Using Others' Trademarks in the Metaverse is Risky

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In February of 2023, a jury in New York handed down a decision in *Hermès v Rothschild*[1] that should be on your radar if you make, use, or sell NFTs in the metaverse. Creators should know the risks of using trademarks in the metaverse.

Background: Trademarks in the Metaverse

The application of intellectual property laws to NFTs (non-fungible tokens)is a developing area of law, and the *Hermès v Rothschild* case provides an important milestone to clarify the application of these intellectual property rights in the context of NFTs. For a primer on NFTs and how intellectual property laws apply generally, check out this article: Intellectual Property Considerations of NFTs.

In this case, an artist named Mason Rothschild created 100 NFTs depicting Hermès bags and called them "MetaBirkins." Rothschild's virtual metaverse bags were covered in colorful fur rather than the Birkins' leather in the tangible real world. These NFTs can be bought and sold by collectors much like the other works of art. To protect its Birkin brand, Hermès sued Rothschild for trademark infringement. Rothschild claimed he was an "artist" whose MetaBirkins were constitutionally protected works of transformative art providing social commentary on Hermès "ultra-expensive" Birkin bags. In essence, Rothschild tried to make the case that his NFTs were more artistic expression and personal opinion rather than an infringing product, because at the time Hermès had clearly established trademark rights in tangible handbags but not in virtual handbags. The court and jury were faced with the following question: are the NFTs considered artwork and protected speech, or was this trademark infringement?

One of the key legal issues in the case was the extent to which the NFTs can infringe existing trademark rights for the non-NFT uses. In particular, the case considered whether the creation of a MetaBirkin bag (a virtual product) infringes Hermès' trademark rights embodied in its use of the BIRKIN trademark and related trade dress embodied by physical Birkin bags and their distinct appearance.

The jury returned a verdict finding the Rothschild's creation and sale of the MetaBirkin constituted trademark infringement, trademark dilution, and cybersquatting of Hermès' protectable intellectual property rights, and additionally were not protected by the First Amendment as free speech. This decision by the jury affirmed Hermès position that its sale of its traditional luxury bags (which at the time had not yet been sold as NFTs) are infringed by the sale of Rothschild's MetaBirkin virtual NFT products. The court's decision to treat the NFTs as artwork likely is heartening to digital artists as it recognizes trademark rights in the Metaverse, but the jury verdict casts a cautionary shadow. Even artwork can infringe trademark rights when it misleads consumers as to the source of the work.

How Does the *Hermès v Rothschild* decision impact future legal questions surrounding NFTs and trademark rights?

The *Hermès v Rothschild* case is important because it signifies that as the digital marketplace continues to grow, as NFTs and other virtual creations continue to evolve, and as a new digital mediums continue to develop, brand owners like Hermès and others will not be left without any protection. The Hermès decision gives a clear warning to NFT and other creators that there is no leeway for commercial use of a company's well-established brand (like the Birkin brand) even if the trademark owner/company is not yet operating in the metaverse with its product offerings.

> Bottom line: if somebody commercially exploits another's brand with the intent to profit from and mislead consumers about that brand, mere cries of artistic expression will not shield such conduct from a brand owner's trademark rights.

That said, this case also creates some openings for transformative art, including its use as social commentary on brands. The delicate balance between constitutionally protected speech under the First Amendment to the Constitution and those rights protected under federal trademark law — a balance in place long before NFTs and the digital marketplace existed and one that will likely continue to exist long into the future — continues to be a fact-intensive and fact-dependent analysis. As a takeaway, the case shows the importance of creating a strong trademark that is distinct from other brands so as to garner a wide berth of trademark protections. For tips on how to do so, check out this article: How to Create a Strong Trademark.

What else should you have on your radar? Integration of AI and the Metaverse

Going forward another related area to keep an eye on is artificial intelligence ("AI"). As the Hermès case demonstrates, the Metaverse, a virtual shared space, is becoming more than just a futuristic vision — it is becoming a tangible reality where intellectual property rights can be protected. At the heart of this evolution lies the integration of AI, creating what can be termed as "Metaverse AI." This groundbreaking combination has the potential to revolutionize the way we interact, socialize, work, and experience the digital world.

While NFTs have gained significant attention, the integration of AI into this space has the potential to affect the field. The intersection of AI and NFTs presents exciting opportunities for AI-generated art and creates an emerging area of intellectual property law dealing with the question of how intellectual property rights are protected in the Metaverse.

For more information on trademarks, please contact Sean Detweiler.

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1. *Hermès International v. Rothschild*, 22-cv-384 (JSR) (S.D.N.Y. Feb. 14, 2023 [↩]