**The rise of NFTs: a comparative analysis of the intersection of intellectual property law and technological innovation in the US and the UK.**

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Published: 27th of January, 2025

**Abstract**

This paper has a threefold aim: it seeks to showcase the potential shortcomings of existing legislation on the integration of tech in the legal field, specifically in the area of intellectual property law, while stressing the need for a more specific regulation on the topic and analyzing two legal systems, from the same legal family, which have taken different routes in their regulation of intellectual property. The discussion of the Hermès International v Rothschild (2021) court case will support the analysis of the legal framework in the USA, whereas, in the absence of a similar precedent in the UK, we shall simply compare the strengths and weaknesses of the USA and the UK in managing the new threats in the field of fair use (or fair dealing, in the UK) at the intersection of art, the law and technology. The legal tradition of these two common law countries has naturally much overlap, but there are also many differences in their individual approach to the issue at hand.

The first part of the paper provides an overview of what NFTs are, how they are created, sold and regulated under the current legal regime, specifically in the United States of America, venue and forum of this case.

The latter half examines the American lawsuit in order to better outline the two doctrines of reference.

While the NFT market has been soaring in recent times, there is still relatively scarce literature on their legal implications.

The “MetaBirkins” case has the potential to become a landmark decision for future regulation of NFTs in intellectual property in the United States and, perhaps, across many other jurisdictions.

Keywords:NFTs, trademark dilution, fair use, fair dealings, intellectual property law

### **I. Introduction**

With the emergence of new technologies, the law is called to respond to new threats. The field of intellectual property is one of the most vulnerable to the substitution of men with machines. Art, as many other endeavors, was previously thought of as an exclusive domain of humans, with no room to share with non-human “authors”, but that seems to be changing with the rise of artificial intelligence.

On February 8, 2023, the U.S. District Court for the Southern District of New York delivered its pronouncement on the lawsuit that the French fashion powerhouse Hermès filed against digital artist Mason Rothschild.

The facts detailed in the lawsuit date back to late 2021, when Rothschild released a collection of one hundred NFTs, dubbed "MetaBirkins", which he displayed on his website and sold on multiple NFT platforms.

The case addressed the threats posed by NFTs to the foundational pillars of intellectual property as a sub-field of the law, and the jury ultimately sided with Hermès.

The high–profile nature of the dispute sparked heated debate across platforms and audiences. This paper seeks to showcase the ways in which the rise of new technologies - such as NFTs - may challenge the current intellectual property law framework. Specifically, concerning the United States, in the context of U.S. Code §106A and §107, and, for the United Kingdom, the relevant provisions in the Copyright, Designs and Patents Act (CDPA).

### **II. NFTs: an overview**

Before delving into the facts of the case and the discussion of the relevant legal doctrines, it is important to properly introduce NFTs, as well as the reasons why they are such disruptive innovations for the law.

The acronym NFT stands for "non-fungible token", i.e. a digital token that, by virtue of being non-fungible, is unique, unchangeable and cannot be modified, divided or replaced.[[1]](#footnote-0)

NFTs are minted through a process known as "tokenization", which entails the registration and certification of a digital representation of the selected work with the aid of blockchain technology.

The non-fungible nature of NFTs is not where the novelty lies: the regulation of non-fungible goods in law can be traced back to (at least) Roman law and custom; rather, it is our understanding of these non-fungible tokens as digital artistic goods that conceals most of the legal intricacies related to this phenomenon.

Let us briefly outline the difference between fungible and non-fungible goods:

“Fungible things are items that can be easily replaced with another item that is practically the same, such as wood or paper currency. Often, whether or not an item is fungible will impact how damages will be calculated for breaches of contract or the destruction of an item.” [[2]](#footnote-1)

Contrariwise, non-fungible goods cannot be easily replaced or otherwise substituted.

In light of the foregoing, one would be inclined to infer that digital art is, most arguably, fungible in nature, as it is relatively easy to produce and distribute exact copies. The introduction of non-fungible art on blockchain platforms further complicates the discussion.

Since the notion of blockchain is rather new as well, an explanation is in order.

One of the most common renditions portrays blockchain technologies as digital ledgers of data:

*“The name blockchain is hardly accidental. The digital ledger is often described as a ‘chain’ that’s made up of individual ‘blocks’ of data. As fresh data is periodically added to the network, a new ‘block’ is created and attached to the ‘chain.’” [[3]](#footnote-2)*

There is virtually no limit to what can be turned into an NFT: anything ranging from art and videos to music and fashion items can potentially undergo the process of tokenization.

Each token is linked to a unique identification code, which doubles as proof of ownership and is stored on the blockchain.[[4]](#footnote-3)

Transactions involving NFTs take place on digital marketplace platforms, often by auction, and they are frequently settled through cryptocurrencies: the Ethereum cryptocurrency is among the most used, since most NFTs are produced and stored on the Ethereum blockchain[[5]](#footnote-4), with OpenSea and Superrare being other well-known platforms.

Because the sale of NFTs is usually carried out through a smart contract, an equally cutting-edge instrument, another predicament arises.

Smart contracts differ from traditional contracts in several aspects: they are written in code on the blockchain and are programmed to deliver certain outcomes as soon as certain foreordained conditions are satisfied.

In layman’s terms, smart contracts operate on a ‘if condition A happens, then outcome B is triggered’ logic: they are self-executing and self-enforcing, meaning that the parties to a smart contract no longer enjoy the agency to choose whether to comply with the terms of the agreement.[[6]](#footnote-5)

Despite the several advantages of smart contracts, there are definitely some drawbacks, too: it is not easy to customize the text of the agreement, which can be challenging when the circumstances require the terms be specifically tailored to particular situations.

Additionally, the contract cannot be altered in any way after it is added to the blockchain.

It must be noted, however, that such immutability is not necessarily an unpropitious trait: smart contracts retain the upper hand in ensuring that the agreement stays true to its original content.

For the sake of clarity, some artists have taken to providing a separate file for terms and conditions in a more accessible format in order to allow prospective buyers to better grasp the details of the agreement.

Furthermore, it is significantly more burdensome to establish whether or not the parties expressed their consent to be bound by the terms of a smart contract or whether the latter effectively abides by the law in all its elements.[[7]](#footnote-6)

Some scholars have misgivings about whether smart contracts can even be labeled contracts at all.[[8]](#footnote-7)

Notwithstanding the questionable aspects that smart contracts feature, some jurisdictions around the world have readily accepted them into their national legislation.

Both Italy and England have clarified their position on the matter: under Italian law, smart contracts are indeed recognized as such, and are enshrined into statute law (in law n12/2019) as ‘computer programs [...] whose execution automatically binds two or more parties’.[[9]](#footnote-8)

In England, the government seems to be warming up to the use of smart contracts, as evidenced by the 2021 briefing titled ‘Smart Legal Contracts: Advice to Government’[[10]](#footnote-9), in addition to the remarks of Justice of the Supreme Court Lord Hodge, who stated that:

*“So long as the operation of the computer program can be explained to judges [...] it should be relatively straightforward to conclude that people who agree to use a program with smart contracts in their transactions have objectively agreed to the consequences of the operation of the “if-then” logic of the program.”* [[11]](#footnote-10)

### **III. Legal challenges posed by NFTs**

One might therefore wonder what, exactly, the ownership of an NFT entails for the buyer, in terms of both rights and constraints.

Owning the NFT of, say, Van Gogh’s Almond Blossom does not equate to also owning the physical painting.

The buyer simply owns the metadata associated with the NFT of that painting, which has been minted to portray the original artwork on the blockchain.

Usually there is no transfer of any IP rights that may be associated with the original work, but it is possible to arrange for some of those protections to be included in the transaction, if the author so wishes.

Since buyers generally do not acquire copyright over the work, they are normally not allowed to feature the NFT on any third-product that could generate revenue: the owner of an NFT may only exhibit the tokens in their e-wallet, to the exclusion of any other use, whether commercial or not.[[12]](#footnote-11)

The legitimate holder of IP rights over an original work (i.e. the author(s) or their foundation, licensed museums, etc.) bears the exclusive right to mint the related NFT; alternatively, the right to mint an NFT may be granted to a third party (an ‘assignee’) through a license or similar instrument, provided that the legitimate owner of the original work has expressed their unambiguous consent, since the assignee does neither hold nor subsequently obtain, in their capacity of assignee, IP rights over the original work they were called to tokenize.

In the absence of a formal authorization, minting the NFT of someone else’s work amounts to copyright infringement.[[13]](#footnote-12)

At the time of writing, NFTs are still largely unregulated and the law is struggling to keep up with the pace at which these technologies are emerging and proliferating.

Historically, it has always taken some time for the law to catch up with great innovations; in the meantime, the gaps are filled by the legal provisions that are already in place: in the context at hand, the intersection of NFTs, law and the arts is governed by the hallmarks of intellectual property law in the United States, namely the Copyright Act 1976, the Visual Artists Right Act 1990 (hereinafter referred to as VARA), and the Lanham Act 1946, along with the relevant case law.

The UK counterpart of the 1976 Copyright Act is the 1988 Copyright, Designs and Patents Act (CDPA), which repealed the 1956 Copyright Act, to include new categories of works-such as computer programs, databases and works of architecture-that, under previous legislation, were not eligible for copyright protection. It must also be recalled that the first legislative measure aimed at protecting copyright, in the global history of intellectual property law, was the Statute of Anne, signed into law in 1710 in England. Thus, the legal attention devoted to intellectual property-though initially consisting of mainly scientific and technical works rather than purely artistic, creative expressions-has far-reaching roots in the United Kingdom.

We may already note an important difference between these two jurisdictions: economic rights and moral rights are both regulated by CDPA in the UK, whereas in the United States the former are governed by the Copyright Act and the latter are mainly by the Visual Rights Act and supplemented by relevant State laws and case law for works that do not qualify as “visual art.”[[14]](#footnote-13)

A second observation is that VARA is significantly more recent than the US Copyright Act, which has a similarly lengthy history to its British Counterpart. The 1790 Copyright Act enshrined copyright protections into the Constitution in 1790[[15]](#footnote-14), and it was later amended in 1831, 1909 and 1976, due to the evolving of standards and the emergence of important judicial precedents and international treaties. Thus, the fact that, for close to two centuries, the US lacked federal protections for moral rights seems to substantiate the claim, espoused by many scholars, that the protection of intellectual property in the United States is mainly economic-centric.[[16]](#footnote-15)

Indeed, Economic rights over a work are governed by the Copyright Act[[17]](#footnote-16), which, in resuming the discussion of the instant case, stands operational as the legal reference also in copyright litigation cases involving NFTs, as was for Hermès vs Rothschild.

Until further notice, the chances of NFTs being eligible for copyright protection are slim, at best, since they are neither original nor derivative works.[[18]](#footnote-17) However, the works portrayed may-and usually do-enjoy certain protections under intellectual property law, which are awarded to the author(s) of the original work or other relevant entities (e.g. foundations, as mentioned above).

This is relevant not only in the specific instant case, but also for the future of NFTs as legally regulated elements, as well as objects of litigation.

On the other hand, the Visual Artists Rights Act seeks to acknowledge and protect a certain array of rights that the Copyright Act alone fell short of safeguarding: moral rights.[[19]](#footnote-18)

Moral rights are conferred to the author of a work of art and they are retained even in the event of a transfer of ownership.

The immediate consequence is that even the legitimate owner of an artwork cannot do whatever they please with it because they are still bound by certain obligations owed to the author.

This particular feature of art law introduces a limitation to a legal concept which is, more often than not, understood to be a universal right.

Moral rights are intended to preserve, through time and space, the honor, integrity and artistic endeavor of the artist.

Under VARA §106A, ‘Right of Attribution and Integrity’[[20]](#footnote-19), artists may claim paternity of their works and prohibit them from being distorted, mutilated or otherwise modified in a way that would undermine their integrity or reputation. Should these events occur, they may choose to waive their right to be identified as the owner of the damaged work.

Authors are also allowed to prevent use of their name for works they did not actually create.

In view of the arguments presented above, one may posit that MetaBirkins arguably constitute a violation of Hermès’ moral rights, as they distorted the original essence of the trademarked products.

Over the course of the next paragraphs we shall discuss the condition of moral rights in the UK, in order to highlight the significant differences between the US and the UK in their treatment of this aspect of intellectual property law.

Despite its extensive history, copyright law in the UK only came to recognize and fully protect moral rights with the enactment of the CDPA in 1988:

“The four rights included in the CDPA under the heading of "moral rights" are the right of attribution, the right of integrity, the right against false attribution of authorship, and the right of privacy relating to certain photo graphs and motion pictures.”[[21]](#footnote-20)

On the other hand, the VARA mainly covers the right of attribution and the right of integrity.[[22]](#footnote-21)

In terms of scope, there is a considerable dissimilarity between the two jurisdictions:

“The crucial difference between the VARA and Continental European moral rights legislation is the exceedingly narrow scope of the moral rights regime established by the VARA. In fact, most copyrightable works are excluded from protection because the rights of attribution and integrity apply only to works of visual art, which are essentially defined as paintings, drawings, prints, photographs produced for exhibition purposes, or sculptures.”[[23]](#footnote-22)

The moral rights provisions in the CDPA, though more comprehensive in scope, also faces several constraints that, while not to the same extent as the VARA, *de facto* reduces their scope of application and diminish their effectiveness, by precluding the conferral of moral rights for some categories of works.[[24]](#footnote-23)

These exceptions, in both jurisdictions, seem to corroborate the view that protection of economic rights remains the primary objective for lawmakers.[[25]](#footnote-24)

### **IV. Analysis of available case law**

As mentioned at the outset, there is a dearth of cases concerning similar issues in the UK; nevertheless, a recent pronouncement of the High Court in *Osbourne v Persons Unknown & Ors* (2023) may guide the debate surrounding the legal status of NFTs.

In this case, the High Court was called to determine whether the theft of NFTs is actionable and, thus, whether NFTs are property capable of being stolen in the first place.

On January 17, 2022, Lavinia Osbourne, the claimant, noticed that two NFTs that she owned had been removed from her MetaMask wallet.[[26]](#footnote-25) Osbourne later found out that her NFTs had been illicitly transferred to two users' wallets, which she had neither authorized nor been informed of. The then-Queen’s Court prevented the defendants from “dealing with or disposing of the two NFTs”[[27]](#footnote-26) through an interim injunction, which was extended twice more while the case was pending.

The questions that the Courts faced all relate to and stem from the ambiguous, uncharted status of NFTs-and similar technologies-from a legal standpoint; the most relevant to the discussion at hand, perhaps, regards whether NFTs are to be considered as property or not.

The High Court has answered in the affirmative to this query, thereby setting a precedent that will arguably open up new gateways to the future of law in the age of technology, although scholars disagree on the real significance of this judgment.

“NFTs are already property in the U.S., digital asset attorney Max Dilendorf told Artnet News. “The IRS treats all digital assets, including NFTs as property for tax purposes,” he said. “I believe that the U.K. is just following the same path, which makes complete sense.”[[28]](#footnote-27)

The interpretation given by Professor Juliet Moringiello is, perhaps, the one that best interprets the relevance of the judgment:

“The significance of this opinion is that the court held that the token is the kind of asset that can be frozen.”[[29]](#footnote-28)

We may detect caution also in the verbiage used in headlines chronicling the case: formulas such as “potentially influencing ruling”[[30]](#footnote-29) seem to suggest that the implications of this judgment are either lost on lay communities or genuinely negligible. It would be improper to mindlessly dismiss this case altogether, as some of its more practical consequences are undeniable:

“Hacks and theft are increasingly a common problem for NFT holders. Now that the courts have recognised that NFTs are property, holders can rest assured that they will be supported and have recourse in this jurisdiction should their wallet be compromised and their NFTs stolen. Others in jurisdictions, such as the US, do not have this security. ”[[31]](#footnote-30)

We shall now turn to the US.

The Birkin bag is one of the most recognizable and sought-after staples of high-fashion, and its timeless design has earned Hermès a seat at the table of evergreen fashion items, akin to Chanel’s handbags or Christian Louboutin’s red-soled heels.

Such notoriety is bound to attract wandering eyes looking to “borrow” the quintessential traits of these bestsellers.

Of course, the Birkin line is protected by IP law in order to prevent this type of illicit mimicking from damaging the legitimate owners of the registered works; to be specific, the Birkin bag enjoys trademark protection both over its dress [[32]](#footnote-31) and over the word “Birkin” [[33]](#footnote-32).

A trade dress protects a product’s ‘configuration, the design and shape of the product itself’ or its packaging. Famous dresses protected under trademark law include Tiffany’s blue box[[34]](#footnote-33) or the shade of red used in Coca Cola’s packaging[[35]](#footnote-34), as they are integral parts of the respective brand identities.

It is important to note that both of these elements have been granted trademarks because they serve a specific purpose which is strictly connected to the identity of the respective brands.

This also happens to be the reason why the trademark request, submitted by the estate of the late singer Prince, for the shade of purple associated with the pop star's persona was denied: with not enough evidence to substantiate their claims, the request was deemed to be an attempt at claiming general ownership of a color, which is not permitted under intellectual property law.

The issue at hand arose at the end of 2021, when artist Mason Rothschild released a collection of what appeared to be fur-covered, digital renderings of Hermès’ Birkins, which he dubbed ‘MetaBirkins’, to be sold as NFTs.

Rothschild advertised his pieces on his website, which has since been taken down[[36]](#footnote-35).

Hermès served Rothschild with a cease and desist letter to compel him to terminate the project, which he refused to do, and the matter was soon submitted to the attention of a court of law in the Southern district of New York.

In its complaint, dated 14th January 2022, Hermès alleged that Rothschild’s MetaBirkins amount to:

“(i) trademark infringement, (ii) false designation of origin, (iii) trademark dilution, (iv) cybersquatting, (v) injury to business reputation and dilution; (vi) common law trademark infringement, and (vii) misappropriation and unfair competition.” [[37]](#footnote-36)

The main grievance entertained by Hermès was that the narrative weaved by Rothschild to promote the project was intentionally casuistical.

In the amended complaint filed by Hermès, on March 2nd 2022, such claim was further substantiated, and Hermès produced multiple documented instances in which the lines between Rothschild’s works and original Hermès products were blurry at best. The most flagrant one was perhaps the post[[38]](#footnote-37) on Rothschild’s Instagram page in which he offered a ‘preview of his upcoming NFT collection’ and thereby stated that whoever came up with the best name suggestion would ‘get a gifted Birkin’.

He referred to one of his NFTs, not an actual Birkin bag, but such a vague wording leaves room for different interpretations, which some argue was a wholly calculated choice.

### **V. Trademark dilution**

These instances could be regarded as supporting evidence for Hermès’ claim of injury to business reputation and, especially, trademark dilution.

Claims stemming from trademark law are governed by the Lanham Act, which, to be applicable, requires that the mark is in commerce and distinctive.[[39]](#footnote-38)

An individual is guilty of trademark dilution when they use a registered mark, of which they are not the rightful owners, in such a way that is prone to lessening its ‘uniqueness’, thereby possibly creating confusion as to the origin of the advertised goods.

The protection against trademark dilution is especially aimed at protecting the identity of brands that have come to be considered ‘household names’ and which unauthorized users are likely to try to profit off of precisely because of their well-established reputation and market value.

In this framework, brands that are especially renowned among the general public and boast distinctive, recognizable elements (or products) are eligible to be labeled household names.

Hermès is adamant that the MetaBirkins project impaired their ability to launch their own line of digital assets, which, their counsel claimed, was already in the works when Rothschild unveiled his NFT collection.

They also alleged that MetaBirkins compromised the value of future NFTs minted by Hermès, seeing as the element that gives value to these tokens, other than the work they represent, is the fact that they are unique.

However, this last claim may only be of marginal legal relevance, seeing as copyright law cannot protect ideas, let alone ideas that have not even been made public or otherwise expressed.

This has been the default position for copyright law ever since the Berne Convention 1886, which maintains that ‘works shall not be protected unless they have been fixed in some material form.’ [[40]](#footnote-39)

### **VI. Mason Rothschild’s line of defense**

Throughout the trial, Rothschild’s legal team shifted their line of defense more than once: first, the artist claimed the project was a tribute to Hermès. Then, it was a:

“[S]ocial experiment to see if [he] could create that same kind of illusion that it has in real life as a digital commodity.”[[41]](#footnote-40)

Ultimately, the defense alleged that Rothschild’s work was covered by the First Amendment to the US Constitution, and their entire motion to dismiss hinged on the claim that Rothschild’s MetaBirkins project was ‘artistic commentary’, protected under the Freedom of Speech clause.

This change of strategy ought to be analyzed in detail.

Designating MetaBirkins as a tribute collection was conceivably a strategic choice, to nudge the narrative towards fair use. We may introduce at this stage the comparison between the doctrines of fair use and fair dealing.

As was the case for moral rights, the fair dealing regime in the UK is much stricter than the fair use defense in the US:

“The UK’s „fair dealing‟ is conventionally regarded as giving much more narrowly defined defences, rather than giving a general defence in an action for infringement.”[[42]](#footnote-41)

The following list[[43]](#footnote-42) is exhaustive, and it lists the main exceptions within the realm of fair dealing:

(i) Non-commercial research and private study;

(ii) Criticism and review;
(iii) News reporting of current events.

There may also be other exceptions[[44]](#footnote-43) to copyright, such as:

(i) Teaching;

(ii) Helping disabled people;

(iii) Time-shifting;

(iv) Parody, caricature and pastiche;

(v) Sufficient acknowledgement;

(vi) Fair dealing.

These requirements present much overlap with the American counterpart. Under Section 107 of the 1976 Copyright Act, a four-step test is performed to establish whether an instance amounts to fair use, thereby considering:

“(1) ‘the purpose and character of the use, including whether the use is for commercial or nonprofit educational purposes’; (2) ‘nature of the copyrighted work’; (3) the extent to which the copyrighted work is used; (4) ‘Effect of the use upon the potential market for (or value) of the copyrighted work’.”[[45]](#footnote-44)

With this framework in mind, one might argue that, in the case at hand, (1) Rothschild’s project was conceived for neither non-profit nor educational purposes. Courts are usually less lenient when the use of the copyrighted work generates a revenue; (3) Rothschild’s MetaBirkins are almost exact copies of Hermès’ Birkin bag, except they are covered in patterned fur. Such an addition hardly makes for a meaningful enough alteration; (4) Rothschild's collection may adversely affect the value of future Hermès NFTs.

The queries posed to the court were answered as follows.

On the classification of NFTs as art, presiding Judge Rakoff held that ‘digital artworks created to be tokenized and sold as NFTs are, or at least can be, “expressive works” conveying speech worthy of First Amendment protection.’[[46]](#footnote-45) Thus, not only are NFTs property in the US, they also qualify-in this case-as proper artistic works.

The jury found the defendant liable for both trademark dilution and cybersquatting, and that neither the First Amendment protections nor the fair use defense precluded liability.

### **VII. Conclusion**

Although both the United Kingdom and the United States have made notable progress in the field of IP law in terms of reception of innovation, this paper highlighted how, across two different jurisdictions, the legal landscape is still fragmented.

The existing literature falls short of providing a comprehensive overview of the implications of unregulated new technologies and the available case law is meager. The field of intellectual property, however, is among the first to have endeavored to adapt itself to the new and ever evolving circumstances.

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