

Trademarks in the metaverse — artistic expression or commercial product?

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In today's digitally connected world, the new wild West is the "metaverse." As with the real world, the metaverse contains key civilizational aspects such as social interaction, currency and trade, resulting in tangible, real-world benefits. The metaverse had a global market value in 2021 of \$22.79B with growth expected to continue at a compound annual rate of about 40% per year by 2030, according to the website GlobalData (<https://bit.ly/3I2CTI8>).

Brands entering the metaverse

Online vendors are using famous brand names and objects in the metaverse as virtual goods or NFTs, sometimes without authorization. Often, parties buy and sell these digital goods online, creating a virtual market for a depiction of a real-world good. With this new market comes new questions of how to apply real-world intellectual property rights to products in the metaverse.

In one case brought before the Southern District of New York in 2022, *Hermès International v. Rothschild*, digital artist Mason Rothschild created and sold NFTs online depicting Hermès' famous handbag, the Birkin. Rothschild called his collection of virtual handbags "MetaBirkins" and in response Hermès, as trademark owner, sued Rothschild for trademark infringement and dilution. While courts generally apply the Lanham Act's "likelihood of confusion" test to such claims, Rothschild invoked protection under a different test, called the *Rogers* test.

Created by the 2nd U.S. Circuit Court of Appeals (*Rogers v. Grimaldi*, 875 F.2d 994 (2nd Cir. 1989)), the *Rogers* test arose in a case brought by the famous dancer Ginger Rogers against the producer of a film entitled "Ginger and Fred" in which she asserted Lanham Act violations to her common-law rights of publicity and privacy. The *Rogers* court denied her claims holding that the use of marks containing artistic content – *i.e.*, a film title -- are not subject to the Lanham Act because the artistic expression is non-commercial and the mark is "inextricably intertwined" with the product itself. According to *Rogers*, the Lanham Act only applies if the work has "no artistic relevance to the underlying work whatsoever," or "explicitly misleads as to its source."

In *Hermès*, Rothschild alleged "MetaBirkins" were a creative, artistic representation eligible for heightened First Amendment protection under the *Rogers* test, making the "likelihood of confusion test" inapplicable. The *Hermès* case recently survived a motion to dismiss

because, while the *Rogers* test applied, Rothschild's statements were sufficient to demonstrate that his use may be explicitly misleading as to the source of the work and therefore a violation of the trademark laws.

For example, the complaint alleged Rothschild stated his MetaBirkins were intended as "a tribute to Herm[è]s' most famous handbag, the Birkin," and that he "wanted to see as an experiment if [he] could create the same kind of illusion that [the Birkin bag] has in real life as a digital commodity."

Most recently, the Central District of California in *Yuga Labs, Inc. v. Ripps, et al.*, 2022 WL 18024480 (C.D. Cal. Dec. 16, 2022), held the *Rogers* test may not apply to NFT infringers where their primary purpose is commercial. Here, the defendant, Ryder Ripps, created NFTs using the trademarks of Yuga Labs' Bored Ape Yacht Club's ("BAYC") NFT Collection.

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The court denied Ripps' motion to dismiss, finding the *Rogers* test did not apply because Ripps' NFTs failed to "express an idea or point of view." Rather, Ripps' NFTs pointed to BAYC's marks, using them in furtherance of Ripps' own "commercial activities...to sell infringing products."

The court also held, "even if *Rogers* were applicable, Ripps' use of BAYC's marks was explicitly misleading because the marks were used in the same marketplaces to identify and sell NFTs bearing the exact same images underlying the [protected] BAYC NFTs without adding any expressive content." These decisions may set the tone in identifying the boundaries of use for trademarks for NFTs.

While the *Rogers* decision was initially limited to movie titles, courts have variously expanded its application to books, songs, video games, and even commercial items such as dog toys, with particular expansion occurring in the 9th U.S. Circuit Court of Appeals. The extent of its scope is now at issue at the U.S. Supreme Court. While

virtual goods present issues different from physical goods, how courts determine the metes and bounds of the *Rogers* test will be determinative of how NFTs are analyzed.

Jack Daniel's at the U.S. Supreme Court

The U.S. Supreme Court in *Jack Daniel's Properties, Inc. v. VIP Products LLC* will review applicability of the *Rogers* test to trademark law and consider when to confer heightened First Amendment protection to potential infringements.

In *Jack Daniel's*, VIP sold a chew toy for dogs in the shape of Jack Daniel's famous liquor bottle. Its label featured a wide-eyed spaniel over the words "Bad Spaniels, the Old No. 2, on your Tennessee Carpet." At the bottom of the Bad Spaniels toy, it read: "43% POO BY VOL." and "100% SMELLY," with the toy explicitly stating, "not affiliated with Jack Daniel Distillery" (see a side-by-side comparison, below, presented in the 2022 petition for cert.):



Jack Daniel's Old No. 7 Bottle and VIP Products' Bad Spaniels Dog Toy

Jack Daniel's demanded VIP stop selling the Bad Spaniels chew toy. VIP responded by filing an action in Arizona district court seeking declaratory judgment that the Bad Spaniels name does not infringe or dilute any trademark rights under the *Rogers* test.

The case has been up and down in appeals, but most recently the 9th Circuit held (1) the *Rogers* test applies (*i.e.*, the product includes expressive speech in the form of humorous parody), and (2) no trademark dilution occurred because the protected speech falls under an exception to trademark dilution as non-commercial

speech, holding "it does more than propose a commercial transaction[.]"

Some of the *amicus curiae* briefs in the Supreme Court proceeding argue the Bad Spaniels chew toy should not qualify as a "parody." At its core, a parody must use another's work to comment on the substance of the original composition. But if the accused work has no critical bearing on the substance or style of the original composition, a defendant's claim to fairness in borrowing from another's work diminishes, or vanishes completely. In short, without parody, the commercial nature of the use looms larger.

While virtual goods present issues different from physical goods, how courts determine the metes and bounds of the Rogers test will be determinative of how NFTs are analyzed.

In the context of VIP's chew toy, some *amici* argue that although the toy might contain a "humorous" message about a dog being "100% SMELLY" or putting "the Old No. 2, on your Tennessee Carpet," it does not convey any commentary about the *original Jack Daniel's* product. Without the required commentary, the Supreme Court may find Bad Spaniels lacks parody. In the metaverse, similar issues will arise with respect to whether new works are artistic or parody, with the breadth of the *Rogers* test being critical to resolving these issues.

However, even if the work is not parody, the question of whether the chew toy conveys a non-commercial, expressive message remains. While *Rogers* itself warned that its test does not cover "ordinary commercial products," the 9th Circuit's decision in *Jack Daniel's* appears to have made light of this warning, expanding the scope of the *Rogers* doctrine from covering artistic works (*e.g.*, movies, books) to covering a chew toy, arguably an ordinary commercial product.

In many cases, products in the metaverse present the same problem: Does the product make a statement about the original mark or is it being used to exploit the mark holder's goodwill for its own ordinary commercial product?

A similar fact pattern to *Jack Daniel's* occurred in the 2nd Circuit with the exact opposite result. In *Harley Davidson, Inc. v. Grottanelli*, 164 F.3d 806 (2d Cir. 1999), the defendant owned a motorcycle repair shop called "The Hog Farm," which performed maintenance on Harley-Davidson motorcycles. The repair shop used the Harley-Davidson logo, except that the logo (1) included a drawing of a pig wearing sunglasses, and (2) replaced the words "Harley-Davidson" with "American Made" and a disclaimer that the defendant was an "unauthorized dealer."

As with the Bad Spaniels chew toy — which looked like the Jack Daniel's bottle but contained other content — the defendant in *Harley-Davidson* also tried using parts of a trademark owner's mark

to convey its own humorous message. But there, the 2nd Circuit rejected the argument that the allegedly humorous mark was eligible for heightened protection, ruling instead the mark was not a parody because it made no comment on Harley-Davidson's product but rather used it to promote the defendant's own services.

In the *Jack Daniel's* case, whether Bad Spaniels qualifies as a parody under *Rogers* and whether the non-commercial exception to trademark law applies will be key issues. These same questions will similarly be key to determining whether marks used in the metaverse are infringing or dilute the goodwill of the mark holder.

Impact on TM protection in the metaverse

The *Jack Daniel's* decision could have broad implications on trademark uses, including in the virtual world. If the Court affirms a broad view of the *Rogers* test, famous brands may find themselves with limited recourse to defend their marks against confusing but "expressive" uses in both the physical and virtual world.

Conversely, if the *Rogers* test is narrowly construed, trademark owners' rights will be strengthened. For example, if the Supreme Court adopts the International Trademark Association's position (in its *amicus* brief), the Court may define an "expressive work" as "those products whose core function is artistic expression." This definition is akin to the definition originally evoked in *Rogers*, *i.e.*, where the "artistic and commercial elements of titles are inextricably intertwined."

The recent district court decisions in *Hermès* and *Yuga Labs* provide further clues on how the *Rogers* test may be interpreted, focusing on the nature of the underlying commercial activity and looking toward the intent of the infringer, *e.g.*, were its actions explicitly misleading. These district court decisions emphasize the role of the infringer's intent in determining liability.

Jack Daniel's is the case to watch, as it will impact how courts interpret the trademark laws regarding their use on digital goods and services in the metaverse.

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