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Blockchain Law
Beyond our borders: Recent blockchain developments outside the United States

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Legal developments concerning blockchain and digital assets are not limited to the English-speaking world or to common-law jurisdictions. Earlier this year brought some thought-provoking developments on digital assets and related technologies from Spanish-speaking civil law jurisdictions. These include a ruling from a Barcelona court on the intersection of intellectual property rights with NFT and metaverse applications, and a new law in Mexico recognizing the use of online, smart-contract-based alternative dispute resolution systems.

Infringing physical original works through digital and virtual versions?

In January, the Ninth Commercial Court (Juzgado de lo Mercantil No. 9) in Barcelona, Spain, issued a novel ruling in the case of *Visual Entidad de Gestión de Artistas Plásticos v. Punto Fa*, Resolución No. 11/2024 (Spain, Barcelona Comm. Ct. No. 9, Jan. 11, 2024), where use of copyrighted artworks in NFTs and in a metaverse were challenged as unlawful infringements but were upheld as amounting to a permissible "fair use."

The case arose from an artistic exhibit that the Spanish fashion brand Mango had commissioned in May 2022 to mark the inauguration of Mango's newest store on Fifth Avenue in New York City. The exhibit was presented in three realms, the physical, the digital, and the virtual, the latter two of which gave rise to the dispute.

The physical exhibit took place at Mango's new store. It included a number of works of art that were owned by a Mango subsidiary called Punta Na which were temporarily transferred to another Mango subsidiary called Punto Fa. For the exhibition in the digital realm, digital artists were commissioned to create new digital works based on the physical artworks, which were then displayed in the form of NFTs on the OpenSea platform, an online NFT marketplace. For the virtual realm, these digital works were also presented for virtual viewing in the Decentraland metaverse. The works were removed from all public exhibition once the store launch event concluded.

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The dispute arose because no authorization was ever requested from the creators of the original physical works or their heirs for adapting their works to digital form. Nor was any permission for doing so ever requested from the plaintiff in the case (commonly referred to as VEGAP), a Spanish intellectual property rights organization (akin to performing rights organizations like ASCAP and BMI) that represents thousands of Spanish artists.

VEGAP thus brought a copyright infringement lawsuit against Punto Fa in the Commercial Court in Barcelona, under Spanish law. It alleged that by creating and then displaying the NFTs on the OpenSea platform and in the Decentraland metaverse, Punto Fa had infringed on the rights of the artists who had created the original physical works, on whose behalf VEGAP thus sued.

The protected rights

In broad terms, Spanish copyright law recognizes two categories of rights. One is the right of "exploitation," which includes rights to reproduce the work, transform or create derivative versions of the work, and to communicate (display and distribute) the work. The other category, termed "moral rights," includes the right to protect the integrity of the creation and its disclosure to the world.

VEGAP claimed in this case that both categories of rights, which were held by the artists who had created the original physical works, were infringed by Punto Fa when it used the original physical works to create the NFT and metaverse versions of those artworks. Under Spanish law, as explained by the court, copyright management entities such as VEGAP have standing to seek damages (though not injunctive relief) for copyright infringements on behalf of the rights-holders they represent.

Punto Fa contended that there was no copyright infringement in these circumstances. It argued that since the Mango group owned the original physical works and the exhibits acknowledged that they were interpretations of the original works, there was no violation of rights. In addition, it claimed that the creation of digital forms of these artworks and their display was a "harmless use" which does not require authorization. Further, since the digital files had never become blockchain assets that could be downloaded by others, it argued that no compensable damage had occurred.

How to view digital and virtual versions of artworks?

At the crux of the litigation, explained the Spanish court, is the question of how to view an NFT. Does converting a work of art into an NFT constitute a modification of the original work, a creation of something "new," that implicates copyright rights of the physical artwork's owner? Or does ownership of the original artwork carry with it a right to transform it and enjoy and exploit it in such digital forms, with such use being regarded as a "harmless use" that does not require authorization from the artist?

The court began by noting that for digital versions were exhibited in a metaverse, there was no difference for copyright infringement purposes whether those versions were created outside the metaverse (such as in an NFT) and then inserted into it, or whether they were created within that metaverse from the outset. In either scenario, the rights of the original artist are the same as to any digital form of the artwork. Thus, both forms of exhibition would be subject to the same infringement limitations that Spanish copyright law provides. But what are those limitations?

'Moral rights' held not implicated

The court began by examining the protections for artists' "moral rights." It stated that the moral right artists hold with regard to the public dissemination of their works is exhausted once the work is first made accessible to the public with their consent. Because the original artworks in this case had been exhibited to the public by their creators from 1970 to 1991, long before they were ever acquired by Punta Na (and thereafter Punto Fa), there could no longer be any violation of the moral right of disclosure.

The court also noted that the authors had not sought to prevent public display of the original artworks when they were acquired by Punta Na. Nor was the honor or reputation of the artists injured by the displays in the physical, digital and virtual realms.

The court stated that nothing was done to harm the integrity of the work with the displays in any of these realms, as the defendant acted with complete respect for the authors by attributing authorship to them. Thus, said the court, any conflict between the rights of the defendant owner and the rights of the artist must be resolved in favor of the owner, with no consent from the artist being necessary.

Right to transform the physical into digital and virtual

The issue that the court dealt with most extensively was whether the defendant owner of the physical artworks had the right to transform them into digital and virtual form in the circumstances here. The defendant claimed that such transformation was permissible as a form of "fair use."

The court noted that the "fair use" doctrine, while common in U.S. copyright law, and having analogues in the copyright laws of jurisdictions like the United Kingdom and Canada, is not normally part of Spanish copyright jurisprudence. Under Spanish law, said the court, judges do not typically have the power to authorize a use of a copyrighted work without owner consent where that use is proscribed by the basic statutory provisions.

But, in a seemingly odd twist, the Barcelona court noted that "fair use" concepts were commonly applied in these other countries, and because the defendant had invoked the concept here it would be applied, citing and quoting at length from a 2012 Spanish Supreme Court ruling in *Mario v. Google-Spain S.L.*, Resolución No. 172/2012 (Spain, Sup. Ct. Apr. 3, 2012), which it said took a similar approach. While conceding that the "fair use" concept was foreign to Spanish jurisprudence, that decision made reference to a concept of *ius usus inocui* that the Spanish Supreme Court had said was not excluded from Spanish copyright law.
The Barcelona court thus took the notable step of deciding to analyze this Spanish case under U.S. "fair use" principles.

Application of US 'fair use' principles

Having decided that it could properly rely on the "fair use" doctrine in this case, the Barcelona court looked to Section 107 of the U.S. Copyright Act, 17 U.S.C. §107, and attempted an analysis of the four factors that provision identifies for consideration when deciding whether a use of a work falls within "fair use."

In analyzing the first factor, "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes," id. §107(1), the court discussed the U.S. Supreme Court and U.S. Court of Appeals for the Second Circuit rulings in *Andy Warhol Foundation for Visual Arts v. Goldsmith*, 143 S. Ct. 1258 (2023), aff'g 992 F.3d 99, as amended, 11 F.4th 26 (2d Cir. 2021).

In that litigation, an Andy Warhol silk screen image of the musical artist Prince was held not to be "fair use" of the plaintiff's photograph on which it was based. The photographer had granted a one-time license to the magazine Vanity Fair to use the photo in connection with a story about Prince, but years later Vanity Fair's parent commissioned Warhol to create his silk-screen image based on the original photo, for use in a new magazine publication about Prince. Since the purpose of the silk-screen creation did not differ from that of the original photograph and was commercial in nature, the first fair-use factor was held not satisfied.

The Barcelona court applied this reasoning to conclude that when applying the "fair use" doctrine to later works, the court must look to the intended purpose of the later creation. Here, it reasoned, the defendant's digital and virtual creations differed in their intended use from that of the original artwork. It held that the purpose of the original works was the expression of the artists' creativity, as well the commercial desire to sell the works, whereas the new digital and virtual works were simply intended to fulfill the dream of Mango Group's owner to honor the opening of his new New York store with sentimental works that reflected his great passions.

The court said there was no intent of any commercial gain because the NFTs were not minted on the blockchain and thus could not be transmitted, downloaded or played, and in fact produced no revenue. The court also discounted any claim of advertising benefit that may have resulted from the exhibit, noting that there was no allegation nor proof of any increased sales that resulted from the NFTs' use.

Furthermore, the court stressed, unlike the case of the Prince photograph, the new creations here did not replace the original artwork, but rather added new elements to it. Such a transformative nature of the new works further illustrates that the purpose and character of those works are different from the original and thus satisfy the first requirement for "fair use."

Looking at the second factor that U.S. law considers in the adjudication of fair use, "the nature of the copyrighted work," 17 U.S.C. §107(2), the court noted that copying a work of a creative nature (such as a film or novel) is more likely to be found an unfair use than the copying of something less creative (such as factual reports).

It concluded this factor too swung in favor of the defendant. While the digital and virtual works were based on physical artworks of a creative nature, they were created and used with full recognition of the original works, gave credit to the original artists, and respected the spirit of the original works. Thus, said the court, not only did they not harm the original artists, but indeed benefited them by exposing their works to a greater audience and offering them increased prominence and greater recognition.

Looking at the third "fair use" factor, "the amount and substantiality of the portion used in relation to the copyrighted work as a whole," id. §107(3), the court noted that the use of a large portion of a copyrighted work is less likely to be considered "fair use" than just partial use of the work.

The court conceded that since the entirety of the original artworks were used to create the digital and virtual images, this factor should be cause to find the use problematic. However, it said that because the new creations incorporated some additional elements, they should therefore be viewed as a transformation and not a mere reproduction of the original works.

Lastly, looking at the fourth "fair use" factor, "the effect of the use upon the potential market for or value of the copyrighted work," id. § 107(4), the court explained that since the original works were owned by the defendant, the digital and virtual works were never marketed, and the duration of their exhibition was short, there is no damage to the value of the original works, nor any damage to the reputation of the artists or their works.

Taken together, the court held that the four factors from U.S. copyright law as it understood them weighed in favor of the defendant. The court said these factors led to the conclusion that the digital and virtual works that the defendant had created in good faith, with only sentimental and not economic motivation, did not infringe the original artists' copyrights, because they were within the permissible range of fair and harmless use, with no harm and in fact only benefit to the original artists.

Breadth of the ruling

Even without attempting to address whether the Barcelona court's ruling was correctly decided under U.S. "fair use" principles, it remains unclear whether that ruling would represent a broad recognition under Spanish copyright law that creating NFT and metaverse displays based on original works should be treated as a "fair use" in all instances.

Based on the court's ruling, which focused on the factors such as limited duration of the use, the lack of any direct commercial sales, and the defendant's "sentimental" desire to celebrate his personal "passions" in promoting his new store, it remains to be seen if similar outcomes would occur in future Spanish cases involving NFT and metaverse uses that did not present such factors.

The result in this case, for example, seems to stand in contrast with the conclusion of infringement in the famous "Birkin Bag" metaverse case in the United States, *Hermès International v. Rothschild*, 603 F. Supp. 3d 98 (S.D.N.Y. 2022) (denying motion to dismiss), discussed in R. Schwinger, "Meta-Claims from the Metaverse", New York Law Journal, July 25, 2022; see also *Hermès International v. Rothschild*, 678 F. Supp. 3d 475 (S.D.N.Y. 2023) (upholding trial verdict of infringement and granting injunctive relief against defendant's use of plaintiff's design in a metaverse NFT), appeal docketed, No. 23-1081 (2d Cir. July 24, 2023); but compare *Hermès International v. Rothschild*, 2024 WL 1089427 (S.D.N.Y. Mar. 13, 2024) (initially refusing defendant's request to permit public display of his NFT in Swedish museum) with *Hermès International v. Rothschild*, No. 22-cv-384 (JSR), slip op. (S.D.N.Y. Apr. 29, 2024) (on reconsideration, permitting such museum display with prominent disclaimer advising of verdict against the artist in the U.S. jury trial).

Admittedly, however, *Hermes* arose under very different facts than *VEGAP v. Punto Fa*, most notably that the defendant there never purported to enjoy any transfer of rights regarding the artistic creation at issue in any form, and had engaged in commercial profit-making activity with it.

High-tech dispute resolution in Mexico

Moving from the virtual and sentimental to the very real and pragmatic, Mexico earlier this year included as part of changes to its alternative dispute resolution regime a new express authorization for such proceedings to be conducted online, using blockchain-driven smart-contract systems or artificial intelligence systems.

A new law was published in Mexico's Diario Oficial de la Federación Jan. 26, 2024, entitled the "*Decreto por el que se expide la Ley General de Mecanismos Alternativos de Solución de Controversias y se reforma y adiciona la Ley Orgánica del Poder Judicial de la Federación y la Ley Orgánica del Tribunal Federal de Justicia Administrativa*",—the "Decree by which the General Law of Alternative Dispute Resolution Mechanisms is Issued and the Organic Law of the Judicial Branch of the Federation and the Organic Law of the Federal Court of Administrative Justice Are Reformed and Added"—see Ley Orgánica del Poder Judicial de la Federación [LOPJF], Diario Oficial de la Federación [DOF] 07-06-2021, últimas reformas DOF 26-01-2024.

Under Article 3 of this new law, "alternative dispute resolution mechanisms…may be processed through the use of information and communication technologies or online systems" as provided in the new law, so long as the parties "agree to it through an arbitration clause, independent agreement, or before [a] facilitator."

Article 89 further provides that parties may agree to have online dispute resolution "carried out through automated systems or decentralized justice systems," but "[t]he parties must specifically indicate the modality of the online system that will be carried out and an electronic address to receive communications related to said system."

The law defines the "automated systems" that might be used for online dispute resolution as referring to "[c]omputer programs designed to perform tasks that require artificial intelligence and that use techniques such as machine learning, data processing, natural language processing, algorithms and artificial neural networks" that are focused on online dispute resolution.

The law also defines the "decentralized justice systems" it refers to as protocols "based on direct community participation through incentive schemes, open collaboration, decentralized voting and automation elements such as smart contracts and blockchain" for online dispute resolution.

The law in turn defines such "open collaboration" as referring to a "[m]odel in which a natural or legal person, public or private, requests, through a public call, the collaboration, contributions or services of a diverse and broad group of people, personally or through online platforms."

The law also defines "smart contracts" for the purposes of the law as:

> Digital or computer code that runs on top of a blockchain that contains a set of rules under which parties agree to interact with each other. If the predefined rules are met, the agreement is executed automatically. A smart contract is capable of facilitating, executing and enforcing the negotiation or execution of a contract using blockchain technology.

The law does not purport to set forth any detailed requirements for the AI or smart contract systems upon which an agreed-upon online dispute resolution must be based. Instead, it sets forth certain principles of transparency. Under the "full knowledge" principle set forth in Art. 89(I), "[p]arties that use online systems have the right to access and know all the information available about their operation, through clear and simple language."

Under another such principle, for "algorithmic transparency" as set forth in Art. 89(II), the "measures and practices to make the algorithms used by [the] automated systems" must be "visible, understandable and auditable," so that participants can "know the logic and rules with which they operate and how they will be applied in online dispute resolution."

Likewise, Article 91(II) provides that participants in online dispute resolution processes must be able to "[k]now in detail how they work, in accordance with the principles of full knowledge and algorithmic transparency."

Users of these systems also must be "informed about applicable rules, regulations or guidelines," assured that their "personal data and information [will be] treated securely and confidentially," and be given "guidance and assistance to correctly use online dispute resolution systems."

Article 92 of the law likewise imposes corresponding obligations on the "facilitators, administrators and providers" of online dispute resolution systems to "[i]nform the parties in detail of the guidelines and other rules of operation and functioning of the online systems, as well as the technical requirements that the parties must meet to participate in them." They must also "[a]ssist and guide the parties in the use of the online systems," "[h]ave the infrastructure, training and technical requirements necessary to carry out the online systems," "[g]uarantee the security of the information in the online systems, as well as the personal data and information communicated through them;" and "[s]afeguard the logs or records of recordings and other communications in a secure and confidential manner."

Mexico's online dispute resolution statute, which speaks in general descriptive terms and identifies goals to be achieved rather than specific methods for meeting them, suggests that Mexico is viewing online dispute resolution using AI and smart contract tools as an evolving area. The statute leaves providers and participants free to experiment and craft various possible approaches, so long as certain baselines are respected that will help participants move forward with their eyes open.

This seems both a bold embrace of what such technologies might offer us for the future, while at the same time reflecting a realistic and indeed humble acknowledgment of how fast-evolving technologies might develop in ways that we cannot meaningfully predict today.

Conclusion

In the fast-moving digital sector where technology knows no borders and much activity is global, experiences in a variety of legal systems are likely to cross-pollinate and influence one another, even across linguistic, geographical or historical lines.

Courts and justice systems around the world inevitably will observe what is done by their counterparts elsewhere. We can expect that ideas and lessons from such jurisdictions, such as those seen most recently from Spain and Mexico, may play a role in influencing how courts and legal systems elsewhere may address legal issues arising from these new technologies.

Hopefully such transnational dialogue between systems will help hasten the move to the most productive outcomes which will move the law forward to society's general benefit in many jurisdictions.