Issue 2 2022

The Trademark Lawyer

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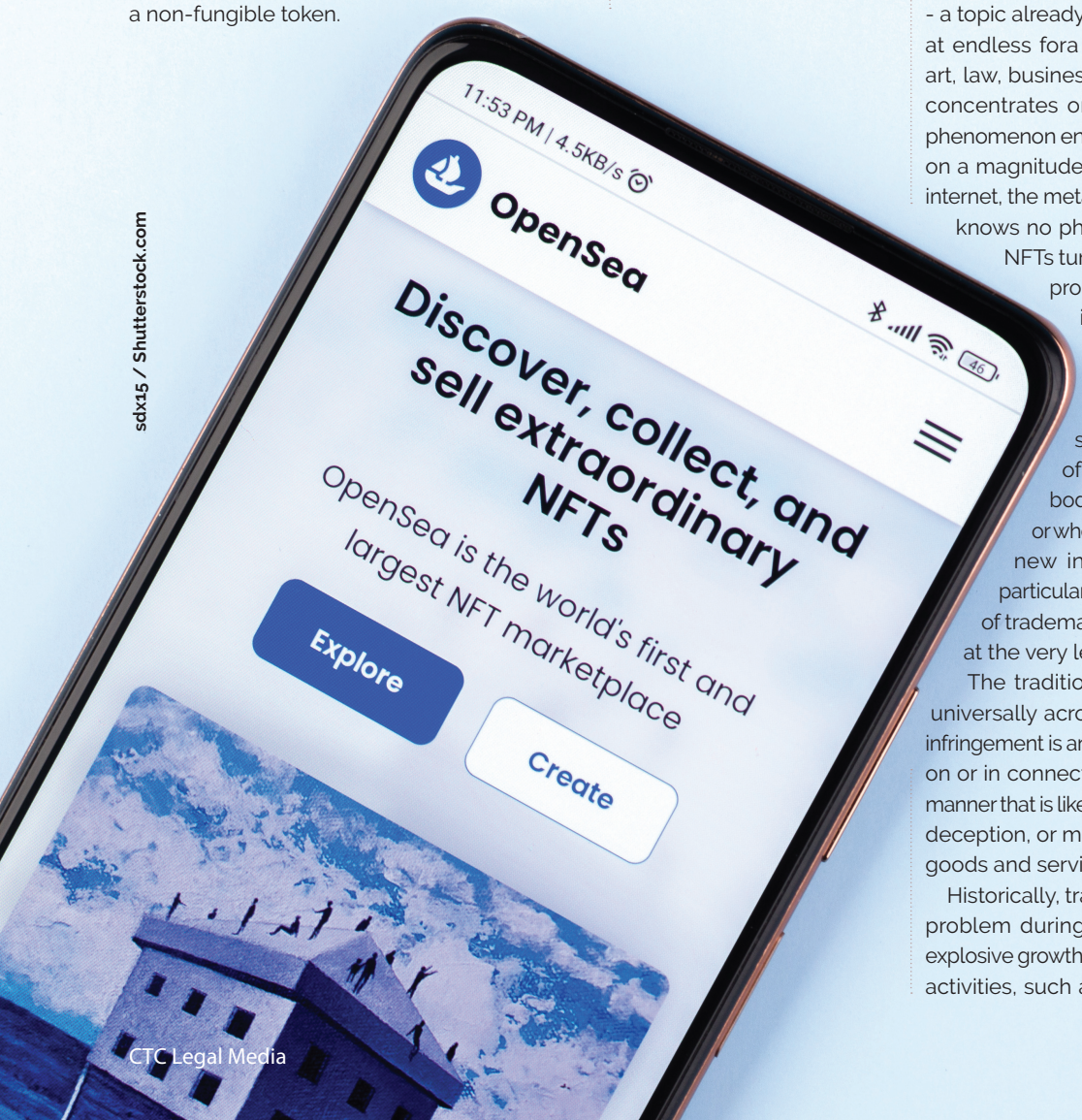
NFTs – protection of trademarks in the realm of blockchain

Max Vern, Partner and Head of the International Department at Amster, Rothstein & Ebenstein LLP, concentrates on the practical aspects of the NFT phenomenon which is engaging trademark rights holders on a magnitude rarely seen before.

2021 was the year for the digital universe to witness a breakthrough to the mainstream of a new creature – an NFT, a non-fungible token.



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Putting aside the discussion of origin and characteristics of the NFT, starting its days in 2014, and the blockchain platform on which it exists - a topic already grinded and pulverized to ions at endless fora dealing with the virtual world, art, law, business, even real estate - this article concentrates on the practical aspects of this phenomenon engaging trademark rights holders on a magnitude rarely seen before. Just as the internet, the metaverse (unlike the physical world) knows no physical borders and the issue of NFTs turning into vehicles of intellectual property rights infringement almost instantaneously attracted apprehension of rights-holders.

The core question to address when dealing with NFTs in the situation of alleged infringement of IP rights is whether the existing body of law would apply and protect or whether there is something inherently new in the metaverse, and NFTs in particular, which makes traditional theories of trademark enforcement inapplicable or, at the very least, dictating adjustment.

The traditional postulate followed almost universally across the globe is that trademark infringement is an unauthorized use of a trademark on or in connection with goods or services in a manner that is likely to cause consumers' confusion, deception, or mistake about the source of such goods and services.

Historically, trademark owners faced a similar problem during the 'dot.com revolution', with explosive growth of new mechanisms of economic activities, such as online marketplaces, initially

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Résumé

Max Vern is a Partner and Head of International Department at Amster, Rothstein & Ebenstein LLP, one of the nation's leading intellectual property law firms, focused on a full-service IP practice.

Max works with global brand owners, from start-ups to industry leaders, to secure and enforce their intellectual property in the U.S. and around the world. He focuses on all facets of domestic and international trademark portfolio protection, strategic development, management and monetization, as well as enforcement.

Max's background, extensive international experience and multilingual capabilities facilitate communications and thorough understanding of IP owners' needs and requirements.

He is listed in the 2022 World Trademark Review WTR1000 in the "Gold" Tier in the Prosecution and Strategy category and 2021 edition of WTR300, and also in the WHO'S WHO LEGAL Trademarks, Euromoney Investor Expert Guides, Legal Media Group's Expert Guides, International Advisory Experts Award, and Corporate LiveWire Global Awards.

drove trademark owners catatonic on encountering novel forms of encroachment. Yet, the reality showed that, with certain fine-tuning, the traditional trademark law theories were successfully applied to counter the illicit activities.

Just as 'everything old is new again' - following Swift's adage - the conjectures of the trademark law and practice would arguably also apply to the new realities of trademark protection on the blockchain, including NFTs.

Both for the issues of NFTs' interaction with trademarks and copyrights (an equally engaging topic) and protection and enforcement, it seems that one has to recognize the duality of a non-fungible token. It is both a digital asset and a digital certificate of ownership. While the latter addresses the issue of ownership [of the asset], since it exists on the blockchain ledger it can be always tracked and is of lesser concern to the trademark protection question, it is the 'digital asset' side of the NFT which poses a bigger challenge, as discussed below.

> **"It is both a digital asset and a digital certificate of ownership."**

An NFT is a digitally encoded asset, only different from the physical world item that the latter is tangible, while a non-fungible token exists on the blockchain in the non-tangible form. In other words, it is a digital expression of a physical world object (though not necessarily corresponding to one), whether an object of art, a piece of jewelry or apparel, a toy, or a car, but what it shares with the latter is that, unlike purely digital files, by definition in finite in supply, an NFT is not. It is unique and is infinite and limited supply and, thus, its value may grow in the eyes of the right market players almost immeasurably. NFT's digital authentication gives it uniqueness. Just like there is one certain Botticelli painting and one certain Ferrari car having a "stamped" VIN number, so is the NFT, which immutable "stamped" digital existence on the ledger authenticates that its holder owns the one and only item, raising its oftentimes hyper-inflated (think, 'tulip' mania' in the 17th century Holland) value, whether it is an 'artwork' NFT or a branded NFT. And that's where the trademark issues enter the stage.

Throughout most of the last year, trademark owners have been warily watching the proliferation of NFTs, in many instances using brand names, apparently without rights-holders approval, and it was only a matter of time for the issue to culminate in a court-test.

Not to say that trademark owners sat idly. Indeed, many got involved (or joined forces) in minting NFTs, from Gucci, to Louis Vuitton, to Coca Cola and Mattel. The metaverse is a huge and lucrative market with enormous growth potential, and NFTs are nothing short of a perfect vehicle for monetization of existing branded products. Since the sale at Christie's in early 2021 of the digital-only NFT "Everydays: The First 5,000 Days" by Beeple (a.k.a. Mike Winkelmann) for the breathtaking US$69.3m, the message was loud and clear. Alas, heard not only by brand owners but also by players eager to jump on the bandwagon and 'mint' (no pun) easy money off the back of legitimate rights-holders.

Further, following the traditional path of securing protection via federal registration with the U.S. Patent and Trademark Office (which even in such common law jurisdiction as the U.S. bestows undoubtedly significant advantages to the owner), rights-holders are actively expanding their scope of protection, seeking registration of their marks for metaverse-specific goods and services - from NFTs and downloadable virtual goods to retail store services featuring such virtual products. And these new filings come from all industries, not just luxury goods, entertainment, sports and apparel such as Burberry, Prada, Billie Eilish, LeBron James, or Nike, but also food industry (Tyson, Utz), oil and gas (Texaco, Chevron), aviation (Cathay Pacific), even pets (The American Kennel Club), and endless others. As of the date of this article, the USPTO record shows close to 3,000 U.S. applications listing NFTs.

And it was inevitable that, after the initial load-up period, with the volume of brands' abuse skyrocketing, trademark owners turned to court enforcement of their rights.

The two broadly touted ongoing cases, involving NFTs and closely followed by rights-holders everywhere, are lawsuits filed in early 2022 with the U.S. District Court for the Southern District of New York - *Nike, Inc, v StockX LLC, 1:22-cv-00983 (SDNY)*, and *Hermès International v. Mason Rotschild, 1:22-cv-00384(SDNY)*.

In the former case, the sportswear giant Nike asserts that the footwear and sportswear marketplace StockX offers, without authorization, NFTs (called "Vault NFTs") featuring certain models of Nike's footwear and, by doing so, the defendant is engaged in trademark infringement, dilution and unfair competition. According to the complaint, StockX sold more than 500 Vault NFTs, trading for thousands of dollars in the ethereum equivalent, as NFTs are secured by the Ethereum blockchain. In its complaint, Nike succinctly states that NFTs are 'a virtual playground for infringers to usurp the goodwill of some of the most famous trademarks in the world and use those trademarks without authorization to market their virtual products and generate ill-gotten profits'. Nike further asserts that the defendant has inflated the prices of its Vault NFTs and has 'murky terms of purchase and ownership' and this 'already led to public criticism of StockX and allegations that Vault NFTs are a scam'. This, along with StockX calling its Vault NFTs 'investible digital assets' and '100 percent authentic', may well support Nike's allegations of infringement as well as dilution.

Of interest is also the fact that Nike does not yet have registrations for its brands for digital products (NFTs in particular), and its applications therefor are under the USPTO examination. Hence, Nike also asserts common law rights, stating that it 'for some time incorporated the asserted marks into its virtual products' – indeed Nike has partnered in late 2019 with 2K Sports to offer digital Nike sneakers to be 'used' in the virtual world game, and, moreover, in late 2021, Nike has acquired the NFT sneaker brand RTFKT.

The other case, of no lesser interest and importance to brand owners as both will undoubtedly be the guiding light for rights-holders, is the trademark infringement and dilution lawsuit brought by the French luxury brand Hermès against an artist going by the name Mason Rotschild (sic!) in connection with the latter creating and offering for sale on OpenSea, a major NFT marketplace, a collection of MetaBirkins NFTs representing digital versions of the iconic Hermès handbags.

The ethereum prices of impugned NFTs ranged between US$15,000 and eye-watering US$45,000, and though a fraction of the real-world Birkins price, Hermès stated that this was done in the premeditated attempt to mislead consumers by falsely suggesting a connection between Hermès and the allegedly infringing NFTs. Additional factors indicated by Hermès in its amended complaint were that Rotschild has picked Birkin bags' trade-dress as well as stated on his website and at point-of-sale that the MetaBirkins are a 'tribute to the Birkin handbag', and, moreover, complained of the presence of 'fake' and 'counterfeited' MetaBirkins. In addition, according to Hermès, even reputed publications, such as Elle and L'Officiel (the latter writing '...the digital retailer partnered with Hermès and Rothschild on the project'), have been misled to assume the connection between Hermès and the MetaBirkins.

Hermès has labeled the defendant in the complaint a 'digital speculator who is seeking to get rich quick', and this compendiously defines the status quo in the metaverse in connection with rampant abuse of brands (and copyrights) by unscrupulous parties, seeking to 'hit gold' quick and easy.

Almost sans doubt, the defendants in both cases are expected to assert the 'fair use' defense and in the latter, the creator or MetaBirkins may also turn to the transformative use defense, though more common to copyright cases. Even if the outcome of both cases is far from certain, it is rather axiomatic that the present "Wild West" situation in the metaverse must be addressed as far as protection of intellectual

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property rights is concerned. A possibly very important nuance, while Rotschild remained recalcitrant in his response to the cease-and-desist letter by Hermès, the MetaBirkins were removed from the OpenSea marketplace where they were originally offered and, as of the date of this article, they remain delisted.

The above examples show the reactive approach by rights-holders in tackling usurpation of trademarks, the proverbial 'whack-a-mole' tactics of pursuing each and every instance of infringement that comes into the field of view. Yet, when applied to intellectual property protection and enforcement, the efficient market hypothesis dictates that, save for most blatant and large-scale or highly visible encroachments, it should make more sense to curtail the infringing activity through a more effective centralized effort.

In the physical world, this would translate to thwart manufacturing of infringing products or their sale at the wholesale or retail points. Similarly, with the onset of online marketplaces, the latter became (and to an extent still are) venues for

retail of infringements. As trademark owners turned to suing online retail platforms for contributory infringement, from eBay to Amazon, these marketplaces quickly adopted and now diligently implement strict policies on preventing and dealing with intellectual property infringements, in particular trademarks.

Since NFTs are digital assets, they are minted and saved on the blockchain. The marketplaces for NFTs are commonly accessible (rather than 'darknet' ones) platforms for minting and selling them, such as OpenSea and Rarible, and these are the venues at which trademark owners will point the finger as facilitators of alleged infringements. Prevention of minting of infringing NFTs (if technically feasible) and their landing for sale would truly be a crucial tool for successfully battling infringements. Indeed, these platforms are already aware of the problems they face with letting multiple unscrupulous parties land their NFTs, including, besides reputational damage, likely legal ramifications. OpenSea, being the leading marketplace for NFTs, acknowledges unabated misuse of its NFT-minting tool and that more than eighty percent of the items created were plagiarisms, fake collections and spam, and NFT platforms are now loaded with branded items minted by 'entrepreneurial' actors, in most instances likely without rights-holders' authorization.

Whether platforms and marketplaces facilitating minting and sale of NFTs will introduce rules and protocols for self-policing, or will they cooperate with brand owners who file complaints and have the marketplace implement its takedown policy (removal of MetaBirkins from OpenSea being a likely example), just as Amazon, Shopify and others do today, or will brand owners need to take marketplaces to court, asserting contributory liability, one may safely assume that just like with the online space after its early unregulated days, the metaverse will not remain a territory of intellectual property rights piracy.

In summary, it is not the lacuna in the law but rather the willingness of all parties involved (incentivized by courts, if necessary) to cooperate, which will eventually put an end or at least drastically curtail the present state of rampant anarchy in the burgeoning NFTs market.

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