Kluwer Copyright Blog

First duel between NFTs and copyright before the Spanish courts: NFTs 1 – Authors 0

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The rise in popularity of non-fungible tokens (NFTs) has attracted a great deal of attention from copyright practitioners and *aficionados*. And why is that? Basically, because an NFT is an encoded digital metadata file of a copy of a work that can be copyright protected. That is, in an NFT there can be an underlying copy of a work of art –typically an image, photograph, piece of music, video or certain audiovisual content– that may be subject to copyright. But let us not be naïve… the fact that astronomical amounts of money have been paid for the acquisition of some NFTs (for instance, the musician and artist Claire Boucher –aka Grimes– sold a collection of ten digital artworks for almost USD 6 million) has contributed to NFTs gaining fame and being perceived as the catalysts of a new digital market for those pieces that have been traditionally sold in art galleries.

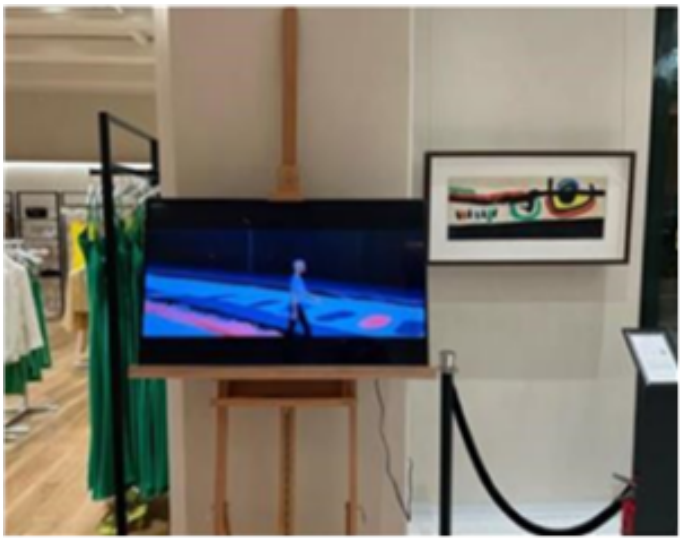
In Spain, NFTs and copyright have recently faced off before the commercial courts of Barcelona. In fact, on 11 January 2024, Barcelona Commercial Court number 9 handed down what is indeed the first judgment in Spain in a case where NFTs and copyright are at a crossroads. This first duel has ended in a victory for the NFTs, at least for now.

Background

The Spanish multinational fashion group operating under the "Mango" brand lawfully acquired, between 1998 and 2008, five paintings by the Spanish authors Joan Miró ("*Oiseau volant vers le soleil*" and "*Tète et Oiseau*"), Antoni Tàpies ("*Ulls i Creu*" and "*Esgrafiats*") and Miquel Barceló ("*Dilatation*") (together, the "Authors" and the "Paintings").

"Oiseau volant vers le soleil" by Joan Miró

On the occasion of the opening of its new Fifth Avenue store in New York, Mango, without obtaining the Authors' prior consent, commissioned certain crypto-artists to create NFTs consisting of audiovisual content that incorporated the Paintings. Technically, from a copyright perspective, the NFTs were derivative works of the Paintings (underlying works), since the former included major copyrightable elements of the (previously created) latter. During its store opening, Mango simultaneously displayed the Paintings and the NFTs physically together in the store, digitally on social networks and on the OpenSea platform, and virtually in the Decentraland metaverse. Such NFTs were never put on a blockchain nor offered to the public (they were what are known as "lazy minted NFTs").



"Oiseau volant vers le soleil" by Joan Miró displayed in Mango stores, together with the NFT "The rainbow wears Mango" based on such painting.

Against this background, the Spanish collecting society for plastic artists, VEGAP, filed copyright infringement actions against Mango, arguing that the creation of the NFTs without the Authors' consent violated the Authors' moral rights (right to integrity and right of public disclosure) and exploitation rights (rights of reproduction and communication to the public) over the Paintings.

Mango, in turn, sustained in its defence that (i) as the rightful owner of the physical Paintings, it was entitled to display them in public, and that (ii) the creation of digital works (i.e. the NFTs) as a result of the transformation of the original Paintings and their subsequent communication to the public would constitute an "innocuous use" of the Authors' copyright (i.e. an exploitation that caused them no harm). In this regard, it must be mentioned that article 56(2) of the Spanish Copyright Act (Royal-Decree 1/1996 of 12 April, the "SCA") states that the owner of the physical medium of an original artwork –as was Mango's case with respect to the Paintings– is entitled to publicly exhibit the work, unless the author has expressly reserved that right when selling the original. Mango built its defence around such provision and argued that displaying the NFTs in public fell within the confines of article 56(2) SCA and that, in any case, the transformation of the Paintings to create the relevant NFTs and display them should be excepted as a "fair use".

In short, the question to be answered by Barcelona Commercial Court was the following: can the lawful owner of the physical medium of an artwork –the Paintings, in this case– create an NFT from said work and upload it to public digital platforms without the consent of the holder of the copyright over such artwork? The answer to this question, in the opinion of Barcelona Commercial Court number 9, is (drumroll…) yes, at least in the circumstances of this case or subject to certain conditions.

Findings of the Court

The long-awaited judgment of 11 January 2024 of Barcelona Commercial Court number 9 dismisses the Authors' complaint in its entirety. Let us briefly review the reasons behind this decision.

Article 4 SCA states that the "disclosure" of a work consists of any expression thereof that, with the author's consent, first makes it accessible to the public in whatever form. With respect to the moral right of public "disclosure", the Court concludes that such right has not been infringed by Mango, since the Paintings were publicly disclosed decades ago with the Authors' consent. Therefore, the moral right of "disclosure" had already been exhausted. The Court goes on to furthermore affirm that the right of integrity has not been violated either, because the NFTs are not a deformation or alteration of the Paintings, but rather a transformation thereof, whereby the digital authors who created such NFTs have retained the Paintings' originality.

Moving on to the analysis of whether the NFTs amount to an infringement of the Authors' exploitation rights, the Court also considers that such rights have not been breached.

To start with, the Court understands that the right of reproduction and the right of transformation are mutually exclusive. Given that, as the Court sees it, the NFTs are not a mere replica of the Paintings but instead a transformation of them, it is clear to the Court that Mango did not infringe the right of reproduction. Regarding the right of making the Paintings available to the public in digital environments (a form of communication to the public under section 20 SCA), the Commercial Court judgment makes an extensive interpretation of the scope of article 56(2) SCA, which is one of the judgment's controversial points. Here, the Court considers that since none of the Authors reserved such right when the Paintings were sold, Mango's right to publicly exhibit the Paintings under article 56(2) of the Spanish Copyright Act entitles it to perform such public exhibition in the real but also in the digital/virtual world (i.e. social networks, OpenSea and Decentraland digital platforms).

The second debatable point of the judgment relates to the right of transformation. Having assumed as an undisputed fact that the NFTs are a derivative work, that is, a transformation of the Paintings, to determine whether Mango has infringed the Authors' right of transformation, the Court decides to apply –admitting that its use must be exceptional– a "fair use" test relying on the Spanish Supreme Court's judgment of 3 April 2012 (the Google case). The application of such test leads the Commercial Court to conclude that Mango's acts constitute an "innocuous use" or, in other words, a "fair use", because:

1. The NFTs were created by Mango for the sole purpose of being exhibited and with no commercial interest nor intention as publicity, and constituted a new use that did not replace the original use of the Paintings;
2. The NFTs did not earn Mango any profit or benefits, as it never intended to activate such NFTs in a blockchain (remaining at all times lazy minted);
3. Mango acknowledged at all times the authorship of the Paintings and the NFTs did not adversely harm the Authors' reputation;
4. Mango did not replicate the Paintings but instead added new elements that transformed such works and, thus, gave the NFTs a differentiated originality;
5. The NFTs benefitted the Authors, by further divulging their Paintings and giving them important recognition at the store opening event, where the Paintings were exhibited together with the

NFTs; and

6. Lastly, the NFTs neither interfere with, nor impact the present or future market for the Paintings, insofar as the NFTs were lazy minted and could not be transferred or purchased.

Conclusion

The importance of the 11 January 2024 judgment of Barcelona Commercial Court number 9 lies in the fact that it is the first Spanish decision that pronounces on whether the owner of certain works of art is legally allowed to create NFTs from them, without the consent of the copyright holders. However, it does not seem that the doctrine of this judgment can be generalized to other cases; instead, it calls for an assessment to be made on a case-by-case basis. Furthermore, it is debatable whether the creation of NFTs can be considered "fair use", since (i) this generates a "new" public and a new "digital" market for artworks that, to date, only existed in the real world and (ii) it deprives *de facto* copyright holders of a potential source of income. VEGAP has announced that it has appealed this judgment. Thus, the duel between NFTs and copyright holders was just the first skirmish in a battle that has ended, for the time being, in the NFTs' favour. We will have to keep an eye out for the second round. Who will be the next victor, the NFTs or the authors? Place your bets!

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