

Trademark Suits Consider if the (NFT) Shoe Is on the Other Foot

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A pair of suits from designers Nike and Hermes are raising new questions regarding how Non-Fungible Tokens (NFTs) intersect with trademark protections. On January 14, 2022, luxury designer Hermes filed suit against artist Mason Rothschild, creator of the popular “MetaBirkins” NFTs. Several weeks later, on February 16, 2022, Nike filed suit against StockX, an online platform that uses NFTs to resell popular items. Both suits grapple with the application of traditional trademark principles to a novel and fast-moving technology and raise fundamental questions whose answers will have critical ramifications on the NFT and larger crypto industry.

One gateway issue for the courts is determining what an NFT represents. NFTs may purely represent digital proof of ownership of a real-world item. For example, StockX allows users to purchase NFTs of various products, including Nike sneakers, and redeem the NFTs for the physical goods. StockX has stated that its NFTs only use Nike’s marks to identify the physical shoes it offers for resale, like any other ecommerce site, and therefore falls under the “first sale doctrine” that permits the resale of branded goods. In this way, StockX argues, its NFTs merely track ownership while providing practical technical benefits such as improved security and better record keeping but are not infringing.

However, other NFTs, such as Rothschild’s MetaBirkins, represent not only proof of ownership of the underlying item, it *is* the underlying item. The MetaBirkin NFTs are digital images of Hermes’ famous Birkin bag (the design of which is itself a registered trademark) dressed in new designs developed by Rothschild, and are promoted under the mark “MetaBirkin,” which Hermes alleges is an infringement of its registered Birkin marks. Unlike StockX, which claims that its NFT merely represents a physical good that it has the right to sell, Rothschild has expressly stated that his NFTs are the product itself, and that it is his intent to “create the same kind of illusion that [the BIRKIN handbag] has in real life as a digital commodity.”

In either case, NFTs are commanding the attention of the market. For example, NFTs have sold for enormous sums, with some sales reaching millions of dollars. This could be expected where the NFT represents ownership of a verifiable, physical collectible, such as a painting. Many of these NFTs, however, cannot be redeemed for a corresponding physical product; rather, the value lies entirely in the underlying digital file—whether that be digital artwork, music, or the world’s first Tweet—and the purported scarcity of the item.

Given the increased prevalence of digital assets and metaverse implementation, NFTs may still lead to consumer confusion, the lynchpin of trademark infringement, even if only used to prove ownership and chain of title. Nike claims that its evidence demonstrates that consumers detrimentally believed StockX was affiliated with Nike or that the website was a Nike “scam” to make money. Such consumer confusion and degradation of the goodwill inherent in a brand like Nike or Hermes is precisely what trademark laws are designed to prevent. The potential for consumer confusion will become more pervasive as more brands seek to build their metaverse and Web3 footprints and unrelated NFT creators try to cash in on a brand’s notoriety.

A second fundamental issue is to what extent traditional fair use doctrines protect an NFT’s use of a third party’s trademark. StockX’s nominative fair use defense can be applied to its NFT in the same way it could be applied to an eBay listing. Rothschild, however, advances a different fair use theory—one rooted in the First Amendment and typically applied in connection with expressive works such as movies or videogames. Under this theory, if a trademark is artistically relevant to the work and not expressly misleading, then incorporating that mark into the work is fair and non-infringing. In Rothschild’s case, he claims that the Birkin bag is artistically relevant to the animal cruelty critique he claims to be advancing through his designs. But are the MetaBirkin NFTs themselves commenting on animal cruelty, or is the commentary solely comprised of Rothschild’s *post hoc* justification for his use of the Hermes marks? To analyze Rothschild’s fair use defense, the court will likely have to determine whether the MetaBirkin NFT rises to the level of an expressive work entitling it to strong First Amendment protections, or whether it is merely a digital counterfeit of Hermes’ flagship product.

As the StockX and MetaBirkens cases demonstrate, applying even well-settled trademark concepts to NFTs requires a determination of what the NFT represents; is it a physical good, a digital good, a mere certificate of ownership? These questions are just the tip of the iceberg. As NFT technology develops and their use expands to non-commercial products, the application of traditional trademark principles to this new technology will only become more complex.

For example, the use of NFTs as a Decentralized Autonomous Organization (DAO) governance tokens demonstrate layered uses beyond mere representation of physical and digital products, like in StockX and MetaBirkens. For DAOs, NFTs not only represent an underlying image or a practical function but also convey valuable governance rights. NFTs may allow purchasers to vote on how the organization is run, how assets are allocated, how to vest authority, how the tokens are used, and more. Thus, NFTs are expanding beyond a purely commercial purpose and are being used to promote access to and participation in everything from philanthropy to political action. But unlike StockX or Rothschild, DAOs, as implied in the name, are decentralized and not only autonomous, but possibly anonymous. Not only will trademark owners be forced to answer the question of what the NFT represents, but they will also have to answer the question of who it can sue, and whether a remedy in the form of an injunction is even possible. As NFTs fulfill increasingly diverse purposes, the complexity of issues trademark owners will face to protect their brands is destined to grow in lockstep.

Both the Nike and the Hermes suits demonstrate the conflict between innovative NFT use and trademark doctrines. Ultimately, deciding whether the NFT constitutes an infringement will be a highly fact-specific inquiry. However the courts rule, they will have important ramifications on how the larger NFT and crypto communities develop and market NFTs in the future.

Winston & Strawn is closely monitoring developments related to NFTs and other blockchain technologies. We will provide our clients and friends of the firm with more information on this topic as it becomes available.

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