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Trademark protection in the Metaverse from the general EU trademark's perspective

BACHELOR THESIS

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DECLARATION OF HONOUR:

I declare that this thesis is my own work, and that all references to, or quotations from, the work of others are fully and correctly cited.

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ABSTRACT

This thesis researches the legal framework surrounding Non-Fungible Tokens (NFTs) in Web 3.0 or the Metaverse context. Due to their unique characteristics, NFTs require novel regulatory approaches, yet the decentralized nature of the blockchain system makes regulating this sphere difficult. The main objectives are to define NFTs, compare adopted definitions, evaluate the existing system, analyze case – law and adopted approaches by courts, and determine whether the EU trademark system needs to be adjusted. This thesis finds that legislators must reach a consensus on practical definitions to establish consistency in potential NFT-related laws. The existing IP regime is well-equipped to protect IP rights holders against infringements relating to NFTs. The current IP regime is sufficient not only in theory, but case-law analysis shows that it can also tackle real-life issues. Policy-makers need to guide the judiciary branch on how to interpret and apply existing laws.

KEY WORDS: NFTs, Non-Fungible Tokens, Metaverse, Web 3.0, trademarks

SUMMARY

Non – fungible tokens, hereinafter – NFTs, gained a lot of public attention, especially in 2021, due to the art industry rapidly increasing their trading volume and value of transactions. According to the Art Basel & UBS report, reaching 2.3 billion euros in 2021.¹ NFTs are unique, one-of-a-kind tokens that can represent ownership of items, mostly digital but also tangible or representative; by containing unique metadata, they prove ownership and authenticity of such items on the blockchain.²

NFTs are recorded on the blockchain via Smart Contracts that execute, control, and document specific actions.³ This thesis finds that the existing intellectual property, hereinafter – IP, right protection regime in the European Union, hereinafter – EU, is well-equipped to protect trademark right holders against infringements relating to NFTs in the Metaverse, yet the regime lacks harmonization between Member States, hereinafter – Member States or MS, and trademark right holders are faced with challenges like detecting and enforcing infringements.⁴ Although there are no specific rules that regulate NFTs in the EU⁵, as of April 20th, 2023, the Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937, hereinafter – the MiCA Regulation has been formally ratified and adopted by the European Union. Article 10 of the adopted text states the MiCA Regulation does not apply to NFTs. Nevertheless, Article 11 of the MiCA Regulation does state that NFTs fall under the scope when they are fungible, which is not the case when a fraction of an NFT is sold but when the NFT is part of a collection.⁶ Uncertainties remain about how many existing NFTs fall under the scope of MiCA, given that it is unclear when an NFT is considered fungible and what de facto uses to determine its fungibility.

Buying an NFT does not mean the new owner acquires any “rights” to the underlying asset. The transferred ownership rights are limited to transferring, selling, or giving away the NFT.⁷ NFTs can be revolutionary for businesses or individuals as they offer new possibilities to showcase their products or creations and can represent nearly anything. NFTs give a digital asset real value and prove its uniqueness in a pool of reproductions. Moreover, stipulating the terms of the Smart Contracts is left to the creators, allowing them to add favourable terms, for example, regarding resale royalty payments.

Classifying the items is crucial for trademark protection, as trademarks are registered for specific classes of goods. In this regard, the EUIPO, in the latest Guidelines for EUTMs,

¹ Garbers-von Boehm, Katharina, Haag, Helena, Gruber, Katharina, “IP Rights and Distributed Ledger Technology with a focus on art NFTs and tokenized art”, *European Parliament, Policy Department for Citizens’ Rights and Constitutional Affairs Directorate-General for Internal Policies*, (2022), p.3. Available on: [https://www.europarl.europa.eu/thinktank/en/document/IPOL_STU\(2022\)737709](https://www.europarl.europa.eu/thinktank/en/document/IPOL_STU(2022)737709). Accessed March 1, 2023.

² International Trademark Association, *Non-Fungible Tokens (NFTs) White Paper*, (April 4, 2023). Available on: https://www.inta.org/wp-content/uploads/public-files/perspectives/industry-research/NFT_REPORT-033123.pdf. Accessed April 25, 2023.

³ Bamakan, Seyed Mojtaba Hosseini, Nezhadsistani, Nasim, Nezhadsistani, Nasim, Qu, Qiang, “Patents and IP assets as non-fungible tokens; key technologies and challenges”, *Scientific Reports*, (2022). Available on: <https://doi.org/10.1038/s41598-022-05920-6>. Available on: <https://doi.org/10.1038/s41598-022-05920-6>. Accessed February 18, 2023.

⁴ Boehm, Haag, Gruber, *Supra* note 1.

⁵ *Ibid.*

⁶ European Parliament, *Markets in Crypto-assets (MiCA)* (20.04.2023). Available on: https://www.europarl.europa.eu/doceo/document/TA-9-2023-0117_EN.html. Accessed April 3, 2023.

⁷ Boehm, Haag, Gruber, *Supra* note 1., p.24.

has clarified that NFTs belong in Class 9 of the Nice Classification system.⁸ The Regulation is sufficient for trademark protection in the Metaverse as NFTs can be subject to trademark infringements under Article 9 of the Regulation. Trademark infringements are the unauthorized use of a similar or identical sign for the same or similar goods, causing consumer confusion and diluting and tarnishing the trademark's owner's brand.⁹

Case – law analysis shows that courts in and outside of the EU can understand NFT concepts theoretically and factually. Courts are primarily concerned with finding whether consumer confusion is present and whether the rights of freedom of expression or normative fair use are violated. Courts are acting as legislators by filling in the gaps where the existing regime is lacking and adopting rules that are not too restricting but at the same time protect trademark rights holders. Cases still awaiting judgments will further establish a concrete court practice that guides businesses and individuals.

⁸ EUIPO, Trade mark guidelines, (Edition 2023). Available on: <https://guidelines.euipo.europa.eu/2058843/2065747/trade-mark-guidelines/6-25-downloadable-goods-and-virtual-goods>. Accessed April 10, 2023.

⁹ Boehm, Haag, Gruber, *Supra* note 1, p.3.

TABLE OF CONTENTS

| | |
|---|-------------|
| LISTS OF ABBREVIATIONS | 6 |
| INTRODUCTION | 7 |
| 1. Regulating NFTs in the EU: current exclusions and future considerations | 9 |
| 1.1.Functional definition, characteristics and relation to blockchain technology | 9 |
| 1.1.1.Insights into the definitions of NFTs from the EU’s perspective..... | 10 |
| 1.1.2.Legal questions raised by NFTs regarding IP rights and MiCA regulation’s approach..... | 14 |
| 1.1.3.Legal nature and ownership rights of NFTs | 15 |
| 1.1.4.Conclusion | 17 |
| 2. Evaluation of the existing EU trademark governance regime, its limitations | 18 |
| 2.1.Trademark registration in the EU: different levels of protection and classification challenges | 18 |
| 2.2.Assessing the European Union Trademark Regulation (EU) 2017/1001..... | 20 |
| 3. Case-law | 21 |
| 3.1.1.Hermes Int'l v. Rothschild | 21 |
| 3.1.2.Nike vs. StockX..... | 27 |
| 3.1.3.Playboy Enterprises International, Inc. V. www.Playboyrabbitar.app et al. | 31 |
| 3.1.4.Yuga Labs, Inc. V. Ripps | 32 |
| 3.1.5.Juventus Football Club S.p.A. V. Blockeras S.r.l. | 34 |
| 3.1.6.Miramax, LLC v. Tarantino | 36 |
| 3.1.7.Case law conclusions..... | 37 |
| CONCLUSION | 3838 |
| BIBLIOGRAPHY | 400 |

LISTS OF ABBREVIATIONS

CASPs – Crypto-asset service providers

DLT – Blockchain, a form of a distributed ledger technology

EU – European Union

EUIPO - EU Intellectual Property Office

EUTM – EU Trademarks

Guidelines – EUIPO. Trade mark guidelines. (Edition 2023). Available on: <https://guidelines.euipo.europa.eu/2058843/2065747/trade-mark-guidelines/6-25-downloadable-goods-and-virtual-goods>. Accessed April 10, 2023.

IP – Intellectual Property

Metaverse – Web 3.0 or the Metaverse

MiCA Regulation - Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937

MS – Member States of the European Union

NFT – Non – fungible token

Regulation – Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark (codification) (Text with EEA relevance). Available on: <http://data.europa.eu/eli/reg/2017/1001/oj>. Accessed April 29, 2023.

Study - A study of October 2022 commissioned by the European Parliament's Policy Department for Citizens' Rights and Constitutional Affairs at the request of the JURI Committee. Available on: [https://www.europarl.europa.eu/thinktank/en/document/IPOL_STU\(2022\)737709](https://www.europarl.europa.eu/thinktank/en/document/IPOL_STU(2022)737709).

INTRODUCTION

The world is constantly evolving, and with each new technological revolution comes a need for new laws to protect citizens and businesses. Web 3.0, or the Metaverse, is the latest revolution, which brings innovations like NFTs.

NFTs are unique, one-of-a-kind tokens that can represent ownership of digital items like GIFs, videos or songs, tangible items like real estate or legal documents or representative items that do not have a physical existence but something they represent does, like collectibles.¹⁰

This sphere has specific characteristics that are not evident in other areas regulated by laws, meaning, if you are in possession of an NFT and you can verify your ownership through the blockchain technology, it means you are also in possession of a unique digital code or a private key since this key is only known to the owner of the NFT no one can prove ownership or find the entry on the blockchain without this key even if they have physical possession of the item associated with the NFT.¹¹ Nevertheless, if you are the creator of an NFT, the blockchain recognizes you as the creator, and therefore, you can set the terms for resale royalties and other preferences.¹²

NFTs benefit creators, buyers, sellers, and even the public. When talking about NFTs that are linked to digital assets, they serve as an opportunity to monitor whether something you are buying is indeed the original and later prove that it is, creators benefit from the option to include terms in the Smart Contracts that would stipulate royalty payments according to their terms, and the innovative and secure blockchain technology ensures that all terms are executed immediately. NFTs linked to physical assets act as “proxies”; therefore, while they only represent an existing physical asset, they allow the transaction process to be more efficient and mitigate the risk of infringements.¹³

Given the benefits mentioned above, many companies have started to create their own NFT collections that allow consumers to redeem the goods associated with the NFT, like in the Nike v. StockX case discussed later in this paper; wine, spirits, and art industries are also increasing their interest in this sphere.¹⁴ Not only companies but also artists enjoy the benefits of digitalizing their work into a token on the blockchain, like not having to display the artwork physically at a gallery, having complete control over how their artwork is sold, and not having to pay commissions, the possibility of stipulating future royalty payments.¹⁵

The rapidly increasing use and value of NFT-related transactions have led to calls for regulation, but the decentralized nature of the blockchain system makes regulating a complicated task.

This thesis focuses on the protection of trademark rights holders at risk for trademark infringement if third parties are using their trademarks or similar marks without permission to obtain financial gain. This thesis aims to analyze whether buying an NFT grants the buyer exclusive commercial rights to the associated digital asset; additionally, what is the relationship between Smart Contracts and IP rights in the context of NFT ownership? Thirdly, this thesis

¹⁰ International Trademark Association, *Supra* note 2, p.12.

¹¹ *Ibid.*, p.13.

¹² *Ibid.*

¹³ *Ibid.*, p.14-15.

¹⁴ *Ibid.*, p.15.

¹⁵ *Ibid.*, p.16.

through case-law aims to find whether well-known brands and well-known trademarks enjoy greater protection.

The research questions proposed are: 1) How can NFTs be defined in their functional sense, and whether the definitions put forward by the EU align with these defined functional aspects?; 2) is the existing trademark protection system, specifically – the European Union Trademark Regulation (EU) 2017/1001, sufficient for trademark protection in the Metaverse?; 3) Is the existing IP regime sufficient only in theory, or does case-law analysis show that it is also capable of tackling real-life issues?

The hypothesis proposed is that courts are ahead of legislators; despite the existing trademark protection system being sufficient for protecting IP rights in the Metaverse, the courts are acting as gap-fillers where legislative amendments to the regime are necessary.

The author will use a combination of different methodologies to provide a comprehensive analysis of this subject. Doctrinal legal research will be used to analyze the existing legal definitions and rules regarding trademark protection in the context of NFTs to show where the law lacks clarity or requires reform. Comparative analysis will compare the strengths and weaknesses of dominating legal regulations and existing definitions in different jurisdictions. The case study methodology will be used to examine specific cases of NFT trademark infringements and analyze the legal issues and solutions that arose.

This thesis aims to analyze the existing legal framework concerning IP rights protection normatively, focused on the Trademark Regulation (EU) 2017/1001, in the context of NFTs and digital worlds like the Metaverse, and further evaluate its adequacy for protecting trademark IP rights. In addition, this thesis aims to assess the main risks associated with NFTs and trademarks and highlight adjustments necessary for the existing legal regime to evaluate these risks and ensure adequate protection. Moreover, this thesis aims to provide a comprehensive definition of NFTs and, by case – law analyses, indicate the most prominent problematic issues in this area and approaches to tackling these issues adopted by courts in and outside the EU.

The corresponding objectives are: 1) to define NFTs in their functional sense, analyze how definitions provided by the EU align with these functional aspects; 2) evaluate the existing trademark protection system in the EU; 3) analyze the relationship between Smart contracts and IP rights; 4) provide a case – law analysis that showcases specific NFT trademark infringement cases and analyze the solutions provided by courts; 5) determine whether adjustments to the existing trademark protection system in the EU are necessary and whether courts are acting as gap-fillers in the absence of clear legal provisions.

Limitations of the conducted research are the lack of cases being litigated in the EU; it should be noted that the existing court practice has been thoroughly examined in this thesis, and the findings are still influential to the legal landscape in the EU. Moreover, some of the cases discussed are ongoing; therefore, the ability to draw definitive conclusions is restricted.

This thesis consists of three parts; in the first part, the Author analysis functional definitions of NFTs, what definitions the EU provided, and the MiCA's Regulation approach; in the second part, the Author evaluates the existing EU trademark governance regime, its limitations, in the third part the Author analyses case-law in and outside of the EU.

1. REGULATING NFTS IN THE EU: CURRENT EXCLUSIONS AND FUTURE CONSIDERATIONS

The Council of the EU's press release of June 30th, 2022, on the MiCA Regulation stated that:

Non-fungible tokens (NFTs), i.e., digital assets representing real objects like art, music and videos, will be excluded from the scope except if they fall under existing crypto-asset categories.¹⁶

Nevertheless, Peter Kerstens, an EU official and adviser for technological innovation at the European Commission on 2nd of August, 2022, spoke at a panel at Korea Blockchain Week and offered new insights.¹⁷ He stated that NFTs would receive the same treatment as cryptocurrencies under the MiCA Regulation because EU citizens trying to sell an NFT collection will fall under the category of crypto-asset service providers, hereinafter – CASPs, under the MiCA Regulation.¹⁸ Moreover, Peter Kerstens stated that EU legislators “take a very narrow view of what is an NFT.”¹⁹

Considering the above-presented statement, the Author of this thesis analyzes functional definitions of NFTs and explores those that legislators and scholars have provided. Ultimately, the Author analyses the factual context of the interaction between NFTs and TMs and the legal consequences concerning TM regulation.

1.1.FUNCTIONAL DEFINITION, CHARACTERISTICS AND RELATION TO BLOCKCHAIN TECHNOLOGY

In their functional or practical sense, NFTs are crypto-assets that grant individuals ownership rights over digital items.²⁰ In the modern digital world, proving authenticity or exercising your ownership rights is challenging, given that digital assets can be easily reproduced due to screenshotting, copying, and downloading.²¹ Therefore, NFTs are digital assets containing information proving the authenticity and ownership rights of any “files.”²² Each NFT contains unique metadata that allows differentiating between endless seemingly identical copies or files.²³ Even if there are multiple copies of a digital asset, NFTs enable investors to specify which copy of an asset they own.²⁴

While NFTs can be exchanged in the sense that they are sold and bought, they cannot be traded like, for example, cryptocurrencies. In a cryptocurrency exchange, the buyer does not care which specific cryptocurrency/fraction of it they will receive in exchange for theirs, yet in

¹⁶ Council of the EU, Press release: Digital finance: agreement reached on European crypto-assets regulation (MiCA)” (30.06.2022). Available on: <https://www.consilium.europa.eu/en/press/press-releases/2022/06/30/digital-finance-agreement-reached-on-european-crypto-assets-regulation-mica/>. Accessed February 20, 2023.

¹⁷ *Ibid.*

¹⁸ Cheyenne Ligon, Jack Schickler, NFT Collections Will Be Regulated Like Cryptocurrencies Under EU's MiCA Law, Official Says, *CoinDesk*, (10.08.2022). Available on: <https://www.coindesk.com/policy/2022/08/10/nft-collections-will-be-regulated-like-cryptocurrencies-under-eus-mica-law-official-says/>. Accessed February 21, 2023.

¹⁹ *Ibid.*

²⁰ Ollie Leech, What Are NFTs and How Do They Work?, *CoinDesk*, (23.08.2022). Available on: <https://www.coindesk.com/learn/what-are-nfts-and-how-do-they-work/>. Accessed February 25, 2023.

²¹ *Ibid.*

²² *Ibid.*

²³ *Ibid.*

²⁴ *Ibid.*

NFT transactions, each NFT has its unique traits. An NFT cannot be exchanged for another NFT, and their value will differ; hence they are “non-fungible.”²⁵

NFTs have three fundamental characteristics that define their functional sense: non-fungibility-they are unique and not interchangeable with other assets; accessibility-ability of an NFT to grant access to additional functionalities or content; and proof of ownership-clear ownership and transferability rights.²⁶

NFTs are often discussed in the context of blockchain, a form of distributed ledger technology, hereinafter-DLT, an emerging technology that is paving its way to replace existing business models.²⁷ As centralized organizations are replaced with decentralization, the system’s shortcomings in governance issues are becoming more apparent. Tokens, such as NFTs, allow leveraging the advantages of trading within the network while offering traceability and increasing transparency and security.²⁸ Blockchain technology supports two types of tokens: fungible tokens, like cryptocurrencies that have equal value, and non-fungible tokens, NFTs, that possess unique characteristics.²⁹ NFTs are digital assets with a unique identifier stored on the blockchain.³⁰ Ownership rights are recorded on the blockchain via Smart Contracts.³¹ When the Ethereum Improvement Proposals (EIP)-721 introduced the concept of NFTs, they became a global phenomenon at the start of 2021. EIP-721 is the pioneer NFT standard developed by Ethereum, tokens generated according to this standard include information on the token's owner, a list of approved addresses, and a function that allows transferring the token with time; other standards have been developed.³²

1.1.1. INSIGHTS INTO THE DEFINITIONS OF NFTS FROM THE EU’S PERSPECTIVE

A study of October 2022 commissioned by the European Parliament’s Policy Department for Citizens’ Rights and Constitutional Affairs at the request of the JURI Committee, hereinafter-Study, allows insights into the definitions of NFTs from the EU’s perspective that could potentially serve as the basis for future legislation shaping.³³

This Study also agrees with the previously stated opinion that under the MiCA Regulation, the presented definition of crypto-assets under certain circumstances could also affect specific NFTs.³⁴ This Study suggests that questions related to IP protection or infringement in the context of tokenized content present new challenges but, from the legal perspective, are very similar to questions that have been presented since the start of the digital age.³⁵ Moreover, the Study states that despite certain flaws due to specifics, the EU IP regime

²⁵ Leech, *Supra* note 16.

²⁶ Ornina El Hajjar, “The regulation of Non-Fungible Tokens (NFTs): IP or Cryptoasset?” *Lebanese American University*, (2022). Available on: https://laur.lau.edu.lb:8443/xmlui/bitstream/handle/10725/14124/Ornina_El_Hajjar_Thesis_Redacted.pdf?sequence=1. Accessed March 1, 2023.

²⁷ Bamakan, Nezhadsistani, Qu, *Supra* note 3.

²⁸ *Ibid.*, p.1.

²⁹ *Ibid.*, p.1.

³⁰ *Ibid.*, p.1.

³¹ *Ibid.*, p.1.

³² *Ibid.*, p.3.

³³ Boehm, Haag, Gruber, *Supra* note 1.

³⁴ *Ibid.*, p.9.

³⁵ *Ibid.*, p.10.

is well-equipped to protect rights holders against infringements relating to NFTs.³⁶ Nevertheless, the Study accentuates that the EU IP regime in this context lacks harmonization and that the legal regime relating to IP issues pertaining to NFTs may differ between EU Member States.³⁷ The Study further clarifies that the biggest challenge that trademark rightsholders face is detecting and enforcing infringements; the decentralized nature of DLT provides problems regarding the applicable law, jurisdiction, and competent authorities, and penalization is impossible if the infringer's identity is unknown.³⁸

The Author of this Thesis summarizes the background information provided by the JURI that explains the need for the Study. The JURI defines blockchain as a decentralized DLT technology that allows access to a digital asset's origin.³⁹ Such a record-keeping system is challenging to mutilate, hack or cheat.⁴⁰ DLT eliminates the need for a centralized authority, a protocol that ensures the secure functioning of a DLT database.⁴¹ Cryptography allows the storage of all information in a safe and precise manner; keys and cryptographic signatures enable access to this information.⁴²

In the context of IP law, the blockchain's characteristics of accountability, security, transparency, and immutability have a significant impact.⁴³ The DLT allows for digital art creation and facilitates the sale process of traditional pieces.⁴⁴ The internet age has made classic art more accessible, but at the same time, it has flooded the market with copies.⁴⁵

The JURI presents the idea that the blockchain is creating a new type of art: crypto art.⁴⁶ Such art could be entirely digital, meaning it is made and stored on the blockchain; however, such art can also be created via any means but meant for displaying digitally.⁴⁷ NFTs allow to prove ownership, sell, and transfer such art.⁴⁸ Metadata relating to all digital creations is registered on the blockchain as NFTs and Smart Contract facilitate their transactions.⁴⁹

The Study states that there is no "official" or "legal" definition of DLTs and NFTs.⁵⁰ For efficiency reasons, the Author of this Thesis uses the terms DLT and Blockchain synonymously, as the best-known form of application of the DLT is the blockchain.⁵¹ The Study provides a simple definition of blockchain:

A blockchain can be described as a decentral public database, which is constantly updated in a decentral manner by many computers in a global network.⁵²

The Study further defines "Tokens" as entries on the blockchain that represent an asset.⁵³ Securities law classifies three types of tokens: currency, utility, and security.⁵⁴

³⁶ Boehm, Haag, Gruber, *Supra* note 1., p.10.

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ *Ibid.*, p.11.

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

⁴² *Ibid.*

⁴³ *Ibid.*

⁴⁴ *Ibid.*

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ *Ibid.*, p.12.

⁵¹ *Ibid.*, p.13.

⁵² *Ibid.*

⁵³ *Ibid.*, p.14.

⁵⁴ *Ibid.*

Cryptocurrencies, like Bitcoin or Ethereum, are currency or payment tokens that aim to provide alternative means of payment in a decentralized system.⁵⁵ Since currency tokens are fungible, NFTs can be classified as utility or security tokens, depending on their content. Utility tokens give access to products or services; usually, they take the form of a guarantee to access certain benefits when financing from token sales in the future makes it possible.⁵⁶ Security tokens manifest shares in a company and, therefore, could be regulated by securities law due to their proximity.⁵⁷

Article No.1 of the Fifth Money Laundering Directive defined virtual currencies as intrinsic tokens.⁵⁸ Another form of token classification is to distinguish between whether the value of the digital asset derives from the token itself, meaning it has intrinsic value, an example would be cryptocurrencies, or whether the value of the token derives from the value of an underlying asset-extrinsic value.⁵⁹ Extrinsic tokens represent off-ledger assets that exist outside of the blockchain.⁶⁰ Since extrinsic tokens represent an asset that exists outside of the blockchain, on their own, they have no inherent value; hence they represent rights of ownership for real physical objects.⁶¹ If an extrinsic token is exchanged, the rights associated with them are also traded (further in the thesis, the question of whether IP rights are exchanged is discussed). Still, some link between the transfer of the token and the changing factual situation of the underlying asset is needed; this linkage can be achieved via a Smart Contract or any other legal agreement.⁶²

The Study highlights the importance of legislators reaching a consensus on practical definitions to establish consistency in potential NFT-related laws.⁶³ The Study then focuses on the definition of NFTs. It provides the following functional description:

Described in a functional way, an NFT is a cryptographic tool that uses a blockchain to create a unique, non-fungible digital asset which can be owned and traded. The blockchain serves as an immutable ledger of ownership of the NFT.⁶⁴

From the technical point of view, NFTs consist of a number and an alphanumeric code, meaning a token ID and an address code that leads to a Smart Contract on the blockchain.⁶⁵ This information is stored on the blockchain, and since the combination of these two components is unique, NFTs are non-fungible.⁶⁶ The Study also concludes that Ethereum was the pioneer introducer of NFTs as they in 2018 developed the technical standard ERC-721 that specified the technical qualities and functionalities an NFT must embody.⁶⁷ Among many other blockchains that support NFTs, Ethereum is the most commonly used.⁶⁸

⁵⁵ Boehm, Haag, Gruber, *Supra* note 1., p.14..

⁵⁶ *Ibid.*

⁵⁷ *Ibid.*

⁵⁸ Directive (EU) 2018/843 of the European Parliament and of the council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, and amending Directives 2009/138/EC and 2013/36/EU.

⁵⁹ *Ibid.*

⁶⁰ Boehm, Haag, Gruber, *Supra* note 1., p.14.

⁶¹ *Ibid.*

⁶² *Ibid.*

⁶³ *Ibid.*, p.15.

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

⁶⁶ *Ibid.*

⁶⁷ *Ibid.*

⁶⁸ *Ibid.*

Smart Contracts, which could also be referred to as protocols, are software capable of executing, controlling, and documenting specific actions.⁶⁹ This software comprises code specifying its functions and data sets its state with an assigned address on the blockchain.⁷⁰ A Smart Contract allows transitioning traditional contracts into the digital space, yet they are very logical and will behave as programmed; moreover, they cannot be changed.⁷¹ In formal agreements, even if the conditions are met, the receiving party must still rely on the fact that the other party will fulfil the agreement.⁷² The idea of Nick Szabo inspired Smart Contracts presented in his works on Smart Contracts in 1994, and in 1996, Nick Szabo envisioned a digital marketplace built in such a way that eliminated the need for intermediaries and facilitated trustless business transactions.⁷³

Smart Contracts eliminate the usual enforcement obstacles associated with traditional contracts by turning the terms of the agreement into computer code that automatically executes when the terms of the agreement have been satisfied.⁷⁴ Additionally, they improve the protection of privacy and transparency since tracking is more efficient due to the entries on public blockchains.⁷⁵ In the context of NFTs, a function within the Smart Contract could stipulate that ownership rights are automatically transferred once the payment has been made. For example, when an NFT is resold, the Author automatically receives resale royalties for each sale.⁷⁶ It is important to note that users do not control Smart Contracts, they are stationed on the blockchain and are run as programmed, and users can only interact with these Smart Contracts.⁷⁷

Content such as files or metadata that an NFT tokenizes can be stored on or off the blockchain.⁷⁸ The most common approach is to specify a “pointer” or location identification in the Smart Contract, leading to an off-blockchain location where the digital asset or any metadata is stored.⁷⁹ This approach can be risky since off-blockchain digital assets can be replaced or overwritten. The link to the off-blockchain location could stop working if, for example, the third-party service provider ceases their operations due to bankruptcy.⁸⁰ Some alternatives for storing assets on blockchain have been introduced, like IPFS and physical data carriers; nevertheless, even if accumulating assets on a blockchain is possible, such services require a lot of computer capacity and power and are more expensive.⁸¹

To execute a transaction of an NFT, one must have a user account on the blockchain, or rather an address referred to as “Wallet ID.”⁸² The developed ERC-721 standard provides that an NFT must always be linked to such a Wallet.⁸³ When an NFT is initially created, it is

⁶⁹ Boehm, Haag, Gruber, *Supra* note 1., p.16.

⁷⁰ *Ibid.*

⁷¹ Ethereum, “Introduction to Smart Contract.” (05.05.2023.). Available on: <https://ethereum.org/en/smart-contracts/>. Accessed February 20, 2023.

⁷² *Ibid.*

⁷³ *Ibid.*

⁷⁴ *Ibid.*

⁷⁵ *Ibid.*

⁷⁶ Boehm, Haag, Gruber, *Supra* note 1., p.16.

⁷⁷ Ethereum, “Introduction to Smart Contract.” (02.09.2022.). Available on: <https://ethereum.org/en/developers/docs/smart-contracts/>. Accessed February 20, 2023.

⁷⁸ Boehm, Haag, Gruber, *Supra* note 1., p.17-18.

⁷⁹ *Ibid.*

⁸⁰ *Ibid.*

⁸¹ *Ibid.*

⁸² *Ibid.*, p.19.

⁸³ *Ibid.*

connected to the Author account, the person who “minted” the NFT.⁸⁴ Through a Smart Contract, the Author can then transfer their ownership rights.⁸⁵ When the payment has been made, the Smart Contract automatically links the sold NFT to the new owners' Wallet; such transactions are public and can be viewed by anyone.⁸⁶

NFTs have been revolutionary for the art world and artists since they are mainly used to represent digital and physical artworks.⁸⁷ In the digital sense, an NFT creates value for a digital art piece by proving its uniqueness. In the case of physical artwork, NFTs facilitate trade and even allow to “fractionalize” artworks, meaning a group of people can own shares of an expensive art workpiece; therefore, NFTs are an attractive venture for investors.⁸⁸ Marketplaces like masterworks.io make the investment process easy and accessible to everyone.⁸⁹

NFTs gained much public attention, particularly in 2021 when their trading volume and value of transactions increased rapidly thanks to the art industry that popularized and commercialized NFTs, according to the Art Basel & UBS report, reaching 2.3 billion euros in 2021.⁹⁰ We can conclude that NFTs can represent either digital or physical assets, particularly artworks; hence the question remains on how IP rights are respected in both scenarios when such NFTs are minted.⁹¹

1.1.2. LEGAL QUESTIONS RAISED BY NFTS REGARDING IP RIGHTS AND MiCA REGULATION’S APPROACH

This thesis does not focus on the legal questions that NFTs raise in the context of banking regulatory/securities law, anti-money laundering regulations, and tax law. It focuses on legal questions that NFTs raise regarding IP rights, specifically trademark infringements.⁹²

The Study agrees with the previously expressed statement that no specific rules currently regulate NFTs.⁹³ As of April 20th, 2023, the MiCA Regulation has been formally ratified and adopted by the European Union as Article 10 of the adopted text states: “This Regulation should not apply to crypto-assets that are unique and not fungible with other crypto-assets, including digital art and collectables.”⁹⁴

Nevertheless, Article 11 of the MiCA Regulation does state that:

The fractional parts of a unique and non-fungible crypto-asset should not be considered unique and non-fungible. The issuance of crypto-assets as non-fungible tokens in a large series or collection should be considered an indicator of their fungibility.⁹⁵

⁸⁴ Boehm, Haag, Gruber, *Supra* note 1., p.19.

⁸⁵ *Ibid.*

⁸⁶ *Ibid.*

⁸⁷ *Ibid.*

⁸⁸ *Ibid.*

⁸⁹ *Ibid.*

⁹⁰ *Ibid.*

⁹¹ *Ibid.*

⁹² *Ibid.*

⁹³ *Ibid.*

⁹⁴ European Parliament, *Supra* note 6.

⁹⁵ *Ibid.*

We can conclude that the MiCA Regulation has a relatively broad approach regarding what, from the EU's perspective, is considered an NFT. At the same time, a fractional part is not regarded as non-fungible, but an NFT within an extensive collection is.

Article 11 continues to state that:

The mere attribution of a unique identifier to a crypto-asset is not, in and of itself, sufficient to classify it as unique and non-fungible. The assets or rights represented should also be unique and non-fungible in order for the crypto-asset to be considered unique and non-fungible.⁹⁶

It can be concluded that attaching a unique identifier like an NFT to a crypto-asset is insufficient to categorize it as non-fungible—the represented asset or rights must also be unique and non-fungible.⁹⁷ The article defines that the MiCA Regulation applies to crypto-assets that may seem unique and non-fungible, but their de facto features or uses may deem them fungible and not unique; the focus should be concentrated on “substance over form.”⁹⁸

The above-mentioned leaves a large room for debate starting from uncertainties regarding exceptions if an NFT is part of a collection and ending with defining what de facto uses would determine an NFT's fungibility or uniqueness.⁹⁹ The deputy assistant secretary at the French Ministry of Economy stated that as of October 2022, not one of the existing NFTs would fall under MiCA. Yet, other crypto experts like Patrick Hansen state the opposite – “MiCA could end up covering 95% of the market as NFTs are often issued as collections.”¹⁰⁰

1.1.3. LEGAL NATURE AND OWNERSHIP RIGHTS OF NFTS

The legal nature of NFTs depends on the terms stated in the smart contract and other contractual frameworks.¹⁰¹ Primarily, when one buys an NFT, they acquire the right to have the NFT in their crypto wallet and the right to sell the NFT.¹⁰² The legal nature of NFTs is not uniform, as it is unclear whether the rules on ownership defined in civil law can be applied to NFTs. In most jurisdictions deriving from Roman law traditions, such rules would apply only to physical objects.¹⁰³ Furthermore, the acquisition of an NFT may give the buyer ownership rights to the underlying asset or a restricted or exclusive license linked to the underlying asset, as there is no standardization of the smart contract content and sale terms, and the legal status of NFTs varies.¹⁰⁴

Essential aspects to know are that owning an NFT does not mean that the owner owns the asset that it represents; buying an NFT is merely the acquisition of a token entered on the blockchain. Ownership rights, in this sense, are limited to transferring, selling, or giving away the NFT. Buying an NFT does not always mean acquiring any “rights.”¹⁰⁵ For example, the BAYC collection discussed later in the case-law section of this thesis is the most eminent NFT

⁹⁶ European Parliament, *Supra* note 6.

⁹⁷ *Ibid.*

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*

¹⁰⁰ Jack Schickler, New NFT rules possible if lawmakers ask, EU Official says, *Coindesk*, (26.10.2022). Available on: <https://www.coindesk.com/policy/2022/10/26/new-nft-rules-possible-if-lawmakers-ask-eu-official-says/>. Accessed April 29, 2023.

¹⁰¹ Boehm, Haag, Gruber, *Supra* note 1, p.24.

¹⁰² *Ibid.*

¹⁰³ *Ibid.*

¹⁰⁴ *Ibid.*

¹⁰⁵ *Ibid.*

collection that transfers ownership rights to the buyer and provides “commercial rights to the underlying art.”¹⁰⁶ The Bored Ape collection is often praised for popularising NFTs as IP rights; the owners of NFTs within the BAYC collection have the rights to sell derivative works, for example, t-shirts or stickers. The BAYC Terms and Conditions explain:

When you purchase an NFT, you own the underlying Bored Ape, the Art, completely [holders acquire] a worldwide, royalty-free license to use, copy, and display the purchased Art, along with any extensions that you choose to create or use.¹⁰⁷

Nevertheless, this is not true in all NFT collections because the Bored Apes are generated by a random algorithm. The buyer sees what they have bought only after paying; in some way, they are the artist. Therefore – if the terms in the Smart Contract do not explicitly state that together with ownership rights, the buyer also acquires “commercial rights to the underlying art,” such rights are not obtained.¹⁰⁸

When discussing whether an NFT can be owned in the sense of national property laws, it is essential to highlight that in the European Union, property law is not harmonized; therefore, the legal status of NFTs varies among different countries.¹⁰⁹ In Germany, for example, NFTs are not classified as property under Section 90 of the German Civil Code since they lack physicality; physical objects must be tangible and definable, a criterion that digital objects do not meet.¹¹⁰ When strictly applying Section 90 of the German Civil Code, ownership of NFTs is impossible. Some arguments have been presented regarding how NFTs are similar to property given that their ownership rights can be allocated to a specific person, the owner, and other persons can be excluded from ownership. In Germany, NFTs would fall under “similar rights” defined in the German Tort law.¹¹¹

In a recent case, the UK High Court recognized NFTs as legal property, stating: “there is at least a realistically arguable case that NFTs are to be treated as property as a matter of English law.”¹¹² The High Court defined four criteria of property-definability, identifiability, the assumption by third parties, and a degree of permanence-in order to apply the legal remedy of proprietary injunction to crypto-assets.¹¹³ The UK High Court further clarified that the *lex situs* of crypto-assets like NFTs is where the person or company who owns the asset or NFT is domiciled. This aspect is essential when determining which jurisdiction can hear disputes arising from ownership disputed involving crypto-asset transactions.¹¹⁴

Following the decision of the UK High Court that stated that crypto-assets could be subject to injunctions, the Singapore High Court, in a judgment¹¹⁵ rendered on May 13th, 2022, also executed the option to block the sale and transfer of ownership of an NFT via an injunction, therefore also recognizing NFTs as digital assets.¹¹⁶

¹⁰⁶ International Trademark Association, *Supra* note 2., p.18.

¹⁰⁷ *Ibid.*; Terms and Conditions of the BAYC Collection. Available on: <https://boredapeyachtclub.com/#/terms>. Accessed April 29, 2023.

¹⁰⁸ *Ibid.*

¹⁰⁹ Boehm, Haag, Gruber, *Supra* note 1., p.24-25.

¹¹⁰ *Ibid.*

¹¹¹ *Ibid.*, p.25.

¹¹² The High Court in London, Case No.KB-2022-001266 (13.01.2023), para. 18. Available on: <https://caselaw.nationalarchives.gov.uk/ewhc/kb/2023/39>. Accessed April 1, 2023.

¹¹³ Boehm, Haag, Gruber, *Supra* note 1., p.25.

¹¹⁴ *Ibid.*

¹¹⁵ Janesh s/o Rajkumar v Unknown Person (“CHEFPIERRE”) [2022] SGHC 264 (21.10.2022). Available on: https://www.elitigation.sg/gd/gd/2022_SGHC_264/pdf. Accessed April 5, 2023.

¹¹⁶ Boehm, Haag, Gruber, *Supra* note 1., p.26.

There are three categories of persons who may have any “rights” in the context of NFTs – the creator or minters, the underlying IP right holder (owners of trademarks, related rights), and the NFT owner who purchased the NFT.¹¹⁷ Multiple relationship models are possible between the creator and the IP right holder.¹¹⁸ In some instances, they can be the same person, they could be licensed from the IP right holder, the IP rights could have been transferred, or there are multiple IP rights holders and possibly multiple IP rights coexisting within an NFT.¹¹⁹

The above-stated accentuates a pressing problem relating to the fact that the creators are not obliged to disclose the existence of such licenses with the IP rights holders; hence some regulatory involvement is needed to ensure transparency and protect NFT owners.¹²⁰ The Report also concludes that the creators and/or IP rights holders usually keep ownership of IP rights.¹²¹

1.1.4. CONCLUSION

The above-mentioned concludes that participation in the blockchain can be executed anonymously; all that is needed is a Wallet ID and a user name; in the context of IP rights infringements, such anonymity becomes problematic because of IP rights enforcement.¹²² Even though there are challenges in enforcing IP rights, NFTs offer a wide range of opportunities for businesses to utilize and showcase their products or creations.¹²³ NFTs can represent anything, not only digital or physical artworks but also other digital content, such as literary works, music, video games, and trademarks or logos.¹²⁴ The same goes for physical assets; NFTs can present physical artwork pieces, real estate, cars, bags, and many more.¹²⁵ In this sense, NFTs can give a digital asset with seemingly no value a real value ensuring that it is unique and original in a pool full of reproductions.¹²⁶ Smart contracts can be supplemented with terms favourable to the creators as they define them when the NFTs are minted; for example, in resale royalty payments, such terms are automatically executed.¹²⁷

¹¹⁷ International Trademark Association, *Supra* note 2., p.54.

¹¹⁸ *Ibid.*

¹¹⁹ *Ibid.*

¹²⁰ *Ibid.*

¹²¹ *Ibid.*

¹²² Boehm, Haag, Gruber, *Supra* note 1, p.20.

¹²³ *Ibid.*

¹²⁴ *Ibid.*

¹²⁵ *Ibid.*

¹²⁶ *Ibid.*

¹²⁷ *Ibid.*

2. EVALUATION OF THE EXISTING EU TRADEMARK GOVERNANCE REGIME, ITS LIMITATIONS

2.1. TRADEMARK REGISTRATION IN THE EU: DIFFERENT LEVELS OF PROTECTION AND CLASSIFICATION CHALLENGES

In the EU, there are four ways to register trademarks, each offering different levels of protection depending on your business' needs.¹²⁸ If one desires protection only in one EU Member State, it is possible to apply directly to the national IP office of that country.¹²⁹ Suppose protection is needed in Belgium, the Netherlands, and Luxembourg. In that case, it is possible to use the Benelux Office of Intellectual Property, which would grant protection in all those three states.¹³⁰ It is also possible to apply for a EUTM through the EUIPO; however, if protection is needed beyond the EU, protection can be expanded internationally through the Madrid System, which allows one to file a single international trademark application and apply for protection in up to 130 countries.¹³¹ The Author of this thesis focuses on the EU trademark.

The EUIPO is responsible for registering the EUTMs under Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017. The EUIPO is accountable for handling registration procedures, assessing EUTM applications for absolute grounds for refusal, and assessing oppositions raised against such applications for relative grounds; moreover, the EUIPO maintains public records. To provide further analysis, the Author of this thesis turns to the Guidelines for EUTMs as they are the main point of reference for users within the EU¹³².

Article 28 of the Regulation specifies that:

EU trade mark protection is granted in relation to specific goods or services whose nature and number determine the extent of protection afforded to the trade mark proprietor.¹³³

Article 28 then further emphasizes how essential it is to:

lay down rules for the designation and classification of goods and services in this Regulation and to ensure legal certainty and sound administration by requiring that the goods and services for which trade mark protection is sought are identified by the applicant with sufficient clarity and precision to enable the competent authorities and economic operators, on the basis of the application alone, to determine the extent of the protection applied for.¹³⁴

From this Article, it can be concluded that the classification of the goods is of utmost importance as the trademarks are registered and protected for specific classes of goods and services, and exclusive rights to the trademark right owner are provided only in relation to the particular good and service. Therefore, while the rules laid down in the Regulation could be applied to NFTs and the Metaverse, problematics arise from the classification of goods and

¹²⁸ EUIPO, *Trade marks in the European Union*. Available on: <https://euipo.europa.eu/ohimportal/en/web/guest/trade-marks-in-the-european-union>. Accessed March 21, 2023.

¹²⁹ *Ibid.*

¹³⁰ *Ibid.*

¹³¹ EUIPO, *Supra* note 128.

¹³² EUIPO, *Supra* note 8.

¹³³ Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017. Available on: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1001>. Accessed April 29, 2023.

¹³⁴ *Ibid.*

services using the Nice Classification international system applicable in all of the mentioned types of trademark registration.

To tackle this classification problem, the EUIPO's Guidelines, due to the increasing number of trademark applications for digital goods and services, have included provisions regarding the classification of virtual goods and NFTs.¹³⁵ EUIPO's current approach is that:

Downloadable goods refers to, inter alia, publications, music, ring tones, pictures, photographs, films or digitised information in general. Downloaded material is saved onto a memory unit or computer drive, telephone, tablet or smart device and can then be used independently of its source. All material that is downloadable is proper to Class 9... Virtual goods are understood to be non-physical items for use in online and/or virtual environments.¹³⁶

Additionally, EUIPO concludes that:

The terms downloadable goods and virtual goods lack clarity and precision per se and must be specified further, whether in Class 9 as goods or in relation to retail services in Class 35. Acceptable examples would be downloadable goods, namely, downloadable multimedia files in Class 9 or retail of virtual clothing in Class 35.¹³⁷

Finally, the 12th Edition of the Nice Classification has been supplemented with the term "downloadable digital files authenticated by non-fungible tokens [NFTs]" in Class 9.¹³⁸

A Report by the International Trademark Association reveals that other Classes are also covered by NFT-related applications, like Classes 35, 36, 41, and 42. Class 35, covering NFT marketplaces, is more critical for NFT platforms; Class 36 is used for electronic transfers; Class 41 is potentially for individuals providing coaching services and, most importantly, Clause 42 as it is "a common class for non-downloadable software for accessing, storing, trading, buying, selling, and other activities related to NFTs."¹³⁹

Countries differ in how they choose to accept applications on their national level; the EU, Italy, Romania, Spain, Belgium, Netherlands, and Luxembourg have not released any official policies or guidelines yet are accepting applications in the same way as the EUIPO.¹⁴⁰

Once the application is filed, the use-based problem arises; more specifically, in the U.S., the use must be proved to obtain registration, yet in the EU, as stipulated in Article 18 of the Trademark Regulation, the use is essential due to grounds for cancellation if the trademark is not used within a continuous period of 5 years.¹⁴¹

Hence, in the context of NFTs and IP rights trademarks, the encountered problems are apparent even prior trademark infringements in classification issues. Moreover, as more applications are registered within Class 9, it is more likely that the class will become overcrowded, and the likelihood of conflicts between similar trademarks or refusals by the granting authorities will increase. In this context, the Report by the International Trademark Association has put forward interesting recommendations, such as, when filing in Class 9, ensuring that the trademark appears on the digital token or the purchase screen; this is important, taking into consideration the previously discussed-NFT itself cannot be classified in Class 9.¹⁴²

¹³⁵ EUIPO News, 2023 edition of the EUIPO examination guidelines enter into force, (April 17, 2023). Available on: <https://euipo.europa.eu/ohimportal/en/web/guest/-/news/2023-edition-of-the-euipo-examination-guidelines-enter-into-force-1>. Accessed April 25, 2023.

¹³⁶ EUIPO, *Supra* note 8.

¹³⁷ EUIPO, *Supra* note 8.

¹³⁸ *Ibid.*

¹³⁹ International Trademark Association, *Supra* note 2, p.32.

¹⁴⁰ *Ibid.*

¹⁴¹ *Ibid.*

¹⁴² *Ibid.*, p.34.

More importantly, a harmonized approach between MSs is recommended regarding classification.

2.2.ASSESSING THE EUROPEAN UNION TRADEMARK REGULATION (EU) 2017/1001

The question presented: is the existing trademark protection system, specifically – the European Union Trademark Regulation (EU) 2017/1001, sufficient for trademark protection in the Metaverse?

Previously the Author of this thesis referred to a statement made by the Study that from the legal perspective, despite certain flaws due to specifics, the EU IP regime is well-equipped to protect rights holders against infringements relating to NFTs. Still, the EU IP regime in this context lacks harmonization, and the legal regime relating to IP issues pertaining to NFTs may differ between EU Member States.¹⁴³ The legal regime generally could vary due to differences in how the Regulation and Directive provisions are applied and interpreted in each state, for example, procedures for registration and enforcement and how national courts interpret provisions of the Regulation.

Theoretically, there are no obstacles in applying the Regulation to NFTs and the Metaverse.¹⁴⁴ Arguably due to seemingly no barriers to using current regulations to NFTs and the Metaverse as of April 2023, most jurisdictions have not adopted any specific rules that would govern commercial transactions with NFTs.¹⁴⁵ A few jurisdictions outside the EU have adopted regulations that would handle NFT transactions, yet their scope is limited and not connected to IP rights.¹⁴⁶ Therefore, the existing IP regime continues to govern the protection of IP rights worldwide and operates mainly on a case-by-case basis considering the associated item and whether the item has recognizable IP rights under national legislation.¹⁴⁷

Over the last three decades, countries that have a high percentage of people who have access to the internet and e-commerce markets and offer a significant amount of online content and services, in short – online presence, have already implemented new and innovative regulations that deal with spheres like e-commerce, technological criminal activities, consumer rights in the digital world, liability of service providers and many more.¹⁴⁸ As the Regulation of IP rights is focused on the intangible aspects of, among others, creative works, distinct signs, or technical innovations, the principle of IP rights that distinguishes between the intangible factors (*corpus mysticum*) and the physical representation (*corpus mechanicum*) of a creative work also apply to trademark infringements and NFTs.¹⁴⁹ NFTs can be subject to trademark infringements under Article 9 of the European Trademark Regulation, meaning an unauthorized use of a similar or identical sign for the same or similar goods, causing consumer confusion and diluting, diluting and tarnishing the trademark's owner's brand. Nevertheless, the use can be considered "descriptive" or "normative," these defences can also be applied to NFTs in the Metaverse.¹⁵⁰

¹⁴³ Boehm, Haag, Gruber, *Supra* note 1., p.10.

¹⁴⁴ *Ibid.*, p.3.

¹⁴⁵ *Ibid.*

¹⁴⁶ *Ibid.*

¹⁴⁷ *Ibid.*

¹⁴⁸ *Ibid.*

¹⁴⁹ *Ibid.*

¹⁵⁰ *Ibid.*

Trademark protection is territorial, meaning it generally should be registered in each jurisdiction where it will be used; hence the question arises – does Metaverse have a “territory”?¹⁵¹ Previously in the context of digital environments, one would determine the applicable jurisdiction by looking at where a domain name is registered or by looking at various factors to see customers affected.¹⁵² The Metaverse is not comparable to such previously resolved digital environment aspects, it is unique, and therefore, the existing regime in this aspect is insufficient.¹⁵³

From this, we can conclude that the Study is right to conclude that the existing IP regime is well-equipped to protect IP rights against infringements relating to NFTs; however, it lacks harmonization aspects, and amendments may be necessary for the current IP framework. The Author challenges this conclusion by putting forward the research question – is the existing IP regime sufficient only in theory, or does case-law analysis show that it can also tackle real-life issues?

3. CASE-LAW

The Author of this thesis proceeds to analyze case-law to identify is the existing IP regime sufficient only in theory or does the following analysis show that it is capable of tackling real-life issues and concluding whether the courts are acting as legislators and through innovative judgments and conclusions are already supplementing the areas where the existing regime is lacking.

3.1.1. HERMES INT'L V. ROTHSCHILD¹⁵⁴

On its Memorandum Order of May 18th, 2022, the United States District Court, Southern District of New York, hereinafter - the Court, provides the factual context of the dispute.¹⁵⁵ The Court states that around December 2021, Mr Rothschild, hereinafter – Mr Rothschild or the Defendant, created digital images that portrayed versions of the luxury Birkin handbags, the plaintiffs' products in this case – Hermes International and Hermes of Paris, Inc., collectively referred to as – Hermes or the Plaintiff.¹⁵⁶ Mr Rothschild titled these images “MetaBirkins” and sold them using NFTs, hereinafter – the disputed NFTs.¹⁵⁷ The Court states that Hermes has filed a complaint claiming trademark infringement, trademark dilution, and cybersquatting, hereinafter – the Complaint.¹⁵⁸ The Memorandum Order of May 18th, 2022, provides reasons for denying Mr Rothschild’s Motion to Dismiss, setting forward the following argumentation.¹⁵⁹

¹⁵¹ International Trademark Association, *Supra* note 2., p.56.

¹⁵² *Ibid.*

¹⁵³ *Ibid.*

¹⁵⁴ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022). Available on: <https://www.courtlistener.com/docket/62602398/hermes-international-v-rothschild/>. Accessed March 21, 2023.

¹⁵⁵ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.50. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.50.0.pdf>. Accessed March 20, 2023.

¹⁵⁶ *Ibid.*

¹⁵⁷ *Ibid.*, p.1., para.1.

¹⁵⁸ *Ibid.*, p.1., para.1.

¹⁵⁹ *Ibid.*, p.1., para.2.

Hermes is a luxury fashion business known among others for its unique Birkin handbag with an average selling price of thousands of USD to over one hundred thousand USD.¹⁶⁰ The Court finds that Hermes owns trademark rights for the Hermes and Birkin trademarks and trade dress rights in the Birkin handbag design.¹⁶¹

The Court then explains what are NFTs stating the following:

NFTs or “non-fungible tokens” are units of data stored on a blockchain that are created to transfer ownership of either physical things or digital media.¹⁶²

The Court states that since NFTs can be quickly sold and resold and their transaction history is securely recorded on the blockchain, NFTs, in their practical sense, are investments that can store value and increase it over time.¹⁶³ The Court further explains that NFTs are created through “minting.” Later, NFTs are listed on marketplaces where they can be sold and traded per their Smart Contracts.¹⁶⁴ The Court also explains that while NFTs and their corresponding Smart Contracts are stored on the blockchain so that they can be traced, the digital assets are usually stored separately on a single central server or a decentralized network.¹⁶⁵

The Court accentuated an interesting point regarding the difference between a digital picture of an asset, in this case, a picture of a digital handbag, and a different kind of digital media file, which in this case could be a virtual handbag that could be worn in a virtual world like the Metaverse, nevertheless, in this case, there is no dispute that the defendant sells digital images of Birkin bags and not virtually wearable Birkin bags.¹⁶⁶ At the same time, Hermes refers to the creations of Mr Rothschild as “digital assets.”

The Court determines not only that NFTs can be associated with digital media files that can be used as virtually wearable items in the Metaverse but also that fashion brands are beginning to produce and provide digital duplicates of their real-world products for use in digital fashion shows or other purposes in the Metaverse.¹⁶⁷

Regarding how the dispute arose, the Court finds that around May 2021, the defendant created a digital image titled the Baby Birkin, which portrayed a fetus inside a transparent Birkin handbag.¹⁶⁸ The NFT linked to the digital image of the Baby Birkin was sold for 23’500 USD dollars and later was resold for 47’000 USD dollars.¹⁶⁹ Around December 2021, Defendant created a collection of digital images titled the MetaBirkins, each portraying a picture of a handbag; Defendant used NFTs to sell these digital images or the disputed NFTs.¹⁷⁰ The Court finds that the selling price of these NFTs was comparable to real-world Birkin handbag selling prices.¹⁷¹

When Defendant initially sold the MetaBirkins NFTs, he described them as a tribute to the famous Hermes handbag, calling it a “holy grail” handbag that is both an investment and a chance to store value.¹⁷² In an interview, Defendant states that the purpose was to experiment

¹⁶⁰ *Hermes Int'l v. Rothschild*, document No.50., *Supra* note 155., p.2., para.2-3.

¹⁶¹ *Ibid.*, p.2., para.3.

¹⁶² *Ibid.*, p.2., para.4.

¹⁶³ *Ibid.*

¹⁶⁴ *Ibid.*

¹⁶⁵ *Ibid.*, p.2-3., para.5-1.

¹⁶⁶ *Ibid.*, p.3., footnote No.1.

¹⁶⁷ *Ibid.*, p.3., para.2.

¹⁶⁸ *Ibid.*, p.4., para.1.

¹⁶⁹ *Ibid.*

¹⁷⁰ *Ibid.*

¹⁷¹ *Ibid.*, p.4.

¹⁷² *Ibid.*

with whether it is possible to create an illusion that revolves around the real-life physical Birkin bags in the digital form. Defendant stated that there is no difference between physically or digitally owning the asset as, in both conditions, the assets can showcase wealth.¹⁷³

The Court expresses that consumer confusion was present as people commenting on the MetaBirkins Instagram page were under the impression that the MetaBirkins is a collaboration between the Plaintiff and the Defendant; moreover, the same confusion was also apparent in media as magazines like Elle, L'Officiel and the New York Post all mistakenly reported that the MetaBirkins is a collaboration.¹⁷⁴

The Memorandum Order of May 18th, 2022, denies the Defendant's Motion to Dismiss as the Court established that the Plaintiff's Complaint contains sufficient allegations to make out trademark infringement and the argument presented by Defendant that his creations must be protected by the First Amendment rights of artists and creators in the context of expressive works is not applicable.¹⁷⁵

This case is closely watched by many interested in the litigation space of NFT trademark infringements, and it is serving as a reference point for other lawsuits connected with this matter, such as the case Yuga Labs has started against Ruder Ripps and Bored Ape Yacht Club NFT that will be discussed later¹⁷⁶. Given the importance of this case, the Author of this thesis analyses the timeline and most important findings.

On January 14th of, 2022, Hermes filed a Complaint against Mason Rothschild, hereinafter – the Complaint. The Plaintiff alleged Mr Rothschild is not willing to stop the sale of the Metabirkins NFTs and therefore is causing consumer confusion. Hermes based their filing on claims of common law trademark infringement, false designation of origin, trademark dilution, cybersquatting, and injury to business reputation and dilution under the New York General Business Law.¹⁷⁷

In its initial Complaint, Hermes states that Mr Rothschild is a "digital speculator" who is "seeking to get rich quick by appropriating the brand METABIRKINS."¹⁷⁸ Hermes continues to display that Defendant's Metabirkins brand: "simply rips off Hermes famous BIRKIN trademark by adding the generic prefix "meta" to the famous trademark BIRKIN."¹⁷⁹ Plaintiff reasons that Defendant has gained "great financial success in a matter of weeks due to using the BIRKIN trademark." This success derives from the "confusing and dilutive use of Hermes' famous trademarks."¹⁸⁰ In response to the Defendant's defence that he is merely an artist, Hermes states that while anything can reflect some artistic creativity,

the title of "artist" does not confer a license to use an equivalent to the famous BIRKIN trademark in a manner calculated to mislead consumers and undermine the

¹⁷³ *Hermès Int'l v. Rothschild*, document No.50., *Supra* note 155., p.5.

¹⁷⁴ *Ibid.*, p.6.

¹⁷⁵ *Ibid.*, p.20., para 2.

¹⁷⁶ The Fashion Law, "*Hermès v. Rothschild: A Timeline of Developments in a Case Over Trademarks, NFTs*," (04.04.2023). Available on: <https://www.thefashionlaw.com/hermes-v-rothschild-a-timeline-of-developments-in-a-case-over-trademarks-nfts/>. Accessed March 24, 2023.

¹⁷⁷ *Ibid.*

¹⁷⁸ Author's note – the brand's trademarks are referred to in all caps in accordance with the used formatting in the Plaintiff's documents. *Hermès Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.1., p.1., para. 2. Available on: https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.1.0_1.pdf. Accessed March 20, 2023.

¹⁷⁹ *Ibid.*

¹⁸⁰ *Ibid.*, p.3., para. 3.

ability of that mark to identify Hermes as the unique source of goods sold under the BIRKIN mark.¹⁸¹

Hermes also raises the Court's attention to the fact that other "digital speculators" are seeing how easy it is to gain financial wealth by issuing NFTs called METABIRKINS and that the defendant himself has complained of "counterfeited" METABIRKINS on NFT marketplaces.¹⁸² Therefore, Hermes suffers from trademark infringement from Defendant and other "digital speculators" who also create NFTs using Hermes trademarks.¹⁸³

Hermes states that on December 16th, 2021, Hermes had notified the Defendant and the NFT platform *OpenSea* of the trademark infringements; even though the *OpenSea* platform removed the disputed NFTs from their platform, Defendant shifted his operations to other platforms like the *Rarible* platform.¹⁸⁴

Hermes provides proof that they own the BIRKIN trademark registered on the Principal Register of the U.S. Trademark and Patent Office and that these trademarks have also been registered worldwide and have been continuously used since 1986.¹⁸⁵

Hermes states that the price of the handbags ranges from thousands of dollars to over one hundred thousand dollars and is justified by the craftsmanship it takes to produce a single bag; nevertheless, the demand for these handbags exceeds the supply.¹⁸⁶ Hermes states that:

despite the price and exclusivity, the BIRKIN handbag has become a household name and well known by the general public, both in name and by its distinctive design.¹⁸⁷

Moreover, Hermes, in its Complaint, states that the BIRKIN handbag is one of the best investments available and refers to a quote from Time magazine in 2016 that called the handbag "a better investment than gold," the article further stated that: "the annual return on a Birkin was 14.2% compared to the S&P [500] average of 8.7% a year and gold's – 1.5%."¹⁸⁸ In the Complaint, it is stated that the BIRKIN handbag in the last 30 years has appreciated by 500%.¹⁸⁹

Hermes states that Defendant, since the removal of disputed NFTs from the OpenSea platform, is using different channels, among other things, the MetaBirkins Website, which Defendant created for the sole purpose of advertising the disputed NFTs and providing pathways to the latest platforms where the disputed NFTs can be purchased.¹⁹⁰ The defendant plans to create his own "decentralized" marketplace under the METABIRKINS trademark to sell the disputed NFTs.¹⁹¹ Upon their information and belief in the NFT marketplaces where the disputed NFTs are currently available, Defendant receives royalty payments paid in cryptocurrency payments for each time the disputed NFTs are resold.¹⁹²

The Complaint informs that the first METABIRKINS NFT was sold around December 3rd, 2021, for the selling price of 10 Ether which was equivalent to USD 42'000.¹⁹³

¹⁸¹ *Hermes Int'l v. Rothschild*, document No.1., *Supra* note 178., *Ibid.*, p.3., para. 2.

¹⁸² *Ibid.*

¹⁸³ *Ibid.*

¹⁸⁴ *Ibid.*, p.3., para. 1.

¹⁸⁵ *Ibid.*, p.9., para. 1.

¹⁸⁶ *Ibid.*, p.9., para. 2.

¹⁸⁷ *Ibid.*, p.3., para. 10.

¹⁸⁸ *Ibid.*, p.12., para. 3.

¹⁸⁹ *Ibid.*

¹⁹⁰ *Ibid.*, p.15-16.

¹⁹¹ *Ibid.*, p.16., para. 3.

¹⁹² *Ibid.*, p.31., para. 1.

¹⁹³ *Ibid.*, p. 27., para. 1.

Till January 6th, 2022, the total volume of sales was more than USD 1.1 million, the lowest selling price being USD 15'200 and the highest – USD 45'000.¹⁹⁴ Hermes continues to argue that Mr Rothschild has gained unfair advertising, promotion, and profit benefits, damaging Hermes' reputation.¹⁹⁵

On March 21st, 2022, Mr Rothschild filed a Motion to Dismiss the Amended Complaint by Hermes.¹⁹⁶ At its core, the main arguments presented were that the claims made against him should be dismissed based on the precedent set out in *Rogers v. Grimaldi*, as the disputed NFTs meet the "low threshold of minimal artistic relevance." The defendant argues that: "trademark law does not give Hermes control over Rothschild's art."¹⁹⁷ It is stated that each disputed NFT is a unique interpretation and that the primary purpose of his "art" is to showcase and bring attention to the cruelty inherent in Hermes manufacturing.¹⁹⁸ Defendant argues that the disputed NFTs are artistically relevant and do not explicitly mislead about their source or content.¹⁹⁹

On April 4th, 2022, Hermes filed an Opposition to Mr Rothschild's Motion to Dismiss²⁰⁰; Hermes declared that the court should deny the Motion to Dismiss based on the following arguments. Hermes, in Opposition, states that the defendant has shown that he is:

an opportunistic infringer, trading off Hermes' substantial goodwill to sell digital handbags he describes as "commodities."²⁰¹

Further, Hermes states that the arguments presented by the defendant:

invites the Court to make factual determinations...change the law to immunize infringers from Lanham Act claims in virtual worlds known as the Metaverse...Defendant saw an opportunity in the burgeoning field of non-fungible tokens (or NFTs) to exploit Hermes' goodwill.²⁰²

Hermes also puts forward the argument that Mr Rothschild: "asks the Court to find that trademark rights evaporate in the metaverse."²⁰³

On May 5th, 2022, the Court refused to dismiss the case²⁰⁴; this brief order was followed by a Memorandum Order of May 18th, 2022.²⁰⁵ In short, the Judge agreed with the Defendant that while the Rogers test could at least in part be applicable to decide whether a trademark infringement is present, the arguments presented by Hermes in its Amended Complaint contain sufficient factual allegations that the disputed NFTs are not artistically relevant and that the use is misleading.²⁰⁶

¹⁹⁴ *Hermes Int'l v. Rothschild*, document No.1., *Supra* note 178., p.35, para. 2.

¹⁹⁵ *Ibid.*, para. 6.

¹⁹⁶ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.27; 26. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.26.0.pdf>; <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.27.0.pdf>. Accessed March 27, 2023.

¹⁹⁷ *Ibid.*, p.9, para. 2.

¹⁹⁸ *Ibid.*, p.8., para. 2.

¹⁹⁹ *Hermes Int'l v. Rothschild*, document No.26-27, *Supra* note 196., p.11., para. 3.

²⁰⁰ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.31. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.31.0.pdf>. Accessed March 27, 2023

²⁰¹ *Ibid.*, p.8., para. 2.

²⁰² *Ibid.*, p.8., para. 2.

²⁰³ *Ibid.*, p. 10., para. 1.

²⁰⁴ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.49. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.49.0.pdf>. Accessed March 27, 2023.

²⁰⁵ *Hermes Int'l v. Rothschild*, document No.50., *Supra* note 155.

²⁰⁶ *Hermes Int'l v. Rothschild*, document No.50., *Supra* note 155.

On October 7th, 2022, Mr Rothschild filed a Memorandum in support of a Motion for Summary Judgment.²⁰⁷ The main arguments presented by the Defendant's counsel were: 1) the disputed NFTs can be considered art; 2) the title "MetaBirkins" has artistic relevance; 3) the defendant has in no way pursued confusion as to the source of the disputed NFTs; 4) the Plaintiff has failed to showcase misleadingness and any significant likelihood of consumer confusion.²⁰⁸ Hermes also filed a Memorandum in support of a Motion for Summary Judgment on October 8th, 2022, where Hermes asserts that its claims are indisputable. The defence of protection under the First Amendment is baseless.²⁰⁹

On January 30th, 2023, the trial starts in the U.S. District Court for the Southern District of New York. In the trial, the parties continued to support their presented arguments. Hermes argued to the jury that due to the disputed NFTs, people would wrongfully think that Hermes was involved in the project; moreover, the disputed NFTs are disturbing Hermes' plans to put out their NFTs. In opposition, Mr Rothschild's counsel continued to argue that the disputed NFTs are artistically relevant and do not mislead consumers regarding their source.²¹⁰ Moreover, an argument is made by Mr Rothschild's counsel that the defendant only "pocketed" a tiny amount of the resale sales from royalty payments. When Mr Rothschild took the stand on February 1, 2023, he confirmed that from the royalty payments, when the disputed NFTs are resold, he receives a 7.5% royalty payment.²¹¹

On February 8th, 2023, the jury concluded that Hermes should be awarded roughly USD 133,000 in damages and found that Mr Rothschild is liable for trademark infringement, dilution, and cybersquatting and that the First Amendment does not protect his work.²¹² Therefore, on February 14th, 2023, the court rendered a final judgment in favour of Hermes and awarded Hermes USD 133'000 in damages.²¹³

Some articles have expressed critiques²¹⁴ regarding the differences between the trademark doctrine and how the NFT market operates; more specifically, they argue that even if Mr Rothschild did use Hermes' trademarks to promote the sale of his NFTs, no one was confused about what Mr Rothschild sold and what they were buying.²¹⁵ The main legal arguments put forward by Hermes were that their trademarks are being diluted and that potential customers could be not only confused but also fooled into buying these virtual goods that have no connection with the Hermes brand. This case shows not only how brands are interested in the Metaverse but also that they need to protect their IP rights.

This powerful precedent proves that the existing laws can be applied even when creating digital art. Important to note that the Court and the Jury emphasized that in this case, we are not

²⁰⁷ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.66. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.66.0.pdf>. Accessed March 27, 2023.

²⁰⁸ *Ibid.*, p.1-3.

²⁰⁹ *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.76. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.76.0.pdf>. Accessed March 27, 2023.

²¹⁰ *Hermes Int'l v. Rothschild*, document No.50., *Supra* note 166.

²¹¹ *Ibid.*

²¹² *Hermes Int'l v. Rothschild*, 22-CV-384 (JSR) (S.D.N.Y. May. 18, 2022), document No.145 – Final Judgment. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.573363/gov.uscourts.nysd.573363.145.0.pdf>. Accessed March 27, 2023.

²¹³ *Ibid.*

²¹⁴ Brian L. Frye, *Tokenized Brands* (April 5, 2023). University of St. Thomas Law Journal, Forthcoming, Available at SSRN: <https://ssrn.com/abstract=>. Accessed April 02, 2023.

²¹⁵ *Ibid.*

discussing only the protection of art but also the protection of possible consumers. During the trial, it was also apparent that in some instances, the Jury was confused regarding how trademarks are protected in the United States and the European Union; the Jury asked the Court to clarify whether Hermes had applied for a digital trademark; hence the differences between the EU registration-based system and the US use-based system are highlighted.

3.1.2. NIKE VS. STOCKX²¹⁶

On February 3rd, 2022, Nike, Inc., hereinafter – Nike or Plaintiff²¹⁷, filed a complaint against StockX LLC, hereinafter – StockX or Defendant, in the District Court, S.D. New York, for trademark infringement and trademark dilution, hereinafter – Complaint.²¹⁸

In the Complaint, Nike states that the lawsuit has arisen due to the defendant's unauthorized and infringing use of Nike's famous trade marks connected with StockX's entry into the NFT market.²¹⁹ Nike agrees with the opinions presented by Hermes:

unfortunately, novel product offerings...tend to create opportunities for third parties to capitalize on the goodwill of reputable brands and create confusion in the marketplace...this new frontier [NFTs] has swiftly become 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.²²⁰

In the Complaint, it is specified that StockX is:

an operator of an online resale platform for various brands of sneakers, apparel, luxury handbags, electronics, and other collectible goods that purports to provide authentication services to its customers.²²¹

Nike summarizes its main reasons behind bringing the case before the court in the following passage:

Recognizing firsthand the immense value of Nike's brands, StockX has chosen to compete in the NFT market not by taking the time to develop its own intellectual property rights, but rather by blatantly freeriding, almost exclusively, on the back of Nike's famous trademarks and associated goodwill.²²²

Nike continues to state that StockX is creating and selling NFTs that deliberately feature Nike's trademarks without permission, hereinafter – the disputed NFTs. With marketing, StockX can sell the NFTs at inflated prices due to Nike's positive reputation. By doing so, StockX is confusing consumers and making unsuspecting buyers think that the disputed NFTs are in some way connected to Nike; moreover, Nike claims that almost all of the NFTs minted by StockX are Nike-branded.²²³

²¹⁶ *Nike, Inc. v. StockX LLC* 1:22-cv-00983 (District Court, S.D. New York). All case documents available on: <https://www.courtlistener.com/docket/62654048/nike-inc-v-stockx-llc/>. Accessed April 05, 2023.

²¹⁷ *Nike, Inc. v. StockX LLC* 1:22-cv-00983 (District Court, S.D. New York), document No.1. Available on: https://storage.courtlistener.com/recap/gov.uscourts.nysd.574411/gov.uscourts.nysd.574411.1.0_3.pdf. Accessed April 05, 2023.

²¹⁸ *Ibid.*, p.2.

²¹⁹ *Nike, Inc. v. StockX*, document No.1., *Supra* note 217., p.1.

²²⁰ *Ibid.*, p.1., para. 3, p.2., para. 1.

²²¹ *Ibid.*, p.2., para. 1.

²²² *Ibid.*, para. 2.

²²³ *Nike, Inc. v. StockX*, document No.1., *Supra* note 217., para. 3.

Nike states that StockX has claimed that the disputed NFTs do no more than allow tracking the ownership of physical Nike products stored in StockX's vault.²²⁴ Nevertheless, in response, Nike replies that the disputed NFTs are not merely digital receipts. The disputed NFTs offer additional services and benefits, for example, exclusive access to StockX's releases, promotions, and events; given that these other benefits are not sold by Nike, by offering these new virtual products without Nike's permission, StockX is infringing Nike's trademark rights.²²⁵

Nike also brings to attention additional issues that are present in this context. For example, StockX states that the NFT owners could redeem the token and have the associated shoes delivered at any time. Still, simultaneously, NFT says that: "[the] redemption process is not currently available," but may be sometimes in the "near future."²²⁶ Moreover, if the redemption were possible, StockX would charge a USD 35.00 withdrawal fee, a USD 14.00 shipping fee, and any applicable sales tax. StockZ also retains the right to redeem the disputed NFT for an "experiential component unilaterally," hence the owner of the disputed NFT would be deprived of the right to exchange the NFT for the associated shoes.²²⁷

Nike states that the disputed NFTs are likely to confuse consumers, create a false association between the disputed NFTs and Nike, and dilute Nike's trademarks.²²⁸ More specifically, Nike states that consumers have already questioned this association by asking how StockX received: "the licensing to sell NFTs with Nike branding."²²⁹ Due to this association, Nike is suffering because consumers attribute StockX's conduct to Nike.²³⁰

Nike brings attention to the fact that they have made recent investments in NFT technology and services and that the disputed NFTs will:

jeopardize the capacity of Nike's famous marks to identify its own digital goods in the Metaverse and beyond, and harm Nike's reputation through an association with inferior digital products.²³¹

As for the selling prices, Nike states that StockX has sold the disputed NFTs at prices significantly higher than the selling price of physical Nike shoes.²³² For example, the 2022 version of the Nike Dunk Low – Retro White Black physical shoes retails for USD 100.00 on Nike's website; according to the StockX's marketplace, as of February 2nd, 2022, the average selling price for the 2021 version of the shoes is USD 282.00.²³³ However, the disputed NFT associated with this pair of shoes retails on average for USD 809.00, with the highest trade being USD 3500.00.²³⁴ Nike, in its Complaint, provides additional examples where the disparity of prices is apparent.

The terms governing the disputed NFT offerings can be found on the StockX's Terms and Conditions section "Vault Terms" and "NFT Terms," hereinafter collectively referred to as

²²⁴ *Ibid.*, p.3., para. 1.

²²⁵ *Ibid.*

²²⁶ *Ibid.*, p.22., para. 2.

²²⁷ *Ibid.*, p.3., para. 2.

²²⁸ *Ibid.*, p.3., para. 3.

²²⁹ *Ibid.*, p.4., para. 1.

²³⁰ *Ibid.*, p.4., para. 1.

²³¹ *Ibid.*, p.4., para. 3., p.5., para. 1.

²³² *Ibid.*, p.16-18.

²³³ *Ibid.*

²³⁴ *Ibid.*, p.18.

– Vault NFT Terms.²³⁵ In its Complaint, Nike provides further arguments regarding contradictions in the provisions of the Vault NFT Terms.²³⁶

Nike further states that:

Upon information and belief, StockX almost exclusively used Nike's marks to launch its Vault NFTs because it knew that doing so would garner attention, drive sales, and confuse consumers into believing that Nike collaborated with StockX on the Vault NFTs.²³⁷

In the Complaint, it is stated that according to the information available to Nike till the date of the Complaint, StockX has sold 558 individual NFTs containing Nike trademarks; Nike also accentuates their confusion on how StockX was able to acquire such an amount of Nike shoes that are associated with the disputed NFTs given that StockX is not an authorized Nike retailer.²³⁸

Above the disputed NFTs, a disclaimer of "100% Authentic" is seen²³⁹, this disclaimer in Nike's opinion, contradicts the information available on the "back" of the disputed NFTs and in "comically and intentionally small, difficult-to-read font" StockX also states:

The purpose of the NFT is solely to track the ownership of and transactions in connection with the associated product. The NFT does not independently authenticate the associated product, nor is it affiliated or associated with, sponsored by, or officially connected to Nike or any of its subsidiaries or affiliates. For more information on official Nike products, please visit Nike.com.²⁴⁰

Nike further elaborates that:

putting aside the ineffectiveness of this tiny disclaimer, the "does not independently authenticate" language appears to conflict with the "100% Authentic" on the product page.²⁴¹

To sum up, Nike puts forward the following arguments to reason the need for court proceedings: 1) the disputed NFTs are not Nike products, there is no collaboration between StockX and Nike, Nike has not provided any licensees that would allow StockX to use trademarks within the disputed NFTs; 2) the virtual goods cannot be compared to the physical Nike products offered on the StockX website since the disputed NFTs come with additional digital goods, services, and unspecified benefits; hence the products offered for sale are new and unauthorized²⁴² 3) Nike has no control over the quality of the disputed NFTs, nor can it control how many disputed NFTs containing Nike's trademarks are released and what is the selling price for these offerings.²⁴³

On March 31st, 2022, StockX filed an Answer to the Complaint filed by Nike.²⁴⁴ In its Answer, StockX accentuated the importance authentication plays in its business model and the costs incurred in connection with this.²⁴⁵ StockX puts forward the opinion that a significant number of customers are interested in acquiring and trading physical products and not interested

²³⁵ *Nike, Inc. v. StockX*, document No.1., *Supra* note 217., p.22., para. 3.

²³⁶ *Ibid.*, p.23.

²³⁷ *Ibid.*

²³⁸ *Ibid.*, para. 1.

²³⁹ *Ibid.*, para. 3.

²⁴⁰ *Ibid.*, p.29., para. 1.

²⁴¹ *Ibid.*

²⁴² *Ibid.*, p.35.

²⁴³ *Ibid.*

²⁴⁴ *Nike, Inc. v. StockX LLC* 1:22-cv-00983 (District Court, S.D. New York), document No.21. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.574411/gov.uscourts.nysd.574411.21.0.pdf>. Accessed April 09, 2023.

²⁴⁵ *Ibid.*, p.2., para. 3.

in: "immediately or ever wearing (or "consuming") those products or taking physical possession of those products."²⁴⁶ NFTs are attractive to such customers because previously, they had to incur transaction and shipping costs even though physical possession was not needed.²⁴⁷ Given the above-mentioned, StockX states that their NFTs are one of the first NFT projects that do not tie NFTs to digital files created for the Metaverse, but are tied to physical products, therefore allowing secondary trading to be more efficient by allowing for tracking and proving ownership and eliminating fees and transaction costs.²⁴⁸

In their Answer, StockX clarifies that the function of the NFTs is to act like "keys" that allow access to the stored items, but they have no intrinsic value. It cannot be traded separately from the underlying physical item.²⁴⁹ Furthermore, StockX explains that while they set the initial price for the disputed NFTs, they do not control the prices for secondary trades; therefore, such prices are at the discretion of StockX users.²⁵⁰

The benefits mentioned above, like lower transaction costs, lower risks, and the effectiveness of the transfer of ownership, are further supplemented by the fact that if the NFTs are sold from one person to another, the stored physical items never leave the StockX's vault; hence they do not need to be authenticated again.²⁵¹

"No one has been-or could be-confused as to the source"²⁵² – throughout the entire process, customers are well informed that they are purchasing physical goods verified by StockX and stored in its vault, further customers are well-aware that the NFTs can be traded through the blockchain or they can be exchanged for the associated physical good. StockX informs that there have been 2,853 successful NFT transactions via the StockX's website, proving the argument that StockX's NFTs are an innovative technology transforming the exchange of verified physical goods.²⁵³

In the Answer, according to StockX, Nike's Complaint is unfounded and misleading, with the primary aim to block the use of new technologies beneficial to the lawful and increasingly popular secondary market for selling physical goods.²⁵⁴ StockX states that according to the arguments put forward by Nike, resellers are prohibited by trademark law from accurately describing the material goods they are trading in a digital realm, which in StockX's opinion, is not correct.²⁵⁵ In StockX's view, the use of images and descriptions of Nike products concerning the disputed NFTs is according to the principle of "nominative fair use." It can be compared to major e-commerce retailers and marketplaces that also use images and descriptions to sell physical goods. In StockX's opinion, Nike's Complaint is not only threatening StockX's legitimate use of the disputed NFTs but also setting back innovation and not allowing customers to decrease costs while still ensuring sustainability.²⁵⁶

From a transcript of proceedings regarding a conference held on a possible settlement on April 26th, 2022, it is evident that the court had a hard time trying to understand the essence of the dispute, quoting the District Judge: "let me just say I have about the same understanding

²⁴⁶ *Nike, Inc. v. Stockx LLC*, document No.21., Supra note 244., p.3., para. 1.

²⁴⁷ *Ibid.*

²⁴⁸ *Ibid.*

²⁴⁹ *Ibid.*, p.3., para.1.

²⁵⁰ *Ibid.*, p.4., para. 1.

²⁵¹ *Ibid.*, p.4., para. 2.

²⁵² *Ibid.*, p.7., para. 1.

²⁵³ *Ibid.*

²⁵⁴ *Ibid.*, para. 2.

²⁵⁵ *Ibid.*

²⁵⁶ *Ibid.*, p.8., para. 1.

of NFTs as I have of people who would buy shoes they are going to put in a vault and not wear.²⁵⁷ Plaintiffs accentuated their argument that the NFTs are selling at a significantly higher price than the physical shoes not only on Nike.com but also on the Defendant's website. In the Plaintiff's opinion, a selling price of USD 9'000.00 is not compensating only shipping and storing costs.²⁵⁸

Given that the deadline for fact discovery was on March 21st, 2023, and the deadline for expert discovery and the scheduled pretrial conference is set for August 25th, 2023, the majority of Court Orders regard litigation of discovery disputes. Nevertheless, when the Court issues a judgment, it will clarify to what extent third parties can use trademarks of established brands for their NFTs and whether courts see such NFTs are products themselves (according to Nike) or as receipts for physical products (according to StockX).

3.1.3. PLAYBOY ENTERPRISES INTERNATIONAL, INC. V. WWW.PLAYBOYRABBITARS.APP ET AL.²⁵⁹

At the end of 2021, Playboy Enterprises International, Inc., hereinafter – Playboy or the Plaintiff, filed a complaint in the United States District Court for the Southern District of New York, hereinafter – the Court, to stop the Defendants from counterfeiting Playboy's trademarks regarding the unauthorized sale of counterfeit Playboy NFTs called "Rabbitars" on the Counterfeit Websites – www.playboyrabbitars.app and www.playboyrabbit.com. The domain URLs used by the Counterfeit Websites are almost identical to the Playboy trademarks and the URL of Playboy's actual website where the authentic "Rabbitar" NFTs are sold – www.playboyrabbitars.com.

The Complaint proposes claims against the Defendants for trademark counterfeiting, unfair competition, and false designation of origin. Even though the original Complaint is sealed and unfortunately not available from the Court's Order of November 13th, 2021, granting the preliminary injunction, the Court had found that Playboy would likely succeed on the merits of mentioned claims because they had shown that they own the registered Playboy trademarks. They use them in commerce, they had demonstrated prior use of the Rabbitars trademark in connection with the NFTs, and Defendant's Counterfeit Websites confuse customers.²⁶⁰

Even though this case is indisputably a clear trademark infringement case, the Plaintiff won since the Defendants never appeared in Court. The Court awarded the Plaintiff USD 1 050 000.00 in statutory damages, USD 30 000.00 per registered trademark, and a permanent injunction. Nevertheless, the only information known about the Defendants are their electronic

²⁵⁷ *Nike, Inc. v. StockX LLC* 1:22-cv-00983 (District Court, S.D. New York), document No.29., p.2., para.4. Available on: https://storage.courtlistener.com/recap/gov.uscourts.nysd.574411/gov.uscourts.nysd.574411.29.0_1.pdf. Accessed April 09, 2023.

²⁵⁸ *Ibid.*, p.4., para. 4.

²⁵⁹ *Playboy Enterprises International, Inc. v. www.Playboyrabbitars.app* 1:21-cv-08932 (District Court, S.D. New York). All case documents available on: <https://www.courtlistener.com/docket/61377337/playboy-enterprises-international-inc-v-wwwplayboyrabbitarsapp/>. Accessed April 10, 2023.

²⁶⁰ *Playboy Enterprises International, Inc. v. www.Playboyrabbitars.app* 1:21-cv-08932 (District Court, S.D. New York), document No. 8, p.4., para 3. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.nysd.569050/gov.uscourts.nysd.569050.8.0.pdf>. Accessed April 10, 2023.

mail addresses and handles on Discord; therefore, whether Plaintiff can enforce the judgment remains unknown.

3.1.4. YUGA LABS, INC. V. RIPPS²⁶¹

On June 24th, 2022, Yuga Labs, Inc., hereinafter – Yuga Labs or Plaintiff, filed a Complaint against Ryder Ripps, Jeremy Cahen, and Does 1-10, hereinafter referred to separately or together as – Defendants.²⁶²

The nature of the case – the Plaintiff is the creator of one of the most known and successful NFT collections – the Bored Ape Yacht Club, hereinafter – BAYC.²⁶³ The NFTs within the BAYC collection are highly valued due to the significant media attention and popularity they have raised. They have even been featured on the cover of one of Rolling Stone's magazines, and Forbes has referred to them as "the epitome of coolness for many."²⁶⁴ Their selling price, whether initial or secondary, starts from hundreds of thousands of USD dollars to even millions of USD dollars.²⁶⁵

In the Complaint, Plaintiff states that Defendant Ryder Ripps is taking advantage of the BAYC's collection's popularity and is misleading consumers into purchasing his own RR/BAYC NFTs that contain Plaintiff's trademarks.²⁶⁶ He intends to diminish the worth of the BAYC's NFT collection by flooding the market with his counterfeit NFTs; by using the Plaintiff's trademarks, he is falsely suggesting that they are associated with the authentic BAYC collection. Moreover, he is also promoting a new marketplace called the "Ape Market," and people can join it only if they purchase his counterfeit NFTs.²⁶⁷

The Plaintiff, in its Complaint, states that:

These actions are calculated, intentional, and willful with the stated purpose of causing actual and monetary harm to Yuga Labs and to the holders of authentic Bored Ape Yacht Club NFTs, all of which causes real harm to Yuga Labs' goodwill. Meanwhile, Ripps reaps millions of ill-gotten profit from these sales while celebrating the harm he causes.²⁶⁸

In the Complaint, Plaintiff also mentions that by directing false accusations to the Plaintiff, Plaintiff's BAYC collection has suffered a decline in value.²⁶⁹ While the defendant Mr Ripps has stated that his actions are "satire," the Plaintiff accentuates that: "Copying is not satire, it is theft. And lying to consumers is not conceptual art, it is deception."²⁷⁰

²⁶¹ Yuga Labs, Inc. v. Ripps 2:22-cv-04355 (District Court, C.D. California). All case documents available on: <https://www.courtlistener.com/docket/63458882/yuga-labs-inc-v-ripps/>. Accessed April 10, 2023.

²⁶² Yuga Labs, Inc. v. Ripps 2:22-cv-04355 (District Court, C.D. California), document No.1. Available on: <https://www.courtlistener.com/docket/63458882/yuga-labs-inc-v-ripps/>. Accessed April 10, 2023.

²⁶³ *Ibid.*, p.1., para. 2.

²⁶⁴ *Ibid.*, p.1., para. 2., p.2., para. 1.

²⁶⁵ *Ibid.*, p.1., para.1.

²⁶⁶ *Ibid.*, p.1., para.2.

²⁶⁷ *Ibid.*

²⁶⁸ *Ibid.*, p.2., para. 3.

²⁶⁹ *Ibid.*, p.3., para. 1.

²⁷⁰ *Ibid.*, p.3., para. 3.

On August 15th, 2022, the Defendants filed an Anti-Slapp Motion to strike the Complaint, or in the alternative, Motion to Dismiss, hereinafter – the Motion.²⁷¹ The Motion starts with the Defendants stating that:

This lawsuit is an attempt to silence an artist who used his craft to call out a multi-billion-dollar company built on racist and neo-Nazi dog whistles.²⁷²

The Defendants state that after Mr Ripps accused the Plaintiff of racism, the Plaintiff filed a Complaint not for defamation but for trademark infringement; in the Defendant's opinion, this is precisely the kind of abusive trademark infringement lawsuit which the First Amendment and the Rogers test preclude.²⁷³ Their argument is based on the fact that Mr Ripps's art criticism is "well-founded and directly connected to Yuga's trademarks."²⁷⁴ The Defendants provide examples of how their "artwork" draws attention to controversial problems within Plaintiff's trademarks and products.²⁷⁵

The NFT collection created by Mr Ripps, "Ruder Ripps Bored Ape Yacht Club," hereinafter – RR/BAYC, is meant to be satirical. Given the fact that Plaintiff never brought legal action against "any of the dozens of commercial "ape" NFT collections," the main aim of Plaintiff, in Defendant's opinion, is to "bully...[the Defendants] into silence."²⁷⁶

It can be concluded that the dispute revolves around proving whether the arguments put forward by the Plaintiff are sufficient for constituting trademark infringement; the Defendants do not deny whether Plaintiff has ownership and priority over the BAYC trademarks, yet in their opinion, the claims are insufficient under the Rogers test and because the Defendants' use constitutes nominative fair use.²⁷⁷ In the Plaintiff's opinion, the RR/BAYC NFTs are not expressive works, and the Rogers test cannot be applied.²⁷⁸ Additionally, the Plaintiff disagrees with the statement that the use is fair.²⁷⁹

In the Order, the Court finds that the Rogers test does not apply to the Plaintiff's trademark claims.²⁸⁰ The Court argues that:

RR/BAYC NFTs do not express an idea or point of view, but, instead, merely "point to the same online digital images associated with the BAYC collection... even Defendants' token tracker uses an exact copy of Plaintiff's BAYC Marks without any expressive content."²⁸¹

Moreover, the Court argues that:

Defendants' NFT marketplace sales and Ape Market website contain no "artistic expression or critical commentary... These are all commercial activities designed to sell infringing products, not expressive artistic speech protected by the First Amendment."²⁸²

Additionally, the Court found that even if the Rogers test was applied, the Defendants' use of Plaintiff's BAYC trademarks was not artistically relevant to Defendant's art and, at the same time, explicitly misleading.²⁸³ The Court states that the Defendants have admitted that they are

²⁷¹ Yuga Labs, Inc. v. Ripps 2:22-cv-04355 (District Court, C.D. California), document No.29. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.cacd.855658/gov.uscourts.cacd.855658.29.0.pdf>. Accessed April 10, 2023.

²⁷² *Ibid.*, p.9., para. 1.

²⁷³ *Ibid.*

²⁷⁴ *Ibid.*

²⁷⁵ *Ibid.*, para. 2.

²⁷⁶ *Ibid.*, para. 4.

²⁷⁷ *Ibid.*, p.4., para. 5.

²⁷⁸ *Ibid.*, p.5., para. 1.

²⁷⁹ *Ibid.*

²⁸⁰ *Ibid.*, p.6., para. 2.

²⁸¹ *Ibid.*, para. 4.

²⁸² *Ibid.*, p.7., para. 1.

²⁸³ *Ibid.*, para. 2-3.

using the infringing trademarks in the same marketplaces;²⁸⁴ the use of a senior user's trademark is significantly misleading when the trademark is used:

as the centrepiece of an expressive work itself, unadorned with any artistic contribution by the junior user, [which] may reflect nothing more than an effort to induce the sale of goods or services by confusion or lessen the distinctiveness and thus the commercial value of a competitor's mark.²⁸⁵

The Court finds that the Defendants used the disclaimer and that “the inclusion of such a disclaimer signifies that the Defendant was aware of the misleading nature of the disputed NFTs.”²⁸⁶

The Court also presents the following arguments on why Defendant's use of the BAYC trademarks does not constitute fair use.²⁸⁷ For fair use, three criteria must be met: 1) the “plaintiff's” product cannot be identified without using the trademark; 2) the trademark must be used reasonably to identify the Plaintiff's product; 3) “the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.”²⁸⁸

The Court found that Defendant's use of the BAYC trademarks did not constitute nominative fair use: “Defendants are not using the BAYC Marks to sell Plaintiff's BAYC NFTs, but to sell their own competing RR/BAYC NFTs.”²⁸⁹

A Jury trial is set for June 27, 2023; as of April 2023, the case is dealing with discovery and litigation issues; nevertheless, even without a final judgment, this case allows us to see that other courts are following the judgment rendered in the Hermes MetaBirkins case as this is the second time the court has stated that the Rogers test is applicable so far as to determine that it does not apply to the disputed NFTs.

3.1.5. JUVENTUS FOOTBALL CLUB S.P.A. v. BLOCKERAS S.R.L.²⁹⁰

On July 20th, 2022, even before a judgment was rendered in the Hermes v. Rothschild case, Italy issued the first European judgment concerning intellectual property rights and NFTs.

In the judgment, the Court analyzed the motion for a preliminary injunction filed by the Juventus Football Club s.p.a., hereinafter – Juventus or the Plaintiff, that is the owner of word trademarks – JUVE and JUVENTUS and a figurative trademark that consists of a: “black and white striped shirt with two stars on the chest (indicating that the club won more than twenty championships).”²⁹¹ The motion was filed against the defendant Blockeras s.r.l., hereinafter – Blockeras or the Defendant.²⁹²

The Court stated that the Plaintiff's Motion requested the Court to stop Defendant from producing, marketing, promoting, and selling the disputed NFTs and any digital content that is associated with the disputed NFTs and is bearing the image and trademarks mentioned by

²⁸⁴ *Yuga Labs, Inc. v. Ripps*, document No.29., *Supra* note 271., p.3.

²⁸⁵ *Ibid.*, p.7., para. 4.

²⁸⁶ *Ibid.*

²⁸⁷ *Ibid.*, p.8., para. 1.

²⁸⁸ *Ibid.*, p.8., para.1-3.

²⁸⁹ *Ibid.*, para. 4.

²⁹⁰ *Juventus Football Club S.p.A. v. Blockeras S.r.l.*, The Court of Rome IP Chamber, An unofficial translation of the Judgment in the case No.32072/2022 by Trevisan & Cuonzo, (2022). Available on: <https://www.trevisancuonzo.com/static/upload/juv/juventus-nft-order---en.pdf>. Accessed April 15, 2023.

²⁹¹ *Ibid.*, p.1., para 1.

²⁹² *Ibid.*

Plaintiff; additionally, the Plaintiff requested the Defendant to remove the disputed products from all platforms and website where the products are placed, if the Defendant were to fail to comply, the Defendant would need to pay a penalty of 25 000 EUR per day, the Court's Order would be published on daily newspapers as well as on the website of the Defendant and social media platforms.²⁹³

In the Defendant's Dismissal of the Plaintiff's Motion for a preliminary injunction, the Court states the main arguments presented by the Defendant were:

the lack of urgency, its right to use and/or market the cards in question, and, in the alternative, claiming that the protected trademarks were not registered in the category of downloadable virtual products.²⁹⁴

The Court found that the dispute is related to trademark infringement and unfair competition practices. It revolves around the unauthorized use of the trademarks through the creation, promotion, and sale of digital playing cards via NFTs²⁹⁵ While the fact of whether the Plaintiff owned the trademarks in question was not contested, the Court found that the exhibits on file proved the ownership and the trademarks in question could be considered well-known.²⁹⁶ The Court stated that: "it is known that these trademarks concern the most successful Italian football team with the largest number of fans in Italy and abroad."²⁹⁷

As for the Defendant's conduct, the Court found that it is "documented and undisputed" that Defendant in 2021 launched a project called the "Coin of Champion," and the cards within this project were offered for sale on the Binance NFT platform between April 7th, 2022, and May 4th, 2022.

Regarding the economic benefit, the Court states that:

the defendant claimed and proved that a total of 529 cards showing Bobo Vieri (not wearing only the Juventus shirt) had been sold and that from the sale of those Vieri cards (precisely 68 cards sold) it had obtained revenues for a total of USD 35,796.87.²⁹⁸

The Court emphasizes that consumers may think that the disputed goods come from the same or a related company, to avoid such confusion, the "likelihood" of confusion must be assessed depending on the public's perception; such analysis must consider all circumstances, such as similarity, in this case, the Defendant's use of an image of the player Bobo Vieri on the digital NFT cards was within the limit of the agreement regarding image rights. Yet, the unauthorized use of Juventus' trademarks was not.²⁹⁹

The Court concludes that the actions by Defendant were exclusively for commercial purposes; therefore, the use of the trademarks cannot be justified by remedies available in the legislation.³⁰⁰

In this case, Bobo Vieri played for the Juventus club and was permitted to create NFT cards that feature him wearing shirts from different teams he played for. Nevertheless, this permission does not automatically cancel out the need to ask permission from the teams to use their respective trademarks. Given that the actions by Defendant were conducted solely for

²⁹³ *Juventus Football Club S.p.A. v. Blockeras S.r.l.*, *Supra* note 290., para. 3-7.

²⁹⁴ *Ibid.*, p.1., para. 8.; p.2., para. 1.

²⁹⁵ *Ibid.*, p.2., para. 2.

²⁹⁶ *Ibid.*, p.2., para. 3.

²⁹⁷ *Ibid.*, para. 4.

²⁹⁸ *Ibid.*, p.2., para. 6.

²⁹⁹ *Ibid.*, para. 9-10.

³⁰⁰ *Ibid.*, para. 12.

commercial purposes, the use of the disputed trademarks is infringing since the association by the public with the Juventus club adds value to the disputed NFTs when sold. Not only can it potentially harm the team's reputation, but it is also confusing to the consumer.³⁰¹

On the third page of the Judgment, the Court makes an essential and court practice – shaping conclusion:

It should also be noted that the trademark registration (in particular for class 9) also covers goods not included in the Nice Classification and that are inherent to downloadable electronic publications.³⁰²

The Court of Italy expressively concludes that the scope can be extended even if a good is not explicitly listed in the Nice Classification. Regarding NFTs, the scope can be extended to downloadable electronic publications since they fall under Class 9 in the Nice Classification; hence the Court of Italy concludes that NFTs could fall under Class 9 of the Nice Classification.³⁰³

The Court concludes that: (1) Plaintiff has proved its intentions and actions to become present in fields based on blockchain technologies and is planning on using cryptocurrencies and NFTs since they have concluded agreements with Sorare s.a.s.; (2) Defendant has infringed the trademarks owned by the Plaintiff as the used signs are similar, and consumer confusion is possible, (3) the Defendant is not liable only for trademark infringement, but also for an unfair competition given that the Plaintiff operates in the same sector where the Defendant is selling the disputed NFTs and due to the unauthorized use of the Plaintiff's trademarks and damage to the Plaintiff's reputation the Defendant is gaining benefits, (4) the Defendant's conduct gives rise to the risks of trademark dilution and puts the Plaintiff's future utilization of the trademarks at risk.³⁰⁴

The Defendant has stated that they have stopped the marketing process of the disputed NFTs. The number of goods already sold or whether the infringing activity has ceased is not important: nevertheless, in this context, the Court notes that awarding urgent measures is still necessary given that in IP cases, immediate measures can also prevent potential harm may arise in the future.

in IP matters, the requirement of irreparable harm to issue urgent measures is met whenever there is a risk of damages, even if merely monetary, that are susceptible of further aggravation or are not easily quantifiable, and that this irreparable harm does not depend on the number of products marketed or on whether the sale thereof has ceased, since such marketing activity may resume and increase.³⁰⁵

To conclude, the Court satisfied the demands put forward by the Plaintiff.

3.1.6. MIRAMAX, LLC v. TARANTINO³⁰⁶

On November 16th, 2021, MIRAMAX, LLC, hereinafter – Miramax or the Plaintiff, filed a Complaint against QUENTIN TARANTINO; VISIONA ROMANTICA, INC.; and DOES 1–

³⁰¹ *Juventus Football Club S.p.A. v. Blockeras S.r.l.*, *Supra* note 290., para. 13.

³⁰² *Ibid.*, p.3, para. 2.

³⁰³ *Ibid.*

³⁰⁴ *Ibid.*, p.3., para. 4-6.

³⁰⁵ *Ibid.*, para. 8.

³⁰⁶ *Miramax, LLC v. Quentin Tarantino* 2:21-cv-08979 (District Court, C.D. California), all case documents available on: <https://www.courtlistener.com/docket/61459122/miramax-llc-v-quentin-tarantino/>. Accessed April 22, 2023.

50, hereinafter – Defendants, in the Federal District Court for the Central District of California, hereinafter – the Court.³⁰⁷ On August 8th, 2022, the Parties filed a Notice of Settlement³⁰⁸; therefore, the Court did not have the chance to make any conclusions. Nevertheless, this dispute is more connected with a breach of contract, and NFTs, in this case, happen to be the subject.

3.1.7. CASE LAW CONCLUSIONS

The Hermes case demonstrated that the courts can understand NFT concepts theoretically and factually. The courts recognize NFTs as investments and can differentiate depending on the associated goods and accordingly see the possible variety of benefits NFTs can offer businesses.

Nevertheless, courts are mainly concerned about consumer protection, secondary freedom of expression rights and normative fair use. The courts are tasked with establishing a court practice that is not too restricting and innovation blocking but also does not allow, as Hermes put it – for trademark rights to evaporate in the Metaverse and stop “digital speculators” and “opportunistic infringers” from freeriding on the goodwill of reputable brands. In this context, it must be accentuated that all of these cases involve well-known brands and well-known trademarks; therefore, one could conclude that protection is more problematic for smaller brands.

Additional problems are connected with the possibility of enforcing a judgment, as the Playboy enterprise case showed because the infringers' identity is unknown. However, the Singapore High Court, in its previously mentioned decision that recognized NFTs as legal property, also took a step towards the solution of this problem by allowing to serve court documents through chat platforms and cryptocurrency wallet messengers.³⁰⁹

Cases like Nike v. StockX, still awaiting judgments, show that IP right protection in the context of NFTs and Metaverse is a developing area. Another case still pending a judgment is the Yuga Labs' case and it has already demonstrated that courts are able to apply existing IP rules, such as the Rogers test, to determine when NFTs are lacking artistic expression or critical commentary and are created with the sole purpose of sale of infringing products. Judgments like such will answer whether innovative approaches that provide businesses and individuals with benefits like lower transaction costs, lower risks, and effectiveness of transfer of ownership rights will be supported by courts or will trademark protection rules prevail.

As for Europe, the Juventus v. Blockeras case, where a judgment was rendered even before the Hermes case, shows that European courts can apply existing IP rules to NFTs; moreover, the courts can establish that Class 9 of the Nice classification can be expanded to NFTs.

³⁰⁷ Miramax, LLC v. Quentin Tarantino 2:21-cv-08979 (District Court, C.D. California), document No.1. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.cacd.836944/gov.uscourts.cacd.836944.1.0.pdf>. Accessed April 22, 2023.

³⁰⁸ Miramax, LLC v. Quentin Tarantino 2:21-cv-08979 (District Court, C.D. California), document No.41. Available on: <https://storage.courtlistener.com/recap/gov.uscourts.cacd.836944/gov.uscourts.cacd.836944.41.0.pdf> Accessed April 22, 2023.

³⁰⁹ *Janesh s/o Rajkumar v Unknown Person*, *Supra* note 115., p.14., para. 2.

CONCLUSION

The focus of this thesis was to find how NFTs are defined in their functional sense and whether the definitions put forward by the EU align with these defined functional aspects; further, is the existing trademark protection system, specifically – the European Union Trademark Regulation (EU) 2017/1001, sufficient for trademark protection in the Metaverse, and finally is the existing IP regime sufficient only in theory or does case-law analysis show that it is also capable of tackling real-life issues? The hypothesis put forward by the Author was that courts are ahead of legislators; despite the existing trademark protection system being sufficient for protecting IP rights in the Metaverse, the courts are acting as gap-fillers where legislative amendments to the regime are necessary.

Regarding the first proposed research question, this thesis found that there is no “official” or “legal” definition of NFTs.³¹⁰ From a functional and practical perspective, they can be defined as crypto-assets that grant ownership rights over digital items.³¹¹ Technically NFTs consist of a number and an alphanumeric code, meaning a token ID and an address code that leads to a Smart Contract on the blockchain.³¹² Smart Contracts, which could also be referred to as protocols, are software capable of executing, controlling, and documenting specific actions.³¹³ A Smart Contract allows transitioning traditional contracts into the digital space, yet they are very logical and will behave as programmed; moreover, they cannot be changed.³¹⁴ This information is stored on the blockchain, a form of distributed ledger technology³¹⁵ that allows access to a digital asset's origin,³¹⁶ and since the combination of these two components is unique, NFTs are non-fungible.³¹⁷ The Study commissioned by the European Parliament allows insights into the definitions of NFTs from the EU's perspective,³¹⁸ indicating a comprehensive understanding of the functional and technical aspects and the associated risks. The Study also highlights the importance of legislators reaching a consensus on practical definitions to establish consistency in potential NFT-related laws.³¹⁹

Further, the Author of this thesis evaluated whether the existing trademark protection system, specifically – the European Union Trademark Regulation (EU) 2017/1001, is sufficient for trademark protection in the Metaverse. Referring to the previously stated Study, questions related to IP protection or infringement in the context of tokenized content present new challenges but, from the legal perspective, are very similar to questions that have been presented since the start of the digital age.³²⁰ Hence, due to seemingly no obstacles to applying the current Regulation to NFTs and the Metaverse as of April 2023, most jurisdictions have not adopted any specific rules that would govern commercial transactions with NFTs.³²¹ Therefore, the existing IP regime continues to govern the protection of IP rights and operates mainly on a case-by-case basis considering the associated item and whether the item has recognizable IP rights

³¹⁰ Boehm, Haag, Gruber, *Supra* note 1., p.12.

³¹¹ Leech, *Supra* note 20.

³¹² Boehm, Haag, Gruber, *Supra* note 1., p.15.

³¹³ *Ibid.*, p.16.

³¹⁴ Ethereum, *Supra* note 71.

³¹⁵ Bamakan, Nezhadsistani, Qu, *Supra* note 3.

³¹⁶ Boehm, Haag, Gruber, *Supra* note 1., p.11.

³¹⁷ *Ibid.*

³¹⁸ *Ibid.*

³¹⁹ *Ibid.*, p.15.

³²⁰ *Ibid.*, p.10.

³²¹ *Ibid.*

under national legislation.³²² The Author concludes that the existing IP regime in theory is well-equipped to protect IP rights holders against infringements relating to NFTs.

The third research question provides answers on whether the existing IP regime is sufficient only in theory or whether case-law analysis shows that it can also tackle real-life issues. This thesis finds that the courts can understand NFT concepts theoretically and factually. The courts recognize NFTs as investments and can differentiate depending on the associated goods and accordingly see the possible benefits NFTs can offer businesses. Courts are tasked with balancing trademark rights protection with rights to freedom of expression and normative fair use, but mainly, preventing consumer confusion. Despite problematics cornering enforcement, courts are exploring various innovative solutions like allowing to deliver case documents via NFT marketplace platforms³²³ to adapt to the current situation. The *Juventus v. Blockeras* case shows that European courts can apply existing IP rules in the EU to NFTs. As judgments will be rendered in cases like *Nike vs. StockX* and the *Yuga Labs' case*, the court practice will be established even further.

The thesis hypothesis is proved, courts are ahead of legislators; despite the existing trademark protection system being sufficient for protecting IP rights in the Metaverse, the courts act as gap-fillers where legislative amendments to the regime are necessary. Hence, the broader implications of the conducted research are that policy-makers do not necessarily need to create any new laws as the existing legal regime has proved to be sufficient. Instead, it would be desirable for the European Parliament to provide guidance for the judiciary branch on how to interpret and apply existing laws pertaining to NFTs and trademark protection on the Metaverse.

This research can be continued by following pending cases and awaiting judgments to observe how court decisions implement new and innovative solutions. Referring back to the previously mentioned press release of June 30th, 2022, of the Council of the EU on the MiCA Regulation, it was stated:

within 18 months the European Commission will be tasked to prepare a comprehensive assessment and, if deemed necessary, a specific, proportionate and horizontal legislative proposal to create a regime for NFTs and address the emerging risks of such new market.³²⁴

Some media outlets have speculated that this will be done by including NFTs in anti-money laundering bills³²⁵; therefore, it will be interesting to see whether these new developments will affect how NFTs are treated under intellectual property law provisions.

³²² Boehm, Haag, Gruber, *Supra* note 1., p.10..

³²³ *Janesh s/o Rajkumar v Unknown Person*, *Supra* note 115., p.14., para. 2.

³²⁴ Council of the EU, *Supra* note 16.

³²⁵ James Field, *EU increases focus on NFTs in leaked draft of anti-money laundering bill*, *Coingeek*, (07.03.2023). Available on: <https://coingeek.com/eu-increases-focus-on-nfts-in-leaked-draft-of-anti-money-laundering-bill/>. Accessed May 9, 2023. Jack Schickler, *Money Laundering via Metaverse, DeFi, NFTs Targeted by EU Lawmakers' Latest Draft*, *CoinDesk*, (29.09.2022). Available on: <https://www.coindesk.com/policy/2022/09/29/money-laundering-via-metaverse-defi-nfts-targeted-by-eu-lawmakers-latest-draft/>. Accessed May 9, 2023.

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