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Trademark law and NFT: what should we think of Hermès v. Rotschild?

On January 14, 2022, Hermès International and Hermès of Paris, Inc. filed a trademark and unfair competition lawsuit against Mason Rotschild in the *Southern District Court of New York* (SDNY). One year later (already!), on February 8, 2023, a 9-member People's Jury appointed by the SDNY dismissed the case. In essence, the facts were as follows:

I. The Facts

Since 1984, Hermès has marketed the Birkin bag, which has become an icon in the world of handbags. A symbol of luxury and exclusivity, each Birkin bag is handcrafted and takes 18 hours to make. Available in different versions, the Birkin bag is sold individually for an entry price of approximately CHF 10,000. At an auction organized by Sotheby's in 2021, one example sold for USD 226,000. It is not uncommon for women to have to wait more than a year to obtain the precious sesame:

At the time the action was filed on January 14, 2022 in the *Southern District Court of New York* (SDNY), Hermès was the owner in the United States of the word mark Birkin, as well as of a *trade dress* mark (which in Switzerland would be described as three-dimensional), represented as follows:

It should be noted that these two trademarks were however only registered in class 18 in the field of leather goods, and not in the field of software and other digital products in class 9.

The defendant, Mason Rotschild, had decided to launch during 2021 at <metabirkins.com> what he described as an "art project", i.e. the sale of 100 digital reproductions "inspired" by the Birkin bag in faux fur, marketed in the form of NFTs under the name Metabirkins for a unit price of USD 450, with the associated *smart contract* also providing for a 7.5% royalty on the subsequent sale price of the NFT in the event of subsequent resale:

Hermès raised four claims in support of its action: first, that this marketing violated both its word mark and *trade dress* rights; second, that it resulted in a dilution of its mark; third, that the registration of the <metabirkins.com> domain name constituted an act of cybersquatting; and finally, that it resulted in an act of unfair competition.

After various procedural twists and turns, Hermes won the case in a decision rendered on February 8, 2023:

Only the action brought under trademark law will be considered here:

II. The applicable criteria

In essence, Rotschild was arguing that his design was artistic and that, under the First Amendment (freedom of expression), his design did not violate trademark law.

US Case Law, at least that of the Second Circuit before which this case was brought, considers that the legal assessment of the use of a third party's trademark in the context of a project presented as artistic or eligible for First Amendment protection must be made in light of two precedents: when the project is primarily commercial in nature, the test to be applied is that of Gruner + Jahr (*Gruner + Jahr USA Publishing v. Meredith Corporation*, 991 F.2d 1073 [1993]); when, on the other hand, the project incorporates a genuine artistic concept notwithstanding its profit-making nature, the Rogers test (*Rogers v. Grimaldi*, 875 F.2d 994 [1989]) must be applied.

While the Gruner + Jahr test actually enshrines the classic confusion test as defined in 1961 in the Polaroid case (*Polaroid Corporation v. Polaroid Electronics Corporation,* 287 F.2d 492 [1961]) (more or less in line with the one resulting from the application or Art. 3 of the Swiss Trademark Act), it follows from the Rogers test that the question of whether there is a violation of trademark law depends on three criteria: first, whether the work in question is one of artistic expression, and thus *prima facie* entitled to protection under the First Amendment; second, whether the use of the third party trademark bears any artistic relevance to the underlying work; finally, the work in question will not be able to avail itself of the protection conferred by the First Amendment if it is explicitly misleading as to its source or content.

While Hermès argued that the case should be decided under the Gruner + Jahr test, Rotschild argued that it should be decided under the Rogers test. On the basis of the exhibits submitted, and notwithstanding Hermès' denials on this point, the SDNY found that it could not be ruled out that the project was originally considered to be of artistic merit.

III. Legal analysis

Applying the Rogers test, the SDNY has taken the above criteria and concluded the following:

- **Artistic value:** The SDNY first noted that the subtle distinction that Hermès sought to make between the digital image of the Birkin bag on the one hand, and the NFT associated with that image on the other, was irrelevant. Only the buyer's point of view, which is decisive in trademark law, matters. For the buyer, the NFT and its associated image form a whole. The SDNY then pointed out that Rotschild's evidence tended to demonstrate that, regardless of the profit-making nature of the project, Rotschild characterized the NFT collection as an experiment to see if he could create that same kind of illusion that the Birkin bag has in real life as a digital commodity, adding that the decision to make them faux-fur covered was an attempt to introduce a little bit of irony to the efforts of some fashion companies to go fur-free.

- **Underlying significance of trademark use.** In this case, the SDNY reiterated its assessment in *Louis Vuitton Maillefer SA v. Warner Bros. Ent. Inc.* (868 F. Supp. 2d 172 [2012]) that this second criterion is easily met unless the use of the mark has no artistic relevance to the underlying work whatsoever. However, the artistic prong is not met where the

relevant trademark is chosen just to exploit the publicity value of the mark. This point seems to me to overlap with the last one:

- **Explicitly misleading factor.** The question here is whether, based upon the criteria set out in the *Polaroid* case, the work is explicitly misleading as it induces members of the public to believe that it was created or otherwise authorized by the trademark holder. In this case, Hermès had produced a market study showing a 18.7% likelihood of confusion among the public potentially purchasing NFT and various confusions that occurred in the context of online discussions on social networks.

Judge Rokoff ruled that no *summary judgment* could be given in favor of either party, and that it was up to the jury asked by Hermes to decide. After a week of trial, the nine members of the jury found that Rotschild could not claim First Amendment protection and that the application of the Rogers test, in particular its third criterion, led to a violation of trademark law.

IV. Comment

The judgment is interesting for several reasons:

- **Timeliness.** Between the filing of the application on January 14, 2022 and the decision of the People's Jury on February 8, 2023, barely more than a year will have elapsed, despite the filing of an amended Complaint on March 2, 2022 and procedural incidents relating to the possible "*summary judgment*" that each party claimed, but failed to obtain (see in particular the opinions and orders issued on September 3, 2022 and February 2, 2023 respectively; for a complete history, see here).

The efficiency shown by the SDNY in a case with many new issues can only be envied by Swiss litigants. It demonstrates an understanding by US Courts of the business needs of the trademark holders that we can only envy.

- **Extraterritoriality.** The SDNY does not address the extraterritoriality of its judicial injunction, even though it is ultimately global in scope. While I have always argued in favor of the extraterritorial reach of such injunctions, in the absence of which it would make it impossible and futile to take legal action against the infringement of exclusive rights on the Internet, the SDNY does not seem to have perceived this possible problem.

- **Validity of the *trade dress* registration.** The defendant did not seem to attack the validity of the *"trade dress"* registered by Hermès in relation to the Birkin bag model, the quality of which seems to me to be highly debatable. If the validity of the word mark was not in doubt and would have undoubtedly been sufficient, combined with the dilution and unfair competition claims, for Hermès to win its case, the validity of the *trade dress* appears more than doubtful in view of the poor quality of its registration.

- **Opinion poll.** The 18.7% likelihood of confusion rate may seem low at first glance for a Swiss lawyer who is used to having to get close to 50% to convince a court (with the well-known exception of the litigants in the Vogue decision, where a rate of 25% was considered by the Federal Court as sufficient to demonstrate the well-known character of the Vogue trademark in relation to the magazine of the same name, 4A_128/2012). However, one should not forget that Switzerland is only 41'000 km2 in size, while the United States is 9'600'000 km2. The larger the country, the lower the expected rate, so that a rate of nearly 19% in a country as large as the United States can be considered particularly important (also in this sense: *Empresa Cubana del Tabaco v. Culbro Corp.* 70 USPQ.2d 1650 [SDNY 2004], *rev'd on other grounds,* 399 F.3d 462 [2d Cir.

2005]).

- **12th edition of the Nice Classification and NFT: a false good idea?** erIf the 12ème edition of the Nice Classification, which came into force on January 1, 2023, expressly recognizes the possibility of registering trademarks in class 9 for virtual goods (which must however specify the title under penalty of refusal, as "*downloadable virtual goods, namely, virtual bags"*) and NFTs (the latter being qualified as "*downloadable digital files authenticated by non-fungible tokens*"), thus reflecting a practice that had begun to emerge and that was endorsed by the EUIPO.

Interestingly, Hermès also filed such a registration before the USPTO in class 9 while the case was pending, but the absence of such a registration during the proceedings did not prevent Hermès from winning, even though it only had registered marks in class 18.

Admittedly, the SDNY did not engage in a thorough analysis of the question of whether a class 18 registration could be considered to cover a use in the form of an NFT, which question is admittedly posed in somewhat different terms than those to which the Swiss jurist is accustomed from the standpoint of art. 3 of the Swiss Trademark Act.

However, implicitly, the SDNY answers this question in the affirmative. The woman who buys a Birkin bag does not do so for what she can put in it. She buys it for the image of prestige and belonging to an exclusive community that the exterior of the bag confers.

In other words, what matters is not so much the fact that the properties of a bag (defined, according to the Robert, as a "flexible object made to serve as a container, where one can store, carry various things") cannot be fulfilled by a digital image of the said bag and that, as such, it cannot be considered as similar to a "bag" in the sense of the aforementioned definition.

What really matters is that the target audience *perceives* the Metabirkin bag as a Birkin bag; it is not the bag's properties that matter, but its appearance and what it says about the owner. It is from this perception that a similarity between the products arises, the Metabirkin bag being perceived as the digital transposition of the Birkin bag.

Therefore, in my opinion, and as the SDNY at least implicitly holds, in my opinion correctly, it is sufficient that the target public (whose point of view is decisive) *perceives* in the digital product an equivalent of the tangible product for the similarity required by the law to admit an infringement of the mark to be achieved. A registration in class 9 would then be useless. However, it must be admitted that the practice has unfortunately not gone down this path. This can only be regretted.

- **Intellectual property and freedom of expression.** In any case, the delicate issue of the relationship between intellectual property and art is not over. The appeal that Mason Rotschild has already indicated he will file will certainly allow him to learn from the upcoming Supreme Court decision in *Andy Warhol Foundation for the Visual Arts, Inc. v. Goldsmith* and its interpretation of *fair use* (see for the challenged decision: 11 F.4th 26 [2d. Cir. 2021]), as well as a second Supreme Court decision expected this year on the interpretation of the First Amendment as a defense in a trademark infringement case, again in light of the Rogers test, namely *Jack Daniel's Properties Inc. v. VIP Products LLC*.

Creators and trademark owners are not done yet. While everyone will undoubtedly agree that the freedom of art stops where the exclusive right is violated, the delicate question consists in knowing at what point this right can be considered as being violated, without emptying of its substance the freedom of expression that must be granted to artists. While Hermès has thus won the first battle, it has not yet won the final victory. To be continued.

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