

Dotting I's and crossing T's when it comes to trade marks and NFTs

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In a contentious shift towards a decentralised "Web3", NFTs have been all the craze of late.

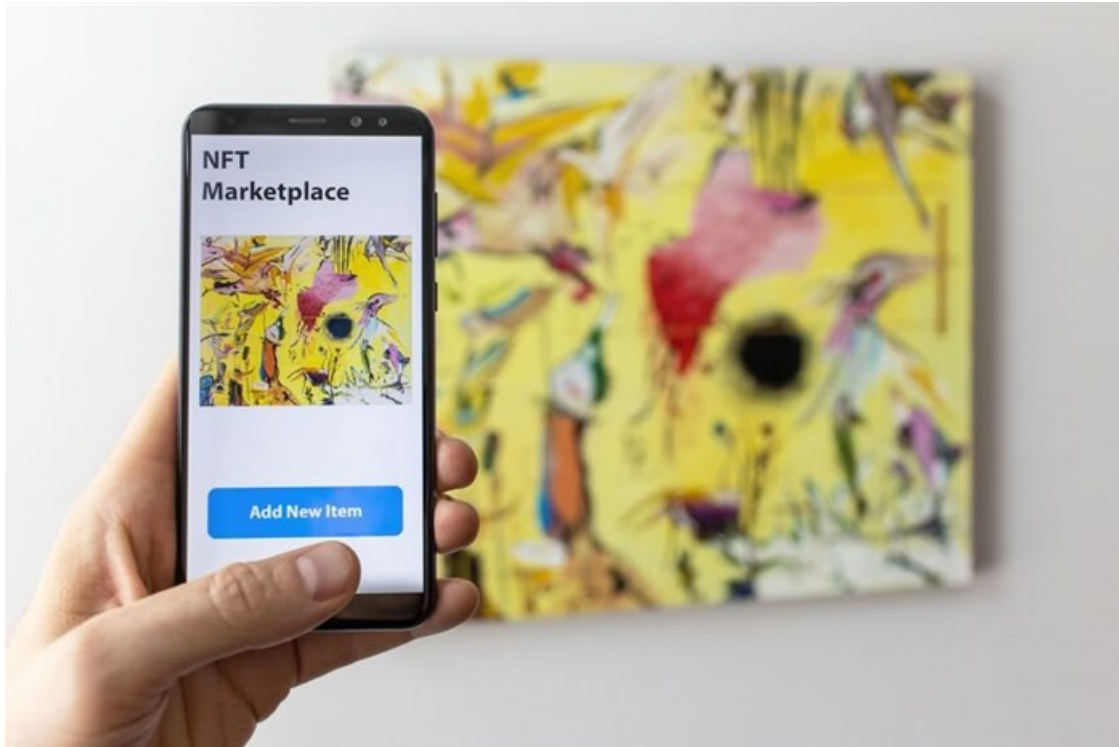


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NFT is an acronym for “non-fungible token”. Simply put, an NFT is a digitally stored asset in which the subject can vary from art to music and all forms of media in-between. The co-founder of Twitter has gone so far as to “mint” (create) an NFT of his first-ever tweet, selling it for a staggering amount of more than \$2.9m.

At their essence, NFTs are tokens used to represent ownership of digital assets. NFTs are underpinned by blockchain technology, generally Ethereum blockchain. Blockchain is a digital ledger/record of transactions and, in the context of NFTs, records transactions involving the purchase and re-sale of NFTs from their minters to purchasers.

A “smart” (or digital) contract, based on software in the underlying blockchain technology, regulates the functioning of NFTs from verifying ownership, recording transfers thereof, and even facilitating automated royalty payments to the NFT owner in the event of a re-sale.

Currency, whether crypto or normal Central Bank legal tender, is fungible in the sense that it is exchanged in like – a dollar for a dollar. However, NFTs, being non-fungible, derive their value from the fact that there is no like for like. An NFT is more analogous to a limited-edition item, much like a one-of-a-kind artwork that is stored digitally.

Lucrative opportunity

For artists and creators, NFTs present a lucrative opportunity to circumvent the traditional channels of selling art in art galleries and collecting royalty payments through regulatory bodies. Selling an NFT in online NFT marketplaces enables artists to trade directly with consumers and potentially receive the largest remuneration for their work. In March of 2021,

Beeple's *Everydays: The First 5000 Days*, an NFT comprising a collage of the artist's previous artworks, sold for an unprecedented \$69.3m – the highest grossing NFT to date.



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Recently, many brands and even celebrities have jumped on the NFT bandwagon. Interestingly, Quentin Tarantino is set to release NFTs of high-resolution scans of his original handwritten screenplay of *Pulp Fiction*, coupled with drawings inspired by specific scenes. Whilst it appears that this will be met with opposition from Miramax, the production company which owns the copyright and trade mark rights to the film title, the NFT buzz has caught the attention of the world over.

Trade mark infringement

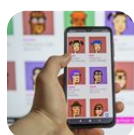
However, as a result of NFT marketplaces being largely unregulated, brands and artists face the risk of potential unauthorised use of their intellectual property, including trade marks and copyright, in the minting of NFTs.

Whilst there has been no decided case law to reference, trade mark infringement proceedings remain a viable strategy in the enforcement of registered trade marks in the event of their unlicensed use in NFTs. In trade mark infringement proceedings, liability may largely depend on whether or not the trade mark is registered for NFTs and digital assets based on blockchain technology or similar goods and/or services. Based on normal principles of trade mark dilution, it is conceivable that infringement proceedings may be based on a registered well-known trade mark even if the trade mark is not registered for NFTs or digital assets. This cause of action would likely succeed if the unauthorised use of the mark through an NFT would negatively impact the distinctiveness, commercial value, or even the advertising value of the well-known trade mark.

Copyright infringement

From a copyright perspective, direct infringement of a copyright protected work (eg. artistic work) can occur when reproduced or adapted into an NFT without authorisation from the copyright owner. Copyright infringement is likely to be as prevalent as trade mark infringement proceedings in the NFT sphere, given that artistic and literary works are among the assets which typically underlie NFTs.

Purchasers and creators of NFTs should remain wary of issues surrounding ownership of the intellectual property in the underlying asset of the NFT (eg. copyright in the artwork). In the normal course, the ownership of the IP subsisting in any underlying asset will not transfer to the purchaser unless specifically provided for in the smart contract or any further concluded contract between the seller (who must have the right to transfer title) and the purchaser. Furthermore, there have been instances where specific IP rights have been licensed to the purchaser from the creator. As such, the purchaser has been able to commercialise the NFT up to a specific amount. Licences can be set out in the smart contract embedded in the blockchain or agreed separately. For the purchaser, this means that its use of the NFT will be limited and it will largely only be able to make personal use of the NFT in a digital wallet and advertise the NFT for re-sale.



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Rights protection

Brands and creators looking to protect their trade marks and enforce their rights in online NFT marketplaces against

unauthorised use of their trade marks in NFTs should consider reviewing their trade mark portfolios to ensure that their trade marks have been filed to afford protection in the NFT and blockchain space. It is interesting to note that in the United States of America, trade mark filings related to NFTs have soared from three filings in 2020 to 1263 filings at the end of 2021. This shows the immense growth in the NFT/blockchain space in a short period and the need for brands to ensure that they are adequately protected, going forward.

A surface-level search of NFT marketplaces relating to brands would reveal several results and representations of luxury fashion brands such as Gucci, Balenciaga, Yeezy, and Rolex in various NFTs. However, it is not only the luxury fashion industry that should remain concerned over how they are being represented in this space. Brands in general are similarly seeing their trade marks being used in the underlying assets of NFTs for sale and/or auction.

At present, the waters remain untested when we speak about the enforcement and protection of IP rights in relation to NFTs. Some clarity may be provided based on how the courts in the United States of America will deal with the issue in two such cases that have risen to prominence of late.

Nike Inc. v StockX, LLC

Nike has filed a lawsuit against StockX, a digital resale marketplace, over its use of Nike's trade marks in relation to its NFTs and has contended that such use constitutes trade mark infringement, false designation of origin, and trade mark dilution. Nike has alleged StockX has used its goodwill in minting NFTs that prominently use its trade marks and selling those NFTs at inflated prices to consumers.

StockX has released nine limited-edition "Vault" NFTs. Eight of these NFTs are linked to Nike shoes. StockX has argued that its NFTs

“depict and represent proof of ownership of physical goods stored in our vault that customers can trade on our platform. StockX Vault NFTs are not digital or virtual sneakers. We do not state or imply that our Vault NFTs are associated with, sponsored by or officially connected to any third-party brand.”



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This argument by StockX is interesting as the American first sale doctrine allows for the resale of goods and displaying images of those goods that may include trade marks, limiting the rights of an intellectual property holder. StockX argues that it is essentially carrying out the same resale transaction, as the NFT simply stands in the place of the physical shoes until such a time as the physical shoes are redeemed.

Hermès International and Hermès of Paris Inc. v Mason Rothschild

Hermès has instituted proceedings against a digital artist, by the name of Mason Rothschild, alleging that he has used the likeness of its Birkin Bags in the creation and sale of his NFTs “MetaBirkins”, a collection of NFTs tied to digital art depicting handbags inspired by the iconic Birkin bag. Hermès further alleges that Rothschild’s MetaBirkins have appropriated its rights in its Birkin trade mark, and that such use amounts to unfair competition, trade mark infringement and dilution.

Rothschild argues that his NFTs are original artworks and that, consequently, they receive special protection under the First Amendment as expressive art. Rothschild has described his MetaBirkins as a “unique, fanciful interpretation of Birkin bag” and that

“ *the First Amendment gives [him] the right to make and sell art that depicts Birkin bags, just as it gave Andy Warhol the right to make and sell art depicting Campbell's soup cans.* ”

At present, the total sale for the MetaBirkins NFT stands at over \$1m.

Whether Rothschild’s MetaBirkins are indeed protected as expressive art is yet to be decided. However, Hermès may face a bigger challenge in showing that its trade mark rights, which are typically for leather goods, specifically handbags, extend to the Rothschild’s use of images based on leather goods, in the minting and sale of his MetaBirkins NFTs.

In an ever-changing digital landscape, brand owners need to stay abreast of recent tech developments to ensure that they capitalise on trends such as NFTs as well as safeguard their trade marks and related IP from misuse in the respective marketplaces. We will be monitoring the NFT and blockchain space closely.

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