoin is a fungible token—bitcoins of the same denomination are generally interchangeable. NFTs are tokens that are uniquely identifiable on a blockchain; they may be used to authenticate an interest—such as ownership—in a specific asset, and every NFT is unique. While an NFT can be traded like a bitcoin, its value is ultimately determined by that of a willing buyer's interest in that asset.

For example, let's say a photographer took a picture of an adorable puppy. On the one hand, the photographer could simply post that photo somewhere online; alternatively, she could tokenize it by connecting the image to a token stored on a blockchain with a legal agreement designating ownership interest of that original file with the sale of the token, and could sell the resulting NFT.

Somebody who merely found and downloaded that image from the internet would have a digital file containing the photographer's puppy picture. Assuming that when the photographer sold the NFT she also sold all rights to the picture associated with the it, that person who downloaded the photo would also have committed copyright infringement.

NFTs can similarly be associated with physical assets, like a bottle of fine wine or a physical painting, and buying that kind of NFT may establish ownership of those particular items. NFTs can therefore be used as a way of buying and selling rights to valuables that remain in a vault somewhere. They can also be a means of ensuring provenance of the asset.

This combination of uniqueness, transparency, and tradability makes NFTs both artistically and commercially compelling.

Brands and NFTs

Pioneering brand owners are finding new ways to engage with their communities through NFTs associated with images that include logos or other branding.

In December 2021, Nike announced its acquisition of NFT studio RTFKT, and since then it has launched CryptoKicks virtual Nike sneakers, which are sold as NFTs that allow users' avatars to wear their CryptoKicks in the metaverse. Some CryptoKicks have reportedly sold for well above six figures.

Gucci, Burberry, Coach, Louis Vuitton, and other fashion houses have also started using NFTs in various creative ways. Gucci created an NFT of a film inspired by its Aria collection, which sold for $25,000. Louis Vuitton introduced the "Louis Game," an electronic game with hidden NFTs created in collaboration with artist Beeple. But third parties have also sold branded imagery as NFTs, leaving brand owners and courts struggling to apply existing law to this brave new world.

Art vs. Brand Protection

Los Angeles-based artist Mason Rothschild has found himself butting heads with Hermès. Rothschild created MetaBirkin NFTs as part of an Art Basel Miami project. A MetaBirkin is an image of a bag that has the distinctive Birkin shape and sold via an NFT.

Hermès filed a complaint in the Southern District of New York against the artist for trademark infringement, requesting that the artist cease use of his activities surrounding the MetaBirkins.com domain name, transfer the domain to Hermès, and pay damages, including profits from selling the MetaBirkin NFTs—the first of which sold for $40,000. Mr. Rothschild invoked First Amendment protection in response to the Hermès suit, arguing that his NFTs were digital works of art, not real handbags, and his use of Hermès' trademarks was an artistic reinterpretation of a known cultural touchpoint.

At least since Andy Warhol used Campbell's soup cans to create one of the most widely recognized works of American modern art, trademarks have been included in creative expression, and courts have been grappling with the tension between the First Amendment and trademark law. In 1989, the Second Circuit handed down the landmark case Rogers v. Grimaldi, which concerned the use of Ginger Rogers' name in a movie.

The Second Circuit established that purchasers of art works, "like the purchaser of a can of peas, has a right not to be misled as to the source of the product," but trademark law should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression. Applying this decision, courts have found the First Amendment protects trademark use in works of art where the defendant's use of the trademark has artistic relevance to the work and does not mislead as to the source or content of the work.

No one was likely to think that Campbell's had gotten into the fine art business when Andy Warhol released his famous works. Generally, the courts have applied *Rogers* where brand owners assert trademark rights in something other than works of art, and the distinction between art and goods has afforded courts an opportunity to protect free expression in a way that has minimal impact on brand owners.

However, with consumer brands increasingly engaging in the NFT market, those decisions are distinctly less relevant. A Birkin-branded NFT could as easily have come from Hermès. Moreover, while the MetaBirkin is not a real handbag, it is a digital collectible that derives its value from Hermès' iconic brand, in part through the use of the Birkin trademark. If not for this association with Hermès, would anyone buy a MetaBirkin NFT for $40,000?

Brand Protection vs. Retail

Another doctrine that has been invoked by third-party sellers of branded NFTs is the first-sale doctrine. The first-sale doctrine holds that once a trademark owner sells a branded product, third parties are entitled to use that trademark in the resale of that product. It is why a resale clothing site can use a third party's trademark in advertisements for resale of that third party's products.

But the doctrine has limited application to the world of NFTs. The first-sale doctrine does not allow a reseller of branded handbags to create and sell branded NFTs because the first-sale doctrine does not apply to anything that the brand owner itself did not first sell. Nor would the first-sale doctrine permit a third party to sell virtual branded handbags to carry around the metaverse.

Best Practices for Brands

If a company loses the ability to police the commercial use of its trademarks, it loses the ability to control the message, affiliation, endorsement, or association of its brands. NFTs are becoming increasingly important as means of expression and engagement, and consumer brands can ill afford to lose the ability to police their marks in this context.

Trademark law has—eventually, more or less—adapted to significant technological upheaval within the past decades with the emergence and evolution of e-commerce. Eventually, the US Patent and Trademark Office and the courts will sort out the application of trademark law to NFTs, with or without help from Congress. In the meantime, savvy brands are being proactive in a variety of ways.

- First, brands are seeking NFT-specific trademark registrations. As of April 2022, over 4,600 federal trademark applications have been filed for NFTs. In particular, those brand owners that are considering engaging with consumer communities through this medium should file for trademark rights that are specific to NFTs and even goods and services specific to the metaverse.

- Brand owners should also take note of any potential ambiguity in how existing licenses might be interpreted in this new context. Miramax is currently in litigation against Quentin Tarantino in a dispute that centers on whether Tarantino's "Pulp Fiction" NFTs impinge rights that were contractually assigned to Miramax back in 1993. The dispute turns on analogizing rights assigned in a contract that, of course, did not contemplate NFTs.

- Brand owners should watch the NFT markets as a necessary aspect of policing their brands. There are tools and platforms, such as watch services and digital platforms that help brands access data such as insights on customers, markets, and competitors. These tools help track how brands are being used and mentioned, and they provide comprehensive reports on a weekly or monthly basis.

- For their part, creators of NFTs should be mindful of securing proper permission from a trademark owner before including third party branding in NFT content to avoid the risk of conflict.

- Finally, participants in this market should be mindful of the nature of blockchains themselves. Blockchains are inherently transparent. Brand owners can look to the blockchain to find information that may identify participants in the marketing of NFTs.

It will take time for the courts to apply trademark law to this revolutionary means of expression with predictability. In the meantime, brand owners and the creators and buyers of NFTs will need to proactively use the tools available to them to create their own clarity.