

From *Hermes v Rothschild* to *Vegap v Mango*: An EU analysis on fair metaverse uses of digitised IP

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Abstract

The growing importance of the metaverse in recent years has led to its evolution into a global hub for showcasing creative digital content by brands and online users alike. Such content often results from the digitisation of real-world trademark or copyright subject matter, which is then minted into a Non-Fungible Token (NFT) or else, in metaverse-compatible format. Two court rulings from the past few years, *Hermès v Rothschild* in the US and *Vegap v Mango* in Spain, deal with complex intellectual property (IP) considerations in light of the digitisation and use of IP content in the metaverse by artists. Taking these two cases as a point of reference, this paper examines the notion of ‘use’ through the lens of European trade mark and copyright law. First, it explores instances whether the metaverse ‘uses’ of digitised IP content in question would satisfy the legal tests for infringement under the EU law regime. Second, it investigates whether certain metaverse ‘uses’ may be considered fair, or permissible, on the given facts and to what extent a balance can be achieved between the rights of IP proprietors and freedom of artistic expression.

Keywords: Metaverse, trade marks, copyright, infringement, fair use, freedom of expression, artistic expression, artists.

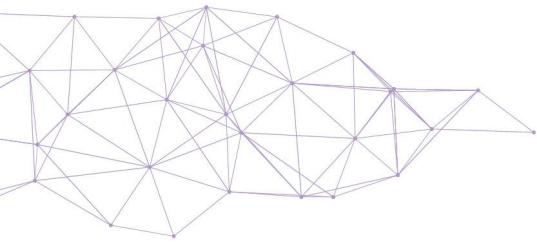
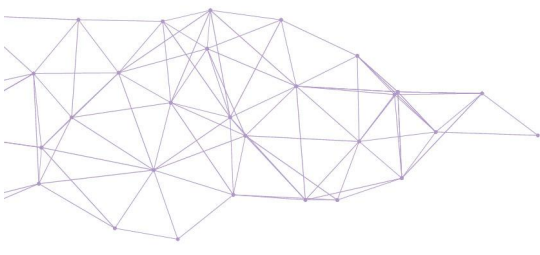


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1.Intro

In recent years, the metaverse has evolved into a global hub for showcasing both purely digital as well as digitised versions of real-world creations in the form of NFTs by brands and online users alike. The openly accessible nature of online metaverse platforms and the tokenization and digitisation of IP subject matter, from artworks to fashion designs, using free minting tools has attracted artists to engage with and create content for 'use' in the metaverse, too. The paper focuses on digitised copyright and trademark subject matter, which then becomes minted and takes NFT form, with or without alterations. The issue under investigation arises when such digitisation takes place, where no authorisation for such 'use' has been granted by IP rightsholders.

The objective of this analysis is twofold:

First, it explores instances whether the metaverse 'uses' of digitised IP content in question would satisfy the legal tests for infringement under the EU law regime. Second, it investigates whether certain metaverse 'uses' may be considered fair, or permissible, on the given facts and to what extent a balance can be achieved between the rights of IP proprietors and freedom of (artistic) expression. Against this background, the paper takes into account the Trade Marks Directive of 2015 (Directive 2015/2436)¹, the Trade Marks Regulation (Regulation 2017/1001)², the InfoSoc Directive (Directive 2001/29/EC) and relevant case law from the Court of Justice of the European Union (CJEU). Importantly, it approaches these enquiries through exploring two recent case developments in the metaverse context: *Hermès v Rothschild*³ in the EU trademark part, involving the tokenization, advertising and sale of unauthorised digital NFT Birkin handbags under a similar name; *Vegap v Mango* in the EU copyright part, involving the digitisation, transformation and public exhibition of unauthorised derivative digital works in NFT form.⁴

2. Trade marks and *Hermès v Rothschild*

2.1. Trademark infringing 'uses' - *Hermès v Rothschild*

Firstly, the paper examines *Hermès v Rothschild*, the first US case concerning tokenized and digitised 'Birkin' handbags as NFTs, the iconic 'Birkin' trade mark and its 'use' in the metaverse by a crypto artist, which reached judgement in early 2023. While this case was decided under the US trademark framework, the paper will comparatively assess whether an analogous approach under the EU legislative framework might have been adopted in disputes concerning trade mark related metaverse 'uses'.

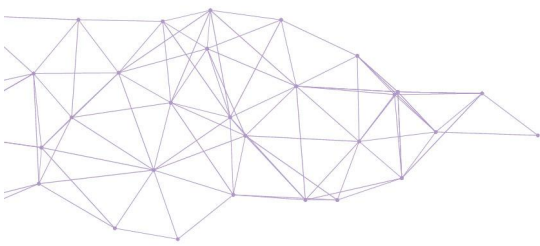
The case concerned luxury fashion giant Hermès International and digital artist Mason Rothschild, also known as Sonny Estival. The heart of the enquiry concerned US fair use and Rothschild's argument on artistic expression for the digitisation and tokenization of digital content depicting virtual handbags covered in almost identical designs to Hermès'

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

² Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trademark, OJ L 154, 16.6.2017.

³ *Hermès Int'l v. Rothschild*, No. 22-CV-384 (JSR), 2023 WL 1458126 (S.D.N.Y. Feb. 2, 2023).

⁴ *Visual Entidad de Gestión de Artistas Plásticos (Vegap) v Punto SA (Mango)*(2024)(9th Commercial Law Court Barcelona), ECLI:ES:JMB:2024:1.



'Birkin' handbags in the metaverse, as well as for their sale under the name 'Metabirkins' in November 2021. This argument was countered by brand Hermès, owner of perhaps one of the most valued word marks in the luxury fashion industry, 'Birkin', and of the iconic Birkin handbag design. Hermès argued that they were both reproduced by the artist and brought a claim for trade mark infringement. More precisely, the brand brought a claim for trade mark infringement on the basis of consumer confusion and trade mark dilution for the use of Hermès' trademarks in both the name and design of the 'MetaBirkins', as well as a claim for cybersquatting for Rothschild's misleading marketing and sales techniques, for instance, by registering and using the domain name 'metabirkins.com' to promote the NFTs.

Had these facts been assessed under the EU trade mark law regime, would Hermès' trade mark rights be infringed? To begin with, both the word mark 'Birkin' and the Birkin 3D shape mark⁵ are registered EU trade marks and are considered to be reputable or famous marks within the meaning of *General Motors*, namely 'known by a significant part of the public concerned by the products which [they] cover'⁶ in the EU territory. When considering some of the relevant factors set out by the CJEU, such as the intensity and duration of the trade marks, their geographical reach, as well as the investments in promoting them, it is evident that the condition could be fulfilled.⁷ The widespread use of Hermès' trademarks for decades has made them synonymous with the iconic luxury handbags, with fashion enthusiasts from all over the world signing up to waitlists of up to 6 years for getting their hands on one, despite the 10,000\$ starting price.⁸ At the European level, use of trademarks in the course of trade without prior consent is generally exclusive to their proprietors as per the Trade Mark Directive of 2015 (Directive 2015/2436) and the Trade Mark Regulation of 2017 (Regulation 2017/1001). In this case, Hermès' claims for trade mark i. infringement and ii. dilution are reflected in Article 10 of the Directive and Article 9 of the Regulation respectively.

First, in relation to claim i., Article 10(2)(b) of the Directive and Article 9(2)(b) of the Regulation stipulate that protection extends against unauthorised uses of identical or similar signs – 'Birkin' vs 'Metabirkin' – for use in relation to either identical or similar goods, so long as a likelihood of confusion or association with the trademark in question can be established. Establishing similarity and possibly identity between the two signs would be fairly straightforward. As per the legal test in *LTJ Diffusion v Sadas Vertbaudet*: 'a sign is identical with the trade mark where it reproduces, without any modification or addition, all the elements constituting the trade mark or where, viewed as a whole, it contains differences so insignificant that they may go unnoticed by an average consumer'⁹. Given that an identity assessment does not involve a direct comparison of all the characteristics of the two signs' elements, here the reproduction of the entire trade mark 'Birkin' with the addition of the word 'meta' – pointing to the metaverse – does not seem to affect the signs' identity, as the additional element would likely go unnoticed by the average consumer of fashion products. And even if the use of the additional element 'meta' could not be discounted, the signs would have at least been found similar from the average consumer's perspective. However,

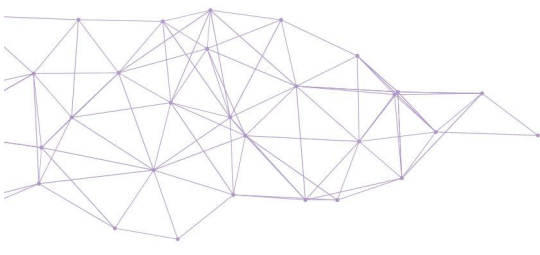
⁵ EUTM Registration No. 4467247, <<https://euipo.europa.eu/eSearch/#basic/1+1+1/100+100+100+100/4467247>> [Accessed 25 May 2024].

⁶ C-375/97, *General Motors Corp v Yplon SA* [1999] ECLI:EU:C:1999:408, para 26; C-301/07, *PAGO International GmbH v Tirolmilch registrierte Genossenschaft mbH* [2009] ECLI:EU:C:2009:611, para 30.

⁷ C-375/97, *General Motors*, *ibid*, para 27.

⁸ D. Arden Chong, 'How to Buy an Hermes Bag, According to an Expert', *Who What Wear* (May 3, 2023), <<https://www.whowhatwear.co.uk/how-to-buy-an-hermes-bag/slide3>> [Accessed 15 May 2024].

⁹ C-291/00, *SA v Sadas Vertbaudet SA* [2003] ECLI:EU:C:2003:169, para 54.



a key problematic aspect here is that the goods covered by each sign are unlikely similar, let alone identical. While one could argue that they are both concerned with ‘fashion items’, under the Nice Classification, digital NFT handbags would fall under Class 9 as ‘downloadable image files’ or ‘downloadable digital image files authenticated by non-fungible tokens [NFTs]’¹⁰, as opposed to physical Birkin handbags, which would be pertinent to Class 18, which covers handbags and leather goods.¹¹ Notably, at the time of litigation, Hermès had neither expanded their business to digital goods for use in the metaverse, nor proceeded in trade mark registrations for the ‘Birkin’ mark for such goods. Nevertheless, in 2022 the EUIPO confirmed that ‘*virtual goods are proper to Class 9 because they are treated as digital content or images*’¹² and the Nice Classification was updated accordingly in January 2023. Had the case been litigated post-registration in Class 9, the brand would have a strong case for infringement on the basis of likelihood of confusion or association.

Under the global appreciation test, the courts would need to determine whether the signs in question are similar on a visual, aural or conceptual level, to the extent that the average consumer of luxury fashion goods would question whether the two undertakings are economically linked.¹³ In *SABEL v Puma* the CJEU continues that ‘*more distinctive the earlier mark, the greater will be the likelihood of confusion*’¹⁴, which further supports the brand’s position. The ‘Metabirkins’ clearly possess both visual and phonetic similarities with the ‘Birkin’ marks and there is a high likelihood that the interested public would either be confused as to the trade origin of the NFTs or associate them with the luxury fashion house.

Second, in relation to claim ii., Article 10(2)(c) of the Directive and Article 9(2)(c) of the Regulation state that a trade mark owner is entitled to prevent third parties from using similar signs in relation to identical, similar or even dissimilar goods or services. This preconditions that such use could without due cause take an unfair advantage or cause detriment to the trade mark’s distinctive character or reputation. As per *Intel v CPM*, although confusion is not a prerequisite, there needs to be a link or an association between the two signs in the mind of the relevant public, namely fashion consumers.¹⁵ Relevant factors for this global assessment include the degree of similarity between the signs, the nature of the goods for which the marks are registered, the strength of the earlier mark’s reputation and the degree of the earlier mark’s distinctive character on the part of the relevant public.¹⁶ By using a similar sign for digital goods which bear an almost identical design to the iconic Birkin handbag, albeit with some variations, the average consumer who knew of ‘Birkin’ handbags would likely make a link in their mind between the sign that was being used for the digital NFT handbags and the famous registered mark ‘Birkin’ for physical handbags. The fact that Rothschild marketed the 100 ‘Metabirkins’ as high end products with a premium pricing (between \$450 – \$46,000 each) and in the case of the

¹⁰ Nice Agreement concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks of 15 June 1957, as amended in 1979, Class 9 (090696), (090918).

¹¹ *Ibid*, Class 18 (180077).

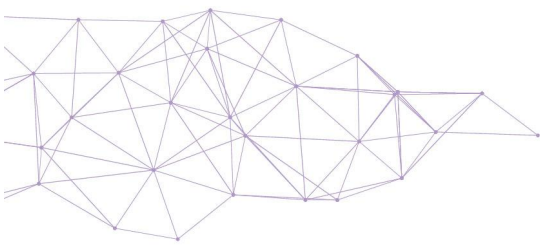
¹² EUIPO, ‘Trade Mark Guidelines: 6.25 Downloadable goods and virtual goods’ (2022), <<https://guidelines.euipo.europa.eu/2058843/2065747/trade-mark-guidelines/6-25-downloadable-goods-and-virtual-goods>>, [Accessed 16 May 2024].

¹³ C-251/95, *SABEL BV v Puma AG* [1997] ECLI:EU:C:1997:528, paras 22-24.

¹⁴ *Ibid*, para 24.

¹⁵ C-252/07, *Intel Corporation Inc v CPM United Kingdom Ltd* [2008] ECLI:EU:C:2008:655, paras 29-30.

¹⁶ *Ibid*, paras 45, 50, 53, 55.



'Baby Birkin' NFT, selling at double the price of the original Hermès 'baby' Birkins¹⁷, made it all the more likely that there might have been an association with Hermès' goods, which are also high end. It is plausible that the average consumer might have perceived the use of the element 'meta' in front of the word 'Birkin' as simply referring to Hermès goods' expansion in the metaverse. As such, Rothschild would likely be found to have taken an unfair advantage from the brand's reputation and to have caused detriment to the distinctive character of the 'Birkin' trade marks by promoting and selling digital products illegally bearing a very similar sign to the marks. Moreover, Rothschild's 'use' of digitised versions of Birkin handbags in terms of their shape and design, could have an adverse effect on Hermès' planned digitisation and tokenization of their very own trademarked Birkins for future use in the metaverse. This could effectively mean that the 'Birkin' marks may no longer be capable of arousing immediate association with the goods in question and become diluted or 'blurred', with an impact on the average consumer's economic behaviour.

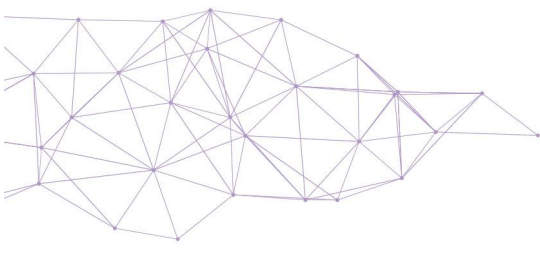
Furthermore, it is unlikely that Rothschild's 'use' would be with 'due cause', pursuant to the 'honest practices' proviso.¹⁸ The CJEU's clarifications in *Interflora v Marks & Spencer* affirm that only in instances where the 'use' did not cause dilution or tarnishment to the earlier registered mark, could 'due cause' arise.¹⁹ This is clearly not the case in respect of Rothschild's free-riding activity. In summary, a violation of Hermès' rights would likely have been substantiated under the EU regime. Notably, in relation to claim ii., Hermès' trade mark protection would extend in the metaverse against different goods, namely NFTs, even in the absence of any trade mark registration for digital goods. This highlights the extended protection that reputable marks enjoy, compared to any other trademarks that would need to establish similarity between the goods associated with the contested sign, which surely is not an easy task when dealing with digitised and tokenized IP content in NFT form.

One could question whether the expansion of Class 9 to encapsulate the above-mentioned digital goods is really necessary, or whether it is rather for the benefit of anyone other than the IPOs issuing registrations. While this could be viewed as an added layer of legal certainty, it would also inevitably create additional costs to rightsholders, which could be substantial to smaller brand owners. Such an approach of requiring a separate registration for goods in the metaverse leaves room for questioning the legitimacy of uses that would clearly be considered unauthorised in a non-metaverse context. It is highly plausible that had Hermes brought a claim under the EU regime, they would have failed in a consumer confusion claim, given the non-similarity of the goods in question. What would have saved them would be their vast popularity and classification of the 'Birkins' as marks with a reputation within the EU territory and the extended protection they enjoy against dilution, irrespective of similarity between the goods, under Art. 10(2)(c) of the Directive 2015/2436 and Art. 9(2)(c) of the Regulation. While it is true that the extended protection afforded to trade marks' modern functions recognises the investment undergone into the creation of a brand 'aura', which is no easy task, this reality once again underlines the unequal position that large corporations like Hermes have against smaller brand owners with not enough goodwill in the eyes of the law. In the given scenario, had Rothschild appropriated the trademark of a not-so-well-known smaller brand, the dissimilarity between the Classes of goods would be enough to terminate any ongoing lawsuit. And even

¹⁷ I. Lapatoura, 'Fashion beyond physical space: NFTs and intellectual property challenges in the metaverse', 33 Entertainment Law Review 6 (2022), at 197-202.

¹⁸ A detailed discussion on the 'honest practices' proviso takes place in the next section.

¹⁹ C-323/09, *Interflora Inc. et al. v Marks & Spencer Plc et al.* [2011] EU:C:2011:604, para 91.



if it were obvious that Rothschild's use had a commercial underpinning, the smaller brand would have to bear the consequences – to endure the misuse of their trade mark, as well as a considerable financial burden from taking the bold decision to initiate litigation proceedings, only to have their claim dismissed.

In the present case, the US jury verdict unequivocally found that Rothschild intended to mislead the public that there was an association between the 'Metabirkins' and Hermès, as well as that the artist purposely intended to exploit the goodwill attached to the Birkin trade marks. The Southern District Court of New York ruled in favour of the luxury brand on all three counts in February 2023, ordering \$133,000 in damages, followed by the issuing of a permanent injunction in June 2023, ordering the artist to discontinue use of the trade marks in question, transfer the domain name 'metabirkins.com' to Hermès, as well as stop promoting sales of the 'Metabirkins' NFTs on social media accounts so as to prevent public confusion as to their source. Nevertheless, the court acknowledged that the 'Metabirkins' NFTs *'are at least in some respects works of art'* and as such, rejected the transfer of the NFTs to Hermès. Rothschild's recent petition to display the 'Metabirkins' in Stockholm-based Spritmuseum's exhibition was initially denied under this injunction in March 2024, due to risks of potential further confusion to consumers that the NFTs or related merchandise are associated or connected to Hermès' trade marks. US District judge Rakoff subsequently reversed the decision in May 2024, under the condition that the NFTs are exhibited alongside a declaration of the legal battle's outcome.

2.2. Trade marks and freedom of artistic expression

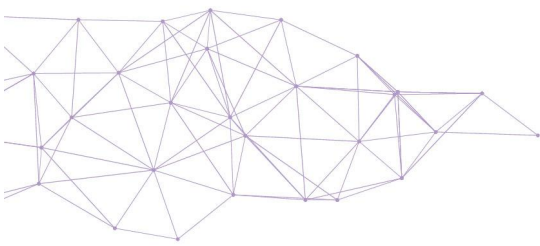
Of interest to this paper are the failed arguments of Rothschild on fair use, invoking freedom of artistic expression, a right afforded with protection under the US First Amendment.²⁰ The US Lanham Act further provides exclusions from liability in cases of dilution of famous marks. The most relevant exclusion in the present case protects a 'fair use' of a trademark 'in connection with [...] parodying, criticizing, or commenting upon the famous mark owner or [its] goods'²¹, except for instances where the similar mark is used as a trade mark, or else to identify the 'source for the [third party's] own goods'.²² The artist supported that the 'Metabirkin' NFTs were simply Birkin-inspired art. Also, the two-dimensional NFT handbags were digital products and thus, different from Hermès' three-dimensional handbags. Indeed, as has been discussed earlier, the goods in question – digital NFT handbags vs physical Birkin handbags – would fall under different Classes of the Nice Classification. Furthermore, several of the 'Metabirkins' NFTs featured a furry-like exterior, as artistic commentary targeted on the brand's practices of using real animal leather. The artist further argued that the entire project was an experiment to test the perceived value of Birkins, as luxury products, in the digital age. In the US, as per *Rogers v Grimaldi*²³, freedom of artistic expression tends to be given greater weight than trade mark protection in cases concerned with 'artistic' or 'expressive' works. Artists who appropriate trademark content are more likely to bypass liability where the work in question possesses some degree of artistic expression, unless the use of the trade mark either 'has no artistic relevance to the underlying work', or 'explicitly misleads as to the source of or the content

²⁰ US Constitution, First Amendment ('Congress shall make no law ... abridging the freedom of speech').

²¹ US Lanham Act, §1125(c)(3)(A).

²² *Ibid.*, §1125(c)(3)(A).

²³ *Rogers v Grimaldi* [1989], 2d Cir., 875 F.2d 994.



of the work'.²⁴ In the present case, Judge Rakoff ruled that Rothschild's conduct satisfied both prongs of the stringent *Rogers* test, despite acknowledging that the 'Metabirkins' NFTs were 'at least in some respects works of art'.

Nevertheless, the US Supreme Court has recently ruled in *Jack Daniel's v VIP Products*²⁵ that the *Rogers* test and special First Amendment protection may no longer apply to trade mark infringement cases that involve use of a trade mark as a designation of source for the alleged infringer's own goods. In *Jack Daniel's*, the Court continued that this approach is to be followed even in cases where the use of a trade mark conveys some other message on top of source, as this is a common occurrence and if all expressive content were to trigger *Rogers*, the exception would become the general rule.²⁶ Instead, in those cases the 'likelihood of confusion' inquiry would do enough to account for the interest in free expression and on the other hand, the protection of the public from being deceived, the right of brand owners to enforce their exclusive rights and the prevention of unfair competition, especially in relation to Rothschild's use, which had a commercial underpinning.

The US court later acknowledged that, indeed, the *Rogers* test may not apply here, but ruled that the application of either test would make no difference to the outcome and a violation of Hermès' trade mark rights would be established. It is submitted that the US court erred in finding that Rothschild's work had no artistic relevance whatsoever and satisfied the first prong of *Rogers*. Despite the court's observation that because 'the "MetaBirkin" were sold as virtually wearable goods for use in the metaverse, [this makes] them more akin to commodities as opposed to artistic works'²⁷, there was indeed some degree of artistic expression within the 'MetaBirkin' NFTs, which was also explicitly recognised by the court in its initial judgement. However, it was likely correct to find that the Metabirkins were intentionally designed to mislead consumers into believing Hermès was associated with them and as such, that liability would ensue both under the second prong of *Rogers* and under the traditional trade mark analysis on 'likelihood of confusion'.

While the artistic free speech defence was unsuccessful in the US under the *Rogers* test, this part of the paper will examine how such defence would be assessed under EU law. In the EU, freedom of expression is a fundamental right protected by both Article 11 of the Charter of Fundamental Rights and Freedoms of the European Union²⁸ and Article 10 of the Convention for the Protection of Human Rights and Fundamental Freedoms, ratified by and binding to EU member states.²⁹ Moreover, according to Recital 27 of the Trade Mark Directive and Recital 21 of the Trade Mark Regulation: 'Use of a trade mark by third parties for the purpose of artistic expression should be considered as being fair as long as it is at the same time in accordance with honest practices in industrial and commercial matters'³⁰. The so-called 'honest practices' proviso is applicable in relation to the aforementioned – and inapplicable – 'due cause' provision for claim ii., as well as for the trade mark defences set out in Article 14 of both the Directive and the Regulation. As per the CJEU's interpretation in *Gillette v LA Laboratories*, examples of uses that cannot be honest include: uses that give the impression that there are commercial links with a trademark; that affect a trade mark's

²⁴ Ibid, at 999.

²⁵ *Jack Daniel's Properties v VIP Products LLC*, 599 U.S. 140 (2023).

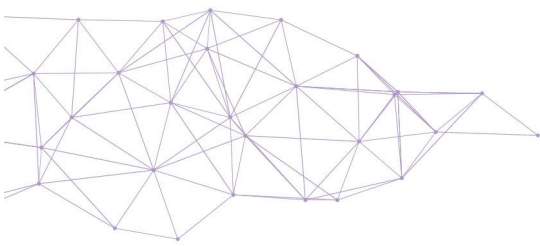
²⁶ Ibid, at 16, per Justice Kagan.

²⁷ See F.J. Boyd, A. Chaudri and J. Brazier, 'Hermès Challenge of "MetaBirkin" NFTs to Continue', (July 2022), <<https://www.nortonrosefulbright.com/en-gb/knowledge/publications/844123f5/Herm%C3%A8s>>, [Accessed 10 May 2024]

²⁸ Charter of Fundamental Rights and Freedoms of the European Union, Art. 11.

²⁹ Convention for the Protection of Human Rights and Fundamental Freedoms, Art. 10.

³⁰ Directive (EU) 2015/2436 (n 1), Rec. 27; Regulation (EU) 2017/1001 (n 2), Rec. 21.



value by taking an unfair advantage from its reputation or distinctiveness; that are discrediting or denigrating a trade mark's reputation; that presents goods as imitations or replicas of the goods covered by the trade mark.³¹ If Rothschild's use would have amounted to the taking of an unfair advantage, which is likely the case, such use is specifically mentioned in *Gillette* as a form of activity which is not in accordance with honest practices. This effectively means that neither 'due cause', nor any other defences would be applicable in such a case. Yet Fhima points out that dilution by blurring is not specified in *Gillette* and so, it may be 'possible to read CJEU jurisprudence so that the [...] defences can be used in a case which involved prima facie blurring but not unfair advantage'³². In the unlikely event that Rothschild's activity would have only amounted to dilution by blurring before EU national courts, he might have benefited from some other form of defence.

More precisely, Article 14(1)(b) of both the Directive and the Regulation further specify that, firstly, the use of indistinctive or descriptive elements that are part of the registered mark to refer to their goods would be considered fair.³³ Here, it is unlikely a case of indicative use of Hermès' trade marks, as both the word mark 'Birkin' as well as the 3D shape mark were copied in their entirety. Arguably, the word 'Birkin' – a particularly distinctive mark – constitutes the prominent part of Rothschild's 'Metabirkin'. To many fashion consumers, the addition of the word 'meta' would add little significance and could simply add to the confusion that it points to Hermès' goods intended use in the metaverse.

As such, the copying of both earlier trade marks in their entirety would not be in accordance with honest commercial practices in this case. Article 14(1)(c) states that the use of elements of the earlier trade mark for the purpose of identifying or referring to goods as those covered by the earlier trade mark and under the pre-reform stricter interpretation, in particular for when necessary to indicate the intended purpose of a product, would be considered fair.³⁴ The recently broadened scope of the so-called 'referential use' concept may now cover parodies or uses 'to symbolize and criticize policies of the trademark proprietor'³⁵ as per Senftleben, although this has not yet been tested in practice.³⁶ The furry digital versions of Hermès' handbags might have had their strongest case in Europe on that basis. The artist argued that the aim was to divert the 'Birkin' marks from their original meaning and to communicate a message relating to the fur-free movement of the fashion sector in recent years and Hermès' non-compliance with such movement. In practice, it appears that Rothschild's conduct had little to do with criticising Hermès' practices in using leather goods and in fact, no indication of such criticism accompanied the 'MetaBirkin' NFTs, i.e. any statements alongside their social media adverts. In contrast, art collective MSCF created a Microscopic 3D-printed 'Louis Vuitton' handbag claimed to be 'narrow enough to pass through the eye of a needle and is smaller than a grain of sea salt', bearing both one of the brand's iconic designs and the 'LV' trade mark without authorisation. Yet the artists issued a statement alongside the auction listing, explaining that they created this bag as a response to the fashion industry's love of small bags, which has grown to a

³¹C-228/03, *Gillette Company and Gillette Group Finland v LA-Laboratories Ltd* [2005] ECLI:EU:C:2005:177, para 49.

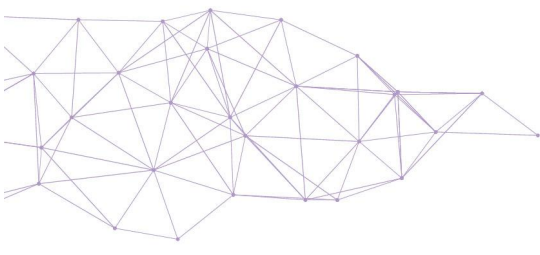
³²I. Fhima, 'Due Cause', 12 *Journal of Intellectual Property Law & Practice* 11 (2017), at 905.

³³Directive (EU) 2015/2436 (n 1), 14(1)(b); Regulation (EU) 2017/1001 (n 2), 14(1)(b).

³⁴Directive (EU) 2015/2436 (n 1), 14(1)(c); Regulation (EU) 2017/1001 (n 2), 14(1)(c).

³⁵M. Senftleben, 'Robustness Check: Evaluating and Strengthening Artistic Use Defences in EU Trademark Law', *IIC - International Review of Intellectual Property and Competition Law* 53 (2022), at 581-582. See also M. Bohaczewski, 'Conflicts between trademark rights and freedom of expression under EU trademark law: Reality or illusion?', *IIC - International Review of Intellectual Property and Competition Law* 51 (2020), at 866- 872.

³⁶See A. Kur and M. Senftleben, *European trade mark law - a commentary*, (1st. ed, Oxford University Press, 2017), paras 6.39-6.41.



point that the accessory is 'purely a brand signifier'. The statement reads, 'Previous small leather handbags have still required a hand to carry them – they become dysfunctional, inconveniences to their 'wearer' [...]. "Microscopic Handbag" takes this to its full logical conclusion. A practical object is boiled down into jewellery, all of its putative function evaporated; for luxury objects, usability is the angels' share'.³⁷ Although this case has not proceeded to litigation, it is highly plausible that the accompanying statement would suffice to invoke fair use on the basis of criticising the practices of Louis Vuitton and other luxury brands. At the same time, Rothschild's excuse of selling the 'MetaBirkin' NFTs for high prices as part of an experiment on modern consumerism and luxury goods' perceived value is rather convenient for justifying the millions in profits made from their sales.

As for the possibility of parodying Hermès' goods, Rothschild did in fact include the phrase 'Not your mother's Birkin' in its adverts for the 'MetaBirkin' NFTs. While it is only expected that world-renown brands will receive some level of scrutiny for their business practices in a democratic society, given their great exposure to a global audience, a humorous or mocking message targeting a trade mark must be clear. As per the US case *Campbell v Acuff-Rose*, a parodic use must conjure up 'enough of [a trademark] to make the object of its critical wit recognizable'.³⁸ In the EU, the widened scope of protection for famous marks and the honest practices proviso assess third-party uses on the basis of commercial considerations and potential harm on a brand's reputation, concepts that artists are not familiar with. While no trade-mark-related parody or CJEU case law exists in the EU, in the copyright case of *Deckmyn* the CJEU ruled that a parody must both evoke a copyright work and express a message of humour or mockery, while being noticeably distinct from it.³⁹ If an analogous approach were to be followed in trade mark disputes, Jacques supports that the intention behind the use would be given greater weight by the courts⁴⁰, potentially resulting in a fairer balancing act of fundamental rights. While it is unlikely that the intention behind 'Metabirkins' was to cause harm to Hermès as unfavourable parodies, since they neither discredit nor denigrate the 'Birkin' marks – thereby also not acting against honest practices as per *Gillette*, there likely was an intention to cause some economic harm by diluting the 'Birkin' marks and increase visibility of Rothschild's products among the public by using very similar marks to Hermès.

Yet when it comes to cases where the dilution is being suspected and 'use' of the earlier famous mark involves an economic activity – as in the case of Rothschild and the high profits made through the sale of the 'Metabirkins' – the EU courts would unlikely give greater weight to artistic expression, even where the use does not directly compete with competitors.⁴¹ Jacques' recent study on parodic trade mark uses affirms that in some EU member states which have introduced unharmonized legal tests, trade mark parodies of artistic relevance may be permitted 'when there is no likelihood of consumer confusion, and when the use occurs in a non-commercial context or does not harm the parodied sign'⁴². But once 'use' of an earlier mark deviates from its values or an economic activity is involved, the scale tends to tip in favour of trade mark owners.

³⁷ O. Holland, 'Handbag 'smaller than a grain of salt' sells for over \$63,000', CNN (June 29, 2023), <<https://edition.cnn.com/2023/06/29/style/mschf-lv-microscopic-bag-auction/index.html>> [Accessed 1 June 2024].

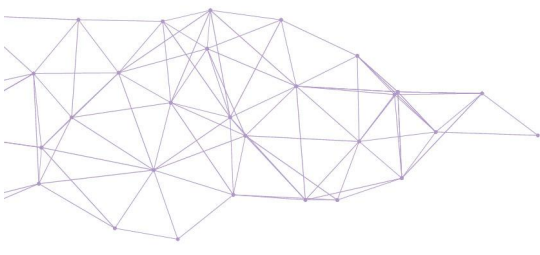
³⁸ *Campbell v Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994), at 588.

³⁹ C-201/13 *Deckmyn et al. v Vandersteen et al.* [2014] ECLI:EU:C:2014:2132, para 25.

⁴⁰ S. Jacques, 'The EU trade mark system's lost sense of humour', *Intellectual Property Quarterly* 1(2024), at 23.

⁴¹ S. Jacques, 'The EU trade mark system's lost sense of humour', *Intellectual Property Quarterly* 1(2024), at 8, 21-22.

⁴² *Ibid*, at 11-12, 25-26.



Treating the above phrase ‘Not your mother’s Birkin’ as a message of pointed humour in relation to real Birkins seems somewhat excessive and may potentially be viewed as referring to the digital nature of the goods, namely NFTs being addressed at a younger generation, at best. And even if this were to be perceived as parody under a liberal application of the US fair use doctrine, even this defence has its own exclusion. When it comes to cases concerned with dilution of famous marks, fair use may only apply when the use of a famous trade mark is not serving a source-designation function.⁴³ As such, it is submitted that Rothschild’s use of the famous mark would unlikely amount to fair use under both EU and US law.

On a broader scale, freedom of artistic expression in a trade mark context is being given less weight by both the EU courts and the EU legal framework itself, meaning that artists are highly exposed to infringement when appropriating trademarked content. Crucially, with the CJEU’s recognition of wider trade mark functions in *L’Oréal v Bellure*⁴⁴, ‘use’ as a source-identifying trade mark is no longer a strict requirement, meaning that some artistic purposes may fall within the ambit of the trade mark owner’s exclusive rights. Furthermore, as per the CJEU in *Adidas v Fitnessworld* and subsequent case law⁴⁵, the finding of some relation to the rightsholders goods or services may suffice for an artist’s exposure to infringement claims. At the same time, infringement is even easier to establish in respect of brands with a reputation like Hermès, with distinctive marks which are the result of heavy investment and advertising, as similarity among the goods related to the marks in question is not even a prerequisite. As discussed in the next sections, artistic expression is arguably better protected when it comes to uses of copyright works, while parody is a formally recognised permitted use at EU level, that member states implement into their national laws.

3. Copyright and Vegap v Mango

3.1. Copyright infringing ‘uses’

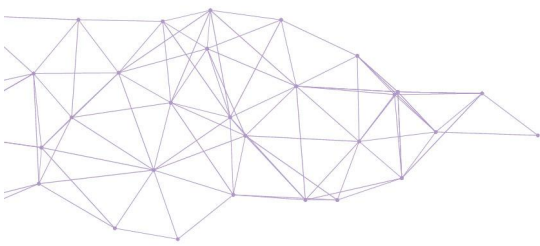
In the second part of the paper, the discussion shifts to copyright infringing ‘use’ in the context of tokenized and digitised protected artistic works in the form of NFTs in the metaverse. It draws on the legal analysis by the Spanish courts in the recent *Vegap v Mango* case, concerning the digitisation of real-world in-copyright paintings and their minting into digital NFT wearables by digital artists. While this case was decided under the EU law, the US ‘fair use’ doctrine was invoked and transposed within the court’s decision, while a contractual framework was in place between the digital artists and the copyright owner of the artworks. Upon examining the legal intricacies of the first European case on NFT-related copyright infringement, the paper will embark on a critical evaluation of the Spanish court’s legal reasoning, which may have just set the precedent for a more flexible and less protective approach towards rightsholders when it comes to NFT derivative works in a metaverse context.

The case concerned Punto SA, a holding of the popular fast-fashion brand Mango, and Vegap, a Spanish collecting management organisation for artworks (in Spanish ‘Visual Entidad de Gestión de Artistas Plásticos’). The in-copyright artworks in question were

⁴³ US Lanham Act, §1125(c)(3)(A).

⁴⁴ C-487/07, *L’Oréal SA et al. v Bellure NV et al.* [2009] EU:C:2009:378.

⁴⁵ C-408/01, *Adidas-Salomon AG and Adidas Benelux BV v Fitnessworld Trading Ltd* [2003] ECLI:EU:C:2003:582, para 39-41. See also C-17/06, *Céline SARL v Céline SA* [2007] ECLI:EU:C:2007:497, para 23.



paintings created by famous Spanish artists, such as Miro, Barcelo and Tapies. Mango commissioned 5 of those paintings to be digitised, tokenized and transformed into digital fashion items by digital artists, which it had previously purchased. As such, Punto had ownership rights over the physical artworks and did not proceed to seek authorisation from the paintings' original Catalanian artists, represented by the said collecting society.

The brand then proceeded to exhibit the digitised versions of the artworks in the metaverse, at Mango's virtual store in metaverse platform Decentraland. Vegap brought a claim before the Commercial Court of Barcelona for, among other things, copyright infringement on the basis of reproduction, transformation and communication of the works to the public without authorisation.

By taking a closer look at the EU copyright law regime, as per Articles 2-4 of the InfoSoc Directive (Directive 2001/29/EC)⁴⁶, the reproduction, creation of derivative works or communication of digitised copyright works to the public amount to infringing uses. Given that digitisation is a technical process that often involves exact reproduction of the original work, infringement could easily be established. In the present case, while reproduction of the paintings must have been an integral part of the digitisation process, the end-result post-transformation by the digital artists varied from the original works and this was the NFT version that was tokenized and displayed in the metaverse exhibition, which in the eyes of the court was not for profit. Following this logic, it could be argued that the copies produced from the original paintings' initial digitisation or 'scanning' neither were for commercial purposes, nor could they be regarded as preparatory acts to infringement. Yet the paper later challenges such finding of the court.

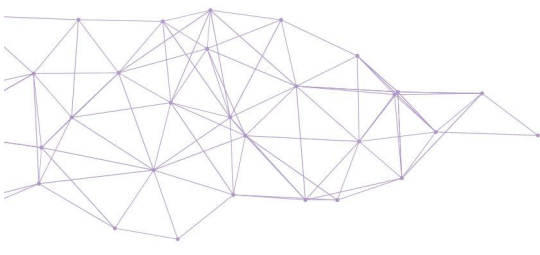
Post-digitisation, the new work produced off a real-world creation may bear some differences. This is a popular occurrence in works produced by digital artists, who may draw inspiration from a work of art and produce a derivative or 'transformative' digital work that bears common elements with the former work, as well as new elements, as in the case under review. Here, the commissioned digital artists created a digital NFT fashion collection based on digitised copyright content. The question arises as to whether the new digital works could be treated as derivative works that infringe upon the exclusive rights of the original painters. As per under Article 2(3) of the Berne Convention, a derivative work can be a translation, an adaptation, a musical arrangement or other alterations of a literary or artistic work.⁴⁷ While derivative works may satisfy *originality* within the meaning of *Infopaq*⁴⁸ as *their authors' own intellectual creations* and thus, be protectable in their own right, this in itself cannot negate the finding of an infringement of the earlier artwork. The test adopted by the EU courts for examining potential copyright infringement is again laid out in *Infopaq*, according to which infringement would be substantiated if the derivative work borrows substantial parts of the earlier artwork's *originality*.⁴⁹ In the present case, it is highly plausible that the new digital works would satisfy this threshold, given that the earlier artworks have been copied in their entirety. While no side-by-side comparison between the copied artworks and the NFT wearables was possible due to limited images online, so long as the prints on the digital wearables did not just imitate the style of the artworks, but copied the *original* expression in them, they would constitute infringing

⁴⁶ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society, Art. 2-4.

⁴⁷ Berne Convention for the Protection of Literary and Artistic Works of 1886, Art. 2(3).

⁴⁸ C-5/08, *Infopaq International v Danske Dagblades Forening* [2009] ECR I-6569, para 35.

⁴⁹ *Ibid*, paras 37, 39.



works.⁵⁰ Given that no Nonetheless, the Spanish court accepted that such ‘use’ was fair under the circumstances, as explored in the next section.

Unlike most NFTs, the evidence in the court suggests that the contested fashion NFTs in *Vegap v Mango* were not offered for sale through any NFT marketplaces, such as OpenSea.

Had this been the case, this is where the right of communication to the public would become relevant. In practice, NFTs and their accompanying exact copies of the copyright works are displayed on NFT marketplaces’ websites, where the public can browse listings and purchase tokens. At the same time, NFTs typically contain a URL link that enables users to access the copy of the copyright work in question that has been subjected to minting. The contested digital works under review were, nevertheless, part of a public metaverse exhibition. In *Svensson v Sverige*⁵¹, the CJEU set out two criteria that must be met for linking to third party content to be considered infringing. First, there must be an act of communication – easily warranted here, as the NFTs were part of a public digital exhibition. Second, there must be a new public to whom the original authors did not include in the initial communication of their artworks – here, metaverse users could arguably constitute a ‘new public’. However, a limitation to an author’s right of public communication exists under Spanish law, as discussed in the next section, effectively constituting the digital works’ exhibition in the metaverse non-infringing.

3.2. Copyright and freedom of artistic expression

In *Vegap v Mango*, the defendants successfully claimed that their derivative works were ‘transformative’ and thus, that the finding of infringement would be a disproportionate and unnecessary restriction on the digital artists’ freedom of creative expression. Under the EU regime, it may be possible that derivative works which borrow substantially similar parts to an earlier copyright work will be considered non-infringing. Both the right to artistic expression and copyright, a form of property right, are fundamental and must be counterbalanced. As per Article 10 of the European Convention on Human Rights, artistic expression may be limited on grounds provided for by law, if justified on the basis of legitimate interest and if proportionate in pursuing such aim.⁵² In the present case, one could argue that the right to freedom of expression of Mango’s commissioned artists is limited by law, as unauthorised adaptations infringe upon the authors’ exclusive rights.

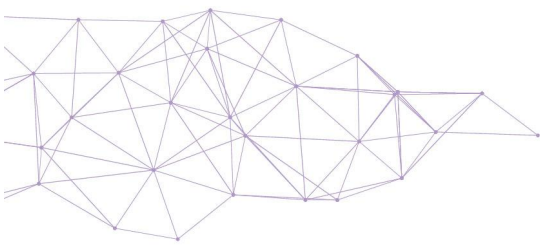
Notwithstanding the additional elements in the digital works, they arguably substantially reproduce the original elements of the original paintings. Yet, they do make reference to the painters and as such, the ‘metaverse’ relevant public would perceive the association with original famous artworks.

But would the public perceive the digital works as possessing a ‘transformative’ character? In its reasoning, the Spanish court interestingly – and at the expense of legal certainty – made reference to the principle of ‘harmless use’ based on the consideration of factors set out under the US ‘fair use’ doctrine, namely the purpose and character of the use, the nature of the work protected by copyright, the amount and substantiality of the

⁵⁰ A. Guadamuz, ‘Court in Barcelona issues injunction against Mango’s NFT use in the metaverse’, (Nov. 25, 2022) Technollama, <<https://www.technollama.co.uk/court-in-barcelona-issues-injunction-against-mangos-nft-use-in-the-metaverse>> [Accessed 3 May 2024].

⁵¹ C-466/12, *Nils Svensson and Others v Retriever Sverige AB* [2014] ECLI:EU:C:2014:76.

⁵² European Convention on Human Rights (n 22), Art. 10.



copied portion and the effect of the use on the value of the copied work or its potential markets.⁵³

According to the court's decision, the digital works were indeed transformative, because their character and purpose differed from and did not replace the artworks' original use. It acknowledged the addition of new elements, such as fashion elements with Mediterranean influences, while at the same time respecting the nature of the original artworks by making reference to the Catalan painters. On that point, it is questionable whether the public would be able to perceive the 'transformative character' of the message which the digital artists tried to convey. In fact, it is unclear whether any specific message was being communicated, other than a homage to the painters and a connection to the brand. In contrast, in a recent case in France involving the 'Fait d'hiver' sculpture by Jeff Koons, as allegedly constituting a derivative work of an earlier protected photograph by an American artist, the renowned contemporary artist supported that the message conveyed by the artwork was the 'glorification of banality through the use of materials, images, objects, references, or characters borrowed from the universe, culture, beliefs and popular reminiscences [...] referring to the imaginary, the dreamlike, the tale, and allowing multiple interpretations' in line with the Ready Made, Pop Art or Appropriation Art movements. It was nevertheless found to be a copyright infringing derivative work by the French appellate court, even in such a case where a complex artistic message was arguably being conveyed.⁵⁴ Therefore, the Spanish court's acceptance of a less complex message's potential to 'transform' the character of the digital works, despite the copying of the paintings in their entirety, is controversial.

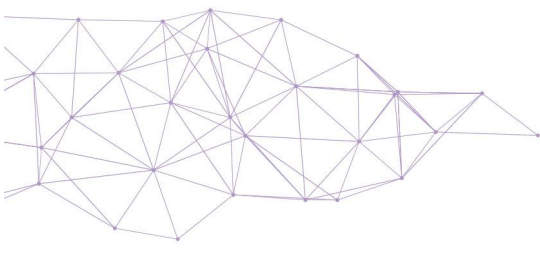
Furthermore, the court ruled that the NFTs were not created for commercial purposes, as the brand was neither remunerated for their exhibition in the metaverse, nor offered them for sale. It rather held that their exhibition was part of a series of activities to mark the opening of Mango's new store on purely sentimental reasons and concluded that the NFTs did not compete with or cause damage to the value of the original artworks, thereby constituting 'harmless use'.⁵⁵ Given that the digitisation and tokenization of the paintings and their public display in the metaverse constituted part of a wider Mango campaign, one could question whether their creation or 'use' really was not commercial and not for profit. It seems that Mango invested in the creation of those digital works by commissioning the artists and their public exhibition appears to be at least some form of brand promotion. While Mango claimed that no evidence suggested that their products increased in sales post-exhibiting the NFTs in Decentraland, meticulously planning a series of PR activities, involving the creation of a unique collection that blends physical and digital, fast-fashion with art, can hardly not be viewed as an attempt to attract consumers and expand on goodwill, also targeting metaverse users and enthusiasts. While it is true that some of the above-mentioned US 'fair use' factors would likely be satisfied in the present case, the same cannot be said for all of them.

Regarding the right of public exhibition, Article 5(3)(j) of the InfoSoc Directive presents an optional limitation to the rights of reproduction and communication to the public, as in the present case, according to which 'use' of artistic works for the purpose of

⁵³ US Copyright Act 1976, 17 U.S.C., s. 107.

⁵⁴ Paris Court of Appeal (Cour d'appel de Paris), judgement of 23 February 2021 – 19/09059; See A. Sutterer-Kipping and M. Sutterer, 'Copyright Infringement through the Exhibition of a Derivative Work in a Museum', 71 GRUR International 2 (2022), at 181-187.

⁵⁵ A. Cerri, 'Spanish Court finds that virtual exhibition of NFTs based on paintings is "harmless use"', The IPKat (Feb. 20, 2024), <<https://ipkitten.blogspot.com/2024/02/spanish-court-finds-that-virtual.html>> [Accessed 12 May 2024].



advertising their public exhibition or sale to the extent necessary to promote the event would be considered permissible.⁵⁶ While Spain has not adopted the optional limitation under the InfoSoc, it has, nevertheless, introduced a right of public exhibition to the owners of physical artworks, unless contractually ruled out or if the exhibition would harm the reputation of the artworks' creators, under Article 56(2) of the Spanish Intellectual Property Act.⁵⁷ As such, the Spanish court ruled that exhibiting the works was permissible, since Mango owned the physical artworks. In summary, the court concluded that the fashion brand carried out a legitimate, fair and 'harmless' use.

It is worth noting that a prima facie copyright infringing use may be justified, if falling within one of the exceptions and limitations enshrined in Article 9(2) of the Berne Convention and Article 5 of the InfoSoc Directive.⁵⁸ Commonly, a derivative work that draws on a pre-existing artistic work may be created for the purpose of parody, when intending to evoke the work and convey a humorous or mocking message in relation to it.⁵⁹ Yet the paper does not expand on the parodic use exception. Although the above analysis is only concerned with a specific set of facts, some early conclusions can be drawn from those. On one hand, it could be argued – at least by looking at the first EU court ruling on NFTs and copyright – that the landscape has become less protective to authors when it comes to prima facie unauthorised derivative works that result from the digitisation and tokenization of artworks, even in cases where the artworks in question are famous and created by renowned painters, to the benefit of artistic expression. This adds to the already existing framework which promotes respect for this fundamental right under Article 5 of the InfoSoc Directive, meaning that artists may have a better chance to justify themselves when appropriating copyright works, compared to works protected by trademarks, and especially in cases where famous trademarks are involved.

4. Conclusion

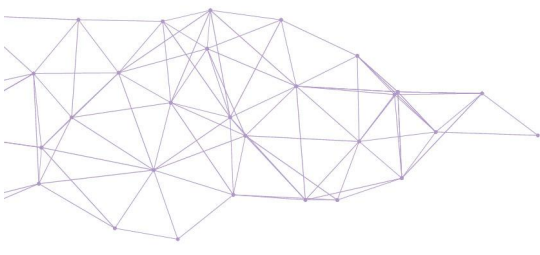
The paper has examined whether the regulatory framework for trademark or copyright infringing 'uses' could be applied in relation to the use of digitised IP in a metaverse context, without prior authorisation from the IP owner. More precisely, it focused on *Hermès v Rothschild* and *Vegap v Mango*, the two most recent decisions involving the digitisation and tokenization of IP protected content in the form of NFTs, as well as involving the 'use' of such content in metaverse platforms. The analysis then shifted on whether either of these 'uses' would have fallen within any permissible uses under the EU IP regime on the given facts. Given that digitising content and minting NFTs is a common occurrence nowadays, not just between artists, but also by several businesses that have expanded their presence in the metaverse, being presented with high chances of facing liability could have an impact beyond IP law. It could be an omen for a metaverse short-lived dream. Other than constituting a market space for some, the metaverse was envisioned as a decentralised hub where anyone could experience social interactions and the work of artists is an integral and valued part of any democratic environment, with the added benefits of fuelling critical discourse.

⁵⁶ InfoSoc Directive (n 35), Art. 5(3)(j).

⁵⁷ Spanish Intellectual Property Act of 1996, Art. 56(2), <[The_Intellectual_Property_Act_\(Ley_de_Propiedad_Intelectual\).PDF_\(mjusticia.gob.es\)](http://www.mjusticia.gob.es/El-Ley-de-Propiedad-Intelectual)> [Accessed 10 May 2024].

⁵⁸ Berne Convention (n 36), Art. 9(2); InfoSoc Directive (n 35), Art. 5.

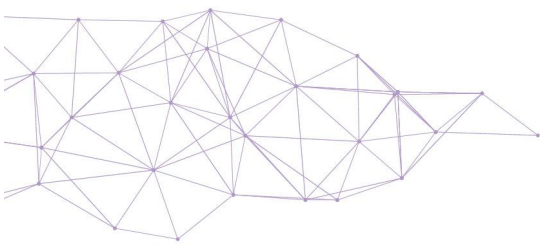
⁵⁹ C-201/13 *Deckmyn et al. v Vandersteen et al.* [2014] ECLI:EU:C:2014:2132.



In *Hermès v Rothschild*, the analysis approached the US decision from a European trade mark perspective and answering the question as to whether the metaverse use of digitised trade mark content could have infringed upon the exclusive rights of the famous brand, which also exist in relation to the same signs in the EU. It concluded that the digitisation, minting, advertising and sale of unauthorised digital NFT Birkin handbags under a similar name and a very similar design to Hermès' handbags would be faced with the same outcome before EU courts. Several factors in this specific set of facts pointed to activity targeted to misleading the public, with a clear commercial underpinning. As such, Rothschild's parodic use defence would have likely failed also under EU law. Nonetheless, it is submitted that striking a fair balance between freedom of artistic expression and proprietary rights, such as copyright, is no easy task and progress needs to be made in a trade mark context.

In *VEGAP v Mango*, the Spanish national court appeared favourable towards the creation and 'use' of derivative works that resulted from the digitisation and tokenization of original artworks in the metaverse. By applying the US 'fair use' factors flexibly, the court ruled that the said activity, part of a wider Mango campaign, was non commercial in nature, but rather carried out for purely sentimental reasons to mark the occasion of a store opening. Whether such a decision stems to some extent from the legislators' ignorance or unawareness of the metaverse's function as a space where multiple brands advertise their business is open to question. Perhaps the fact that the contested NFTs were not offered for sale per se might have contributed to this decision, but it is difficult to accept that creating unauthorised derivative works for the purpose of public exhibition is not a commercial PR strategy aimed at attracting publicity and goodwill, even if the actual act of public exhibition is permitted by law. At the same time, the contested NFTs' 'transformative' character is equally questionable. As such, the controversial aspect of the judgement is on treating the act of creation of those digital NFT works as 'fair' or 'harmless'.

The metaverse's remoteness from the real world certainly does not mean that it cannot adversely affect creators' IP. While the Spanish court decision has marked a positive precedent for freedom of artistic expression in cases involving tokenised derivative works in NFT form, treating the metaverse's immateriality as an excuse for applying legal exceptions and limitations more flexibly is dangerous, since it blurs legal certainty and could overly restrict the rights of the original creators. It is concluded that a finer balance must be achieved and subsequent disputes in this area must treat the first EU court's precedent with caution.



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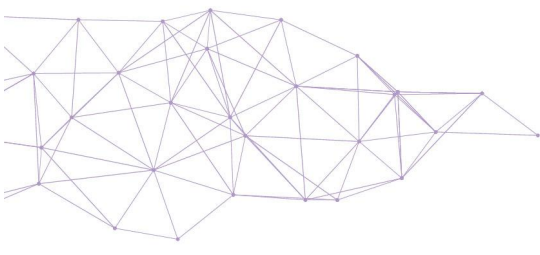
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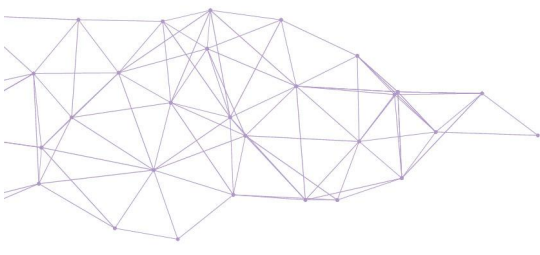
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