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THE US “METABIRKINS” CASE IN THE LIGHT OF EU IP AND CONSUMER PROTECTION LAW

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ABSTRACT

In early 2023 a United States (US) court ruled that a crypto art collection named “Metabirkins”, depicting the famous “Birkin” bag of Hermès, infringed trademark rights. This ruling conferred Hermès the power to ban the commercial exploitation of Metabirkins by their designer, through a permanent injunction order. By the time that order was issued, however, several Metabirkins had already been sold to third parties. Taking this case as a point of reference, this paper examines crypto art transactions from the perspective of EU intellectual property (IP) and consumer protection law. First, it clarifies the conditions under which the purchasers and licensees of Non-Fungible Tokens (NFTs) fall under the consumer concept. Then, it examines whether the critical facts would constitute a trademark infringement in the EU, and what would have been the impact of such an infringement on the rightful use of the NFTs by their right-holders. Finally, the paper discusses Directive 2019/770 in protecting consumers and its applicability in the blockchain ecosystem.

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1. INTRODUCTION

Roughly, the term blockchain refers to a database formed within a network of peer nodes, i.e., interconnected computers sharing their resources. The data recorded into this network is sorted chronologically into sequential blocks after having been encrypted through asymmetric encryption mechanisms. The cryptogram corresponding to each new blockchain entry is a continuation of the immediately preceding one.

With these technical features, blockchain can ensure that the content it hosts acquires certain registration date, remains confidential, and becomes tamper-proof. This is achieved without the supervision and control of an external authority. Instead, the peer nodes mutually agree to adhere to a specific security protocol being enforced by themselves. In essence, their consensus concerns a certain verification process for the hash values of the blockchain entries [24].

1.1 The concept of crypto art

Due to the above characteristics, blockchain has been used for the last 15 years to simulate legal relationships and acts which in the analog environment would have been performed through the mediation of public authorities. Such are, for example, the issuance and exchange of value titles known as "crypto currencies". The so-called "Non-Fungible Tokens" (NFTs) represent one of the most recent trends in the pertinent ecosystem [9].

The concept of NFTs was first implemented in the "Ethereum" blockchain which was originally developed to host transactions with the cryptocurrency "Ether". An NFT is the digital fingerprint of a blockchain entry pertaining to an asset, other than money. By entering the blockchain, the asset acquires a unique hash value, which functions as a time-stamped certification of its origin. In this sense, NFTs differ from each other even if they concern assets of the same type and/or of the same beneficiary. They are sold and bought in the blockchain environment in exchange for cryptocurrency or conventional money.

To date, NFTs have been assigned to digital content of various types, from journalistic texts and trademarks to in-game avatars and screenshots. It is argued that even physical assets from the analog environment, such as shares, securities, real estate titles, etc., can be turned into tokens, thus bypassing any legal institutions having supervised until now their issuance and circulation [10]. Primarily, however, NFTs have been used in recent years for the singularization of digital "art" files, such as images, GIFs,

music, videos, etc. A new category of “works” has thus emerged, which are characterized as “crypto artworks” or “tokenized artworks” because they have an encrypted reflection on the blockchain [11].

In many cases the price of NFT artworks has soared into millions. This is surprising, given their nature as digital files. Customarily, the artistic value of digital artifacts has been considered dubious, which has also kept their economic value low. The reason is that, on the one hand, digital files are susceptible to unlicensed use and replication. On the other hand, advanced technology, in particular artificial intelligence (AI), is deployed for their creation. This is considered to reduce the resources required for their production in terms of human labour and material investments, as well as to disrupt the causal link between human contribution and creative output [4]. Therefore, it is reasonable to wonder what exactly the purchasers of crypto art pay for, and what are their rights when the expected qualities are missing.

1.2 The “Metabirkins” case

These contemplations have been brought under the spotlight on the occasion of a dispute which recently occupied US courts between the luxury fashion house Hermès and the pseudonymous artist “Mason Rothschild”. Rothschild created a series of 100 digital images depicting Hermès' famous “Birkin” bag covered in fancy fur. The images were linked to corresponding NFTs on the blockchain and offered for sale under the name “Metabirkins”.

The above activity instigated opposition from Hermès, which has trademarked both the word “Birkin” and the design of its famous bag. The company brought a case of trademark infringement before the US courts and in February 2023 the Southern District Court of New York ruled in its favour, awarding Hermès \$133,000 in damages¹. Shortly after this ruling, Hermès initiated permanent injunction proceedings before the Federal Court of Manhattan. At the end of June 2023 a permanent injunction order was issued, compelling Rothschild and auxiliary persons to: a) refrain from any further use of the Birkin marks, b) transfer the ‘www.metabirkins.com’ domain to Hermès, c) stop using their social media for the promotion of the Metabirkins, d) stop collecting royalties for the NFTs already purchased, and e) transfer to Hermès any profits yielded from the Metabirkins project since the beginning of the trial.

¹Hermès International SA v. Rothschild, S.D.N.Y., No. 1:22-cv-00384, verdict 2/8/23.

The Court declined explicitly to order the transfer of any Metabirkins left in the possession of Rothschild to Hermès, for them to be destroyed. This has been found unnecessary to protect Hermès' interests and "unwise", since Metabirkins are "at least in some respects works of art". Therefore, their removal from the channels of commerce and destruction would cause "constitutional issues". Notably, no order has been sought against the Metabirkins' purchasers compelling them to refrain from any use and to transfer their NFTs to the aggrieved company.

1.3 Framing the issues of concern from the perspective of EU law

The law applied in the above case is very similar to the corresponding EU rules in force. In particular, according to Directive 2004/48 on the enforcement of intellectual property rights², articles 10-13, in case of a registered trademark infringement, the right-holder establishes claims for cease and desist. The cease of the offence is in principle enforced through the removal from trade or even the destruction of the infringing sign and/or any products bearing it. When it comes to desist, the competent judicial authorities may issue injunctions by which the defendant is ordered to refrain from using the infringing material in the future, subject to monetary penalties. The infringer's liability is strict, while the existence of fault justifies concurrent claims for damages.

The above claims may be raised against any user of the infringing material, regardless of whether s/he is the manufacturer, a purchaser, a licensee, a trustee, etc.³ It is also insignificant what are the objectives pursued by the acquisition of the critical subject matter, i.e., whether the user acts on a commercial scale or not. The competent judicial authorities are bound to the principle of proportionality⁴ and have discretion to consider such parameters in the context of ordering appropriate corrective measures and setting the damages in each given case.

Based on recital 14 Directive 2004/48, it is individually argued that end users of signs and products infringing third-party trademark rights, as consumers, are not subject to the above claims [8]. This view is supposedly reinforced by the fact that the preliminary version of Directive 2004/48 explicitly limited its scope to "illegal activities carried out for commercial purposes or causing significant harm to the right holder". It should be noted, however, that these reservations have been heavily criticized [15] and were

² OJ L 157, 30.4.2004, p. 45–86.

³ See also C-62/08 of 19.02.2009, *UDV North America*, ECLI:EU:C:2009:111, rec. 48.

⁴ See rec. 22 and Articles 10 para 3, 12 and 13 Directive 2004/48.

ultimately withdrawn from the final text of the Directive. This can only indicate the EU legislator's ultimate intent for broader harmonization. In the same vein, recital 14 Directive 2004/48, as it currently stands, prescribes a narrow scope of application, restricted to "acts carried out on a commercial scale", only for articles 6(2), 8(1) and 9(2) of the Directive. This seems to imply, by contrast, that other provisions apply uniformly to commercial and non-commercial uses of infringing signs. In any case, the exemption introduced by recital 14 refers to acts carried out by end-consumers "acting in good faith". In view of the right to publication of judicial decisions enshrined in Article 15 Directive 2004/48, an end-consumer's good faith must be regarded as negated as soon as a publicity measure is enforced in the case, following a conviction against the trademark counterfeiter.

The above observations justify the assumption that, within the EU, end users of NFTs are in principle passively legitimated in proceedings concerning trademark violations, i.e., individually subject to claims for cease and desist, as well as potentially for the payment of damages [13]. Therefore, apart from their obvious significance from the perspective of IP law, trademark litigations concerning crypto artworks also raise questions in the light of contract law. More specifically, it transpires that the violation of third-party trademark rights may affect the performance of sale or licensing agreements concerning the infringing NFT, by restricting or precluding its rightful use to the detriment of its current right holder.

In such cases, it is to be examined what claims does the aggrieved party establish and on which legal basis. In this respect, the relatively newly released Directive 2019/770 on contracts for the supply of digital content⁵ has attributed specific rights to consumers. However, its applicability in the case of NFT supply agreements is still unexplored.

1.4 Objectives of the analysis

In view of the above, the study at hand approaches the *Metabirkins* case in the light of EU IP and consumer protection law. It contemplates whether the critical facts would have established a trademark infringement from the perspective of Directive (EU) 2015/2436⁶ and Regulation (EU) 2017/1001⁷. It then presents Directive (EU) 2019/770 and examines the claims attributed to the aggrieved trademark owner

⁵ Directive (EU) 2019/770 of the European Parliament and of the Council of 20 May 2019 on certain aspects concerning contracts for the supply of digital content and digital services, OJ L 136, 22.5.2019, p. 1–27.

⁶ Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trademarks, OJ L 336, 23.12.2015, p. 1–26.

⁷ Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trademark, OJ L 154, 16.6.2017, p. 1–99.

as an instance of improper performance of NFT supply agreements concluded between the Metabirkins' digital artist (author) and end users (consumers). The objective of this analysis is to clarify the rights and obligations of the contracting parties in such cases and to comment upon the challenges posed to their enforcement by the particularities of blockchain.

2. NFT ART SUPPLY AGREEMENTS FROM THE PERSPECTIVE OF EU CONSUMER LAW

Modern EU legislation recognizes "digital content" as an individual subject matter of economic transactions, which is distinct from tangible and intangible goods, rights, and services. The term refers to "data produced and supplied in digital form"⁸ and comprises computer programs, as well as any type of digital files, e.g., text, image, audio and/or video [13]. Digital content may be transferred in storage mediums, like CD-ROMs and DVDs, or be downloaded directly from the internet. It is not disputed that NFTs fall within the pertinent concept [14], since they consist of digital data and cryptographic software.

2.1 The regulation of consumer contracts for the supply of digital content

Directive (EU) 2011/83 on consumer rights⁹ was the first to regulate the obligations of traders supplying digital content to consumers. In this respect, the Directive prescribes pre-contractual information in favor of the purchaser of digital content (articles 5 and 6) and establishes certain formalities for the valid conclusion of the relevant agreements by electronic means at a distance (article 8). Moreover, it regulates the consumer right of withdrawal from digital content supply agreements without giving any reason (articles 9-16). The pertinent provisions have been recently amended by Directive (EU) 2019/2161, also known as the "Omnibus" Directive¹⁰.

In addition to the above, Directive 2019/770 regulates the proper performance of consumer contracts for the supply of digital content. This entails the trader's obligation to make the digital content available (article 5), as well as to provide digital content that complies with the ("subjective") requirements agreed upon with the consumer (article 7). The digital content supplied must be also fit for the purposes

⁸ See Article 2(1) Directive 2019/770.

⁹ Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, amending Council Directive 93/13/EEC and Directive 1999/44/EC of the European Parliament and of the Council and repealing Council Directive 85/577/EEC and Directive 97/7/EC of the European Parliament and of the Council, OJ L 304, 22.11.2011, p. 64–88.

¹⁰ Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules, OJ L 328, 18.12.2019, p. 7–28.

for which digital content of the same type would normally be used in accordance with any standards, open technical specifications, good practices, and codes of conduct applying in the pertinent field (“objective” conformity requirements). Besides, it must possess the qualities and performance features reasonably expected by the consumer, considering any public statement made by or on behalf of the trader (article 8). The trader has the obligation to keep the digital content updated for the entire duration of a fixed-term license agreement, otherwise for the period that the consumer may reasonably expect (article 8 para. 2), given the type and purpose of the digital content and considering the circumstances and nature of the contract [27].

Interestingly, the Directive designates explicitly as an indication of improper performance on the part of the trader, the provision of digital content whose use is subject to limitations in accordance with IP law, e.g., due to a violation of third-party IP rights (article 10). Indeed, when the IP holder rightfully compels the trader to discontinue offering the controversial digital content, any purchasers or licensees cannot use that content without infringing the law (recital 54). In such cases, the consumer is entitled to remedies for lack of conformity of the supply agreement according to article 14 Directive 2019/770, unless national law provides for its nullity or rescission.

In particular, article 14 entitles the consumer to have the defective digital content brought into conformity, unless this would be impossible or entail disproportionate costs considering, e.g., the gravity of the defect and the value of the digital content without the defect. If the restoration of conformity is impossible or unprofitable, belated, or unsuccessful, the consumer is entitled to receive a price reduction. This shall be proportionate to the reduction in the value of the digital content due to the lack of conformity. The consumer has the alternative right to terminate the contract unless the lack of conformity is insignificant.

2.2 Crypto art purchasers as “consumers”

The application of the above legal framework to NFT artwork supply agreements is subject to the condition that the purchaser/licensee is a consumer. The consumer concept is interpreted narrowly and “functionally” in EU law. In particular, the consumer status is attributed only to natural persons acting for purposes which are outside their trade, business, craft, or profession¹¹. Consequently, an individual is

¹¹ See article 2(6) Directive 2019/770.

considered a consumer only for those transactions which serve subsistence needs. The professional status and financial capacity of the individual, any previous experience in the pertinent field, as well as the value of the critical transaction are irrelevant in the context of this assessment.

There are certain adversities when applying the functional criterion for ascribing the consumer status. For instance, legal theory has been occupied with the so called “dual purpose” contracts, i.e., transactions serving partly private and partly professional purposes. This is the case, for instance, of a lawyer purchasing a laptop with a view to covering both professional and recreational needs. According to the European jurisprudence, in such cases the "predominant" transaction purpose prevails¹², which is identified based on objective criteria [6].

In the same vein, it is problematic whether nonprofessionals purchasing products or services as an investment, i.e., with a view to generating future income, retain the consumer status. This is the case for instance with individuals purchasing property with a view to reselling or hiring it out. According to the pertinent guidelines of the European Commission (2016)¹³ and the European jurisprudence¹⁴, speculative objectives do not suffice to negate the consumer status. Only when the commercial exploitation of the purchased goods becomes a quasi-professional activity, does the purchaser become de facto a “trader”, which shall be examined on a case-by-case basis [26]. For instance, whether the exploitation of real estate through short-term rentals is an economic activity for an individual is conditional upon its duration and intensity, in terms of the financial turnover yielded, the number of immovables promoted, and leases concluded. In this context, the individual turns into an undertaking when s/he must hire staff and set up business premises to cope with demand¹⁵.

Considering the above, it must be noted that often NFT purchasers are legal entities, thus being precluded from any consumer protection. On the other hand, whether a natural person purchasing crypto art is a consumer or not, should be considered on a case-by-case basis. Neither the high value of the transaction, nor the speculative motives of the purchaser negate this capacity per se. However, if the purchaser has turned investments in NFT artworks into a business, the consumer status may be successfully contested. Indicative of such a de facto commercial activity is, for instance, the methodical

¹² See recital 17 Directive 2001/83/EU.

¹³ Commission staff working document, Guidance on the implementation/application of Directive 2005/29 on unfair commercial practices. SWD(2016) 163 final.

¹⁴ C-105/17 of 04.10.2018, Komisia za zashtita na potrebitelite v Evelina Kamenova, ECLI:EU:C:2018:808, rec. 38.

¹⁵ BGH of 20.02.2018, XI ZR 445/17, VersR 2019, pp. 691-694, rec. 21.

and repetitive conduct of similar transactions, the establishment of infrastructure for promoting the purchased NFTs for resale, e.g., hiring an intermediary, setting up a marketplace, etc.

3. IP VIOLATIONS BY PURCHASED NFT ARTWORKS AS AN INSTANCE OF CONTRACTUAL “NON-CONFORMITY”

A crypto art supply agreement does not have fixed and predetermined content in all cases. It is commonly divided into two parts, i.e., one concerning the NFT as a cryptogram, and another referring to the digital file represented by the NFT on the blockchain [7]. As a rule, the contract provides for the sale of the NFT, i.e., the transfer of its ownership to another blockchain user (node) in exchange for a price paid in cryptocurrencies. The new beneficiary shall also assume the costs for maintaining the NFT on the blockchain, e.g., energy consumption charges, platform fees, etc.

Regarding the other part of the transaction, which deals with the digital file as an artistic expression to the outside world, the supply contract has a less standardized content. The parties may specify the type of the supplied file, e.g., sound, video, etc., as well as its individual features, e.g., that the video has a minimum duration. Variations also arise regarding the permitted use of the digital artwork by the purchaser [18]. Indeed, some agreements allow only non-commercial use, while others a limited commercial exploitation of the artwork, by specifying, for instance, a maximum profit margin per year. The supply agreement for the famous “Bored Apes” NFTs, in contrast, grants rights to unlimited use and full commercialization of the artwork to the purchasers¹⁶. Consequently, they are free to resale it, use it as a logo, embed it in digital text, in multimedia, etc.

3.1 Objective conformity requirements of an NFT Digital Art Supply Agreement

The dual character of NFT artworks, according to the above, also determines the objective conformity requirements pertaining to agreements for their supply to consumers, within the meaning of Directive 2019/770. Technically, the artwork is expected to have a unique encrypted fingerprint on the blockchain. Consequently, the vendor is supposed to have taken all the necessary measures for the tokenization of the critical content, as well as its maintenance on the blockchain, e.g., by paying the necessary renewal fees. The vendor is also expected to retain ownership of the NFT at the time of the conclusion of the supply contract, i.e., to not have already transferred it to a third party.

¹⁶ See the relevant terms and conditions: <https://boredapeyachtclub.com/#/terms>.

3.1.1 Non-fungibility vs originality

The conceptual content of the term “non-fungible” is of great importance when outlining the objective conformity requirements of NFT artworks. This concept reflects the distinction between "replaceable" and "non-replaceable" things, which is prescribed in several legal orders in the context of property law¹⁷. Accordingly, as replaceable are regarded all movable things which are interchangeable with other things of the same genus. In contractual relations, such things are rather identified by their quantity (number), weights and measures, than by their individual features. Here fall, for instance, coins and banknotes, securities, consumable goods (e.g., agricultural and cattle products, fuel), mass-produced industrial products (e.g., electrical, and electronic devices, vehicles), etc. Conversely, as irreplaceable are regarded all immovables, as well as those movable things, which are unique and can be individualized in transactions. Here fall works of art, custom-made items, second-hand goods, etc.

Considering the above definitions, a “non-fungible” token, unlike cryptocurrencies, is a non-replaceable crypto asset. On the one hand, it has been attributed a unique hash value and metadata which differentiate it from any other entry on the blockchain. On the other hand, an NFT is meant to represent individualized content, i.e., non-replaceable things¹⁸.

An issue to be addressed is whether the NFTs’ non-replaceability also guarantees the originality of their content from the perspective of IP law, i.e., as a prerequisite for its copyright protection. In this regard, it should be reminded that the concept of originality does not adhere neither to qualitative assessments nor to quantitative calculations. Namely, for a creation to be deemed original, it is insignificant whether it is tasteful, large-sized, etc., as well as whether its production required the expenditure of substantial resources. On the contrary, at an international level copyright seems to adhere to the causality between the author and the creative effect. Therefore, in the EU and the USA an original work is expected to reflect the author’s personality. Similarly, in the Anglo-Saxon legal orders a protectable work is a product of the author’s labor, skill, and judgment [23].

As derived from the above, a copy of an earlier work cannot be deemed original. However, originality is not synonymous with uniqueness. Certain legal orders do ascribe "statistical uniqueness" to

¹⁷ See, for instance, article 950 of the Greek Civil Code (AK) and article 91 of the German Civil Code (BGB).

¹⁸ See Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets and amending Directive (EU) 2019/1937 (MiCA), (2020/0265(COD)), final version 05.10.2022, rec. 6c.

original works¹⁹. This is a hypothetical value, based on the assumption that no one else apart from the author himself could ever generate the same expressive output, under the same conditions, without copying. In other words, the concept of statistical uniqueness refers to the capacity of an original work to manifest a unique personality. However, the fact that an object is "one of its kind" does not make it original per se since its features may be dictated by technical function or be banal.

Consequently, the uniqueness of an NFT does not imply the originality of the content it represents. The latter is non-replaceable, i.e., individualized, and distinct from other items of the same genus. Whether it also meets the originality standards shall be examined on a case-by-case basis according to the criteria prescribed by IP law.

3.1.2 The fit for purpose test in the light of the exhaustion principle

According to Directive 2019/770, an NFT artwork supplied by a trader to a consumer must be suitable for the use agreed upon by the parties. This may be private or commercial, limited, or unlimited. If the rightful use is not explicitly determined in the contract, then the NFT must be fit for the purposes for which digital content of the same type would normally be used and possess the qualities and performance features normal for digital content of this type.

In the case that the NFT artwork is subject to copyright as an original work according to the above, the scope of its reasonably expected use is conditional upon any IP rights retained by the author after the conclusion of the supply agreement [16]. According to the "principle of exhaustion", as prescribed by EU law²⁰, after the first sale of a work by its author or with his consent within the EU, the author cannot control or prevent the subsequent distribution of the work, i.e., its resale or further licensing by the new beneficiary to third parties. Whether this principle applies also to digital content in the form of NFT artworks, remains unclear.

With reference to digital content, exhaustion is provided for in article 4 par. 2 of Directive 2001/29 (InfoSoc). The same provision of Directive 2009/24/EC enshrines the principle of exhaustion for software. According to the EUCJ jurisprudence, to the extent that there is a software "sale", i.e., an agreement by

¹⁹ This is true for the Greek legal order. See, for instance, the decisions of the Greek Supreme Court (Άρειος Πάγος) no. 196/2010, ΕπισκεΔ 2011, pp. 919 et seq., as well as no. 537/2010, ΕπισκεΔ 2010, pp. 1047 et seq.

²⁰ See Article 15 of the Regulation (EU) 2017/1001, as well as the identical provision of Directive (EU) 2015/2436, Article 4 par. 2 of Directive 2001/29 (InfoSoc) and rec. 33 Directive 96/9 on the legal protection of databases.

which one acquires its permanent use²¹, the exhaustion principle applies without exception, i.e., irrespective if the software is delivered in a storage medium, or by download²². When it comes to digital content, however, the principle of exhaustion applies only to data files incorporated into physical carriers [21]. This derives from the literal interpretation of art. 4 par. 2 InfoSoc Directive in the light of its recitals 28 and 29, and it is also teleologically justified.

Indeed, the first sale of a computer program enables the copyright holder to obtain an appropriate remuneration. Thus, giving him the right to control the resale of any copies downloaded from the internet would go beyond what is necessary to safeguard his intellectual property²³. On the contrary, online digital content can be easily and inexpensively reproduced in counterfeit copies, which cannot be distinguished from the original. Therefore, the recognition of exhaustion in this case would affect the author's interest to receive fair remuneration for his works, while not even contributing to the creation of a secondary market of "second-hand goods", as is the case with tangible objects²⁴. The application of the exhaustion principle in the case of composite material shall be determined by their "essential" element. Thus, for instance, eBooks comprising digital data backed by software shall be treated as digital content as a whole and be subject to the above restrictions²⁵.

The consistency of the above distinction is disputed [29]. In any case, it does not seem to affect the rights of an NFT artwork purchaser. Arguably, the essential element of NFT artworks consists in the digital content rather than the cryptographic software they comprise [5]. Unlike other types of digital content, however, digital files attached to the blockchain as NFTs are not susceptible to replication and unlicensed use by multiple users. Instead, as analyzed above, NFTs are unique, traceable, and tamper-proof. Therefore, they can be in the possession of only one person at a time and be distributed exclusively by their rightful owner.

Consequently, NFTs possess qualities pertaining rather to tangible goods than to digital data. Therefore, the principle of exhaustion should be applied without exemption in their case. This means that, unless it is differently determined in the supply contract, the purchaser of an NFT artwork subject to copyright is in principle entitled to unlimited use.

²¹ C-128/11 of 03.07.2012, *UsedSoft GmbH vs Oracle International Corp.*, ECLI:EU:C:2012:407, rec. 72.

²² *Ibid*, rec. 60.

²³ *Ibid*, rec. 63.

²⁴ C-263/18 of 19.12.2019, *Nederlands Uitgeversverbond and Groep Algemene Uitgevers*, ECLI:EU:C:2019:1111, rec. 58.

²⁵ *Ibid*, rec. 59.

3.2 Falling foul of the conformity requirements of Directive 2019/770 in the Metabirkins case

In the Metabirkins case, Rothschild made three allegations that have been intensively debated in the US legal order [12]. First, he pointed out that Hermès' trademarks at issue had not been registered for digital representations of the Birkin bag. Therefore, the use of a similar sign for Metabirkins, i.e., for completely different products than the physical Birkin handbags, could arguably not establish an infringement from the perspective of trademark law. Moreover, the critical creations were meant to make a statement for the world of luxury fashion, thus being protected by the freedom of artistic expression. After all, a disclaimer had been placed on the website where the Metabirkins were exhibited for sale, stating that their designer is not related to Hermès. This section endeavours to subsume the facts of the Metabirkins case under EU trademark law.

3.2.1 Substantiating a violation of Hermès' trademark rights under EU law

Regarding the first above speculation, it should be noted that the Birkin trademark is a reputation mark, i.e., it enjoys high recognition among the interested public. For reputation marks EU law provides increased protection, simplifying the establishment of an infringement. Indeed, both Directive (EU) 2015/2436 on trademark law (Article 10 par. 2c), and Regulation (EU) 2017/1001 on the EU trademark (Article 9 par. 2c) grant a reputation mark owner the right to prohibit the use of any similar sign by third parties, irrespective of whether it relates to goods or services which are identical, similar, or dissimilar to those distinguished by the reputation mark. This presupposes that the use of the similar sign could take unfair advantage of the distinctive character or the repute of the reputation mark or be detrimental to these capacities. An infringement is not established, where there is sufficient "due cause" for the use of the similar sign.

The risk of a sign taking unfair advantage of the distinctive character, or the commercial recognition of a reputation mark is established where there is a "likelihood of association" between the sign and the trademark. This likelihood relates to the assumption that the interested public would probably recall the reputation mark immediately, spontaneously, and subconsciously when perceiving the critical sign. Under these circumstances, the sign can appropriate the positive disposition of the interested public towards the reputation mark. From another perspective, by visually, audibly, or conceptually approximating a well-established trademark, the sign becomes promptly, effortlessly, and inexpensively visible and identifiable in the market [2].

It could be argued that the Metabirkins demonstrate visual and phonetic similarities with the Birkin bag, which suffices to substantiate a likelihood of association by the interested public. Under these circumstances an infringement of Hermès' reputation mark is established, irrespective of the fact that the infringing undertaking does not sell handbags or other physical accessories, but rather digital representations of these bags on the blockchain. This is also true, despite the placement of a disclaimer on the Metabirkins marketplace, that the NFTs do not relate to the renowned fashion brand. As analyzed above, when it comes to reputation mark counterfeiting, there is no need to substantiate a "likelihood of confusion" of the interested public, that the infringer commercially relates to the right holder of the trademark. The offense is rather established by the fact that a sign becomes visible and gains an unfair competitive advantage by parasitizing on the reputation of an earlier trademark without due cause (free riding).

3.2.2 Artistic expression as a “due cause” legitimizing a trademark infringement

The burden of alleging and proving that the unauthorized use of the non-proprietary trademark serves a “due cause” is borne by the infringer. According to the recitals 27 of Directive (EU) 2015/2436, and 21 of Regulation (EU) 2017/1001, the use of a trademark for the purpose of artistic expression should be considered fair if at the same time it is in accordance with honest practices in industrial and commercial matters. Moreover, both these pieces of EU legislation, pursuant to their article 14 respectively, legitimize the use of non-proprietary trademarks for the purpose of “referring” to the goods or services they distinguish, if that use conforms with honest practices in industrial or commercial matters.

Based on the above provisions, the use of third-party trademarks in the discourse of artistic expression, criticism, or parody is acknowledged as a “due cause” in abstracto. However, if such use shall be deemed legitimate in concreto, is conditional upon an “honest practices test”. This is in essence a balancing test to be carried out between, on the one hand, the financial interests of the trademark owner and, on the other hand, the freedom of expression as a fundamental right [22].

The reconciliation of these conflicting interests is one of the most controversial issues in EU trademark law. EU Courts have not had the opportunity to formulate a clear methodology for this purpose yet. It is however convincingly argued that the artistic or parodic use of non-proprietary trademarks shall not be deemed fair, if it is exercised “in the course of trade, in relation to goods or services”.

In more detail, artistic expression may well coexist with speculative objectives. Therefore, mocking or criticizing a non-proprietary trademark in an artistic context remains in principle lawful even though the generated artwork may be offered for sale. However, when a non-proprietary trademark is modified in a parodic way, only to be used as a trademark for the infringer's products or services, invoking the freedom of expression would only constitute an excuse to circumvent trademark law [2]. If this is the case shall be examined on a case-by-case basis. In this context, factors to be considered shall be the gravity of the offense, as well as the subjective perceptions of the offender (knowledge, negligence, intent), as deduced, e.g., from the particularities of his artistic activity (occasional or systematic), and style.

In view of the above, it cannot be argued with certainty whether the unauthorized use of Hermès' trademark would be deemed lawful within the EU as justified by a "due cause". It should be reminded that the word "Metabirkins" is used to distinguish a series of digital representations of the Birkin bag, which are offered for sale on the blockchain as NFTs. Consequently, it is used "in the course of trade", in relation to tradeable goods [16]. The social message from the illustration of the famous product, invoked by the artist before the US courts, does not seem obvious to the average consumer. Instead, Metabirkins appear to herald the advent of an augmented reality universe ("Metaverse"), where every material object can have a digital avatar with distinct utility and commercial value (Uhlenhut & Bernhardt, 2023). From this perspective also, it might be argued that the Metabirkins usurp from Hermès a potential future use of the Birkin trademark.

3.2.3 The infringement's impact on the originality of the NFT artworks

To the extent that a trademark infringement is not excluded under EU law, it should be considered what its impact might be on the "qualities and performance features" of the critical NFTs. A relevant concern is whether Hermès' trademark claims may affect Metabirkins' character as copyrighted works. In broader terms, it should be examined whether the phonetic or/and visual resemblance to an earlier trademark, may negate the original character of an NFT artwork.

From a contract law perspective, the finding that the supplied digital content is not original may firstly contradict the pertinent subjective conformity requirements within the meaning of Directive 2019/770. This may occur when specific properties, such as that the digital content has been created by the vendor himself, that it is "authentic", etc., have been stipulated between the parties by contractual

terms. Besides, originality may also constitute an objective compliance requirement, i.e., a reasonably expected quality, within the meaning of Directive 2019/770.

Indeed, as developed above, not all NFTs represent “works” subject to copyright, since their non-fungibility does not make them original per se. However, when it comes to digital content created with the very objective of being sold as digital art, such as depictions, musical compositions, animation, etc., originality usually occurs. This is also supposed to be the reason why such artifacts are getting increasingly tokenized. Their registration on the blockchain, is namely meant to certify their origin from a specific author and to endow them with traceability, which prevents their replication and unauthorized use. This emphasizes and shields their character as works of art, which in the digital environment is in principle challenged [20].

Reasonable expectations on the part of the consumer regarding the originality of a purchased NFT artwork may have been also prompted through the artist’s public statements and especially his marketing practices. In this context, the price of the promoted NFT also plays a significant role. No doubt, the value of crypto assets is fluctuating under the influence of many factors, including how much energy-consuming their production is, the forces of supply and demand in the relevant market, etc. Nevertheless, the offer price of NFT artworks is in many cases so high that it disposes the public to consider the promoted subject matter as a piece of contemporary art with timeless artistic value, which can function as an investment tool [17].

Either as a subjective or an objective conformity requirement, originality arguably affects the market value and marketability of the NFT artwork. In this sense, the finding that the supplied NFT is not protectable by copyright, whenever it might occur after the conclusion of its supply contract, would degrade its merits and pose restrictions on its rightful use. Therefore, it would constitute a defect, giving rise to consumer claims under the Directive 2019/770.

As regards the above, it is acknowledged that a work may remain original, as a unique expression of the author’s intellect, even though it infringes third-party rights, i.e., offends somebody’s personality, incorporates non-proprietary content, establishes a likelihood of confusion with a third-party trademark, or a likelihood of association with a reputation mark. In such cases, the controversial work is subject to copyright and the author is entitled to exercise the negative powers deriving from his intellectual property, e.g., inhibit any unauthorized use of his work by third parties. However, s/he is not allowed to

exercise the positive economic powers of reproduction, presentation, and distribution of the work to the public without permission by the offended third parties.

The above means that Metabirkins may remain original works despite offending Hermès' trademark. In that case, however, their author shall be obliged to restrict himself on private use and not to exploit them commercially without Hermès' consent²⁶. The impact of these restrictions on the performance of any supply agreements concluded by the artist with third parties, shall be assessed on a case-by-case basis.

3.2.4 The infringement's impact on the rightful use of the NFT artwork

As argued above, in the case of a trademark violation the trademark owner is entitled to raise claims of cease and desist against any user of the infringing material according to EU law. This is true, even if that user represents a consumer in the context of the transaction by which s/he acquired the critical subject matter. This means that, in the Metabirkins case, Hermès would have the right to prohibit any Metabirkins' purchaser or licensee from using their NFTs. However, claims for removal or destruction would rather be denied by courts due to the nature of Metabirkins as copyrighted artistic works. This would ultimately result in a hybrid situation, where the Metabirkins holders would be entitled to keep the infringing NFTs in their possession, but also obliged to refrain from any non-private, let alone commercial use of them.

Whether the above state of affairs would contradict the agreed or reasonably expected use of the NFT on the part of a Metabirkin purchaser in his capacity as a consumer, thus violating the respective subjective or objective conformity requirements of the pertinent supply agreement within the meaning of Directive 2019/770, could be only deemed in concreto [19]. It is for instance possible that the commercial exploitation of the Metabirkins by their purchasers has been contractually excluded in advance. In that case, Hermès' trademark claims would not affect the purchasers' rights. On the other hand, if the supply agreement does not provide for specific restrictions, Metabirkins should conform with the normal use for digital content of the same type. As argued herein, this use is primarily commercial since this type of crypto assets usually functions as an investment tool. Besides, the IP rights of the digital artists get exhausted as long as an NFT supply agreement prescribes full transfer of their ownership rights to the purchaser²⁷.

²⁶ See art. 10 para 3 Directive 2015/2436 and 9 para 3 Directive 2017/1001.

²⁷ C-128/11, rec. 42.

4. ENFORCING THE RIGHTS PRESCRIBED BY ART. 14 DIRECTIVE 2019/770 IN THE CASE OF NFT SUPPLY AGREEMENTS

According to article 10 Directive 2019/770, where a restriction resulting from a violation of a third-party IP right prevents or limits the use of the digital content, the consumer is entitled to the remedies for lack of conformity provided for in Article 14. If the applicable national law provides for the nullity or rescission of the contract in such cases, it shall prevail. As far as article 14 of Directive 2019/770 is concerned, it awards three separate remedies to consumers which cannot be exercised cumulatively. In particular, the consumer is entitled to firstly have the digital content brought into conformity. Only where the restoration of conformity is impossible, or unsuccessful, the consumer is entitled to receive a proportionate reduction in the price, or to terminate the contract [28].

As analysed in the preceding section, under certain circumstances a commercial exploitation ban imposed by Hermès on the purchasers of Metabirkins may constitute a legal defect of the pertinent supply agreement in the light of Directive 2019/770. In that case, the aggrieved parties in their capacity as consumers may take advantage of the above remedies. In this respect, it could be argued that restoration of conformity is inherently impossible in the scrutinized case. It would namely entail the replacement of the purchased Metabirkin with another which does not infringe Hermès' trademark. However, the entire Metabirkins collection follows a uniform concept and artistic style. Thus, they do not differ from each other regarding the controversial qualities determining the infringement. In any case, the individual pieces of the Metabirkins collection, as non-fungible tokens, are not substitutable with one another. Consequently, the aggrieved consumer could select only between price reduction and contract termination.

4.1 Price reduction

According to article 14 par. 5, in conjunction with the recital 66 Directive 2019/770, a reduction in price shall be proportionate to the decrease in the value of the digital content due to the defect and to the time during which the consumer was unable to enjoy the digital content in conformity. In the context of the pertinent calculation, it should be taken into consideration that the infringement of third-party rights by an NFT artwork does not negate per se its originality. Thus, it may be still protected by copyright as a work of art in the Metaverse and be enjoyed privately by its owner. Any restrictions posed by the infringement refer to the commercial exploitation of the artwork. It should be also kept in mind that the value of crypto assets experiences large ups and downs, irrespective of their uniqueness, rarity, and

copyright protectability. These fluctuations relate to energy expenditure rates, as well as to the forces of supply and demand in the relevant market, which in turn depend on consumer trust and the contemporary economic and geopolitical scene.

The value of the defective NFT, as shaped under the above influences, shall be subtracted from the value that the same NFT would have had if it were in conformity. This assessment shall take into account the selling price of non-defective NFT artworks of the same type at the time when the price reduction claim is raised. This is true, unless the relevant market experiences inflation at that time. In such a case, the price difference an aggrieved purchaser can claim shall be calculated based on the lower selling price recorded at the time when the NFT supply agreement was concluded.

4.2 Contract termination

The right to termination refers to a declaration of intent which has the legal consequence of overturning a contract, thus discharging the parties from their unperformed obligations. Moreover, contract termination establishes reciprocal claims between the parties, on the one hand, for the return of the digital content that has been already unduly delivered and, on the other hand, for the reimbursement of any part of the price that has been paid in advance, which corresponds to the period that would have remained had the contract not been terminated²⁸. Because of these consequences, the right to termination can only be exercised where lack of conformity is deemed “not minor”. The materiality of the defect relates to its impact on the rightful use of the digital content and shall be evaluated based on objective criteria. The relevant burden of proof lies with the trader and not with the consumer who exercises the termination right²⁹.

As argued herein the inability to exploit commercially a purchased NFT artwork may represent under certain circumstances a substantial restriction of its rightful use, thus justifying the termination of the pertinent supply agreement by the consumer. However, the exercise of the termination right in the case of NFT supply agreements poses certain adversities. The reason is that, on the one hand, their subject matter is registered in the blockchain. On the other hand, they are commonly executed automatically by means of smart contracts.

²⁸ See articles 16 and 17 Directive 2019/770.

²⁹ Article 14(6) Directive 2019/770.

Indeed, within the blockchain ecosystem the reciprocal return of performances between the parties may be hindered by intermediaries refusing to process the transfer, as well as by smart contracts not having been programmed to recognize legal defects caused by third-party IP rights as a cause of contract unraveling. In such cases, the parties may raise reimbursement claims against non-cooperative intermediaries. Also, the mutual obligations for return may need to be executed manually, thus bypassing the deficient smart contract. The normative challenges posed by these processes must be meticulously investigated by jurisprudence.

5. CONCLUDING REMARKS

In the discourse of the above analysis, it has been concluded that an NFT artwork purchase agreement may be subject to EU consumer law, as a consumer contract for the supply of digital content. This is subject to the condition that the purchaser is a natural person and that the way s/he engages in the transaction does not pertain to a de facto professional activity. Moreover, under EU law an NFT artwork demonstrating acoustic, optical, or conceptual similarities with a reputation mark violates in principle the IP rights of the trademark owner. Freedom of expression cannot override these rules if the infringing material is meant to distinguish the NFT artwork as a tradeable product in the Metaverse. In any case, the infringement does not deprive the NFT artwork of its originality, i.e., its copyright protectability, but rather impedes its commercial exploitability.

As long as their supply agreement does not contain specific restrictions, NFT artworks must be suitable for unlimited and in principle commercial use by their owners. This assumption is not overridden by the EUCJ jurisprudence declining the application of the exhaustion principle in the case of digital content not incorporated in physical storage media. The pertinent interpretation of InfoSoc Directive does arguably not conform to the particularities of NFTs, which simulate on the blockchain the qualities and performance features of tangible irreplaceable objects. Consequently, any limitation of commercial use posed to the NFT by a third-party right, constitutes a legal defect of the pertinent supply agreement, thus establishing the non-conformity claims provided by Directive 2019/770 in favor of the purchaser as a consumer.

The Metabirkins case has unveiled how awkwardly NFT transactions fit into the latter rules. Small investors and collectors should be aware when purchasing art tokens, that third-party IP right violations may render their NFTs unbacked. In such cases it is inherently impossible to bring the NFT into

conformity. Hence, purchasers shall be obligated to initiate lengthy procedures to enforce their rights for price reduction or reimbursement against the vendor. How the pertinent adversities shall be tackled is still an open issue to be set under scrutiny. On the part of NFT market stakeholders, it would be wise to safeguard consumer rights in advance, e.g., by including appropriate general terms in crypto art supply agreements and by correctly adjusting smart contracts, so that claims arising by an eventual NFT depreciation may be fairly reconciliated. Foresight and transparency safeguards consumer trust, thus preventing a collapse of the crypto art trade.

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