

VIRTUAL REALITIES

Game changer



Domain name liberalisation presents a number of unique challenges to brand owners as **Flip Petillion** and **Bart Lieben** explain

A lot has been written, said and guessed about the impact the Internet Corporation for Assigned Names and Numbers (ICANN's) new generic top-level domain name (gTLD) programme will have on brand owners. It is clear that ICANN's plans to liberalise the name space will be a game changer without precedent. It has been delayed quiet a number of times and is now due to start towards the end of 2011. Over the years, a delicate balance has been found between the various players in the industry – registries, registrars, and registrants – which caused a gradual, almost linear, growth in the number of domain names that were registered.

Stating that this balance will be disrupted by adding hundreds of new gTLDs to the domain name system ("DNS") is an understatement.

One of the major problems regarding predictions that have already been made has been the lack of accurate data and in-depth insight into how rights protection mechanisms actually function (and can function). If unreliable data is combined with little experience in managing rights protection mechanisms ("RPMs"), various conclusions can be drawn from the outputs obtained. Most of the commentaries predicted that the proliferation of new gTLDs would have an outright negative effect on brand owners, in particular with respect to the protection of trademark rights at the domain name/second level.

So in order to shed some light on what could be a likely scenario for the roll-out of new gTLDs, we will first look at the correct data, then review how these correlate with the RPMs that have been put in place by domain name registries in the past, and look at some of the RPMs proposed by ICANN in the proposed final applicant guidebook ("PFAG").

Finally, we will also look at the processes proposed by ICANN for resolving trademark-related disputes at the top/first level.

Past experiences

In its most recent domain name industry brief, VeriSign indicated that at the end of the

third quarter in 2010, more than 200 million registered domain names existed, the vast majority in .COM. Although the number of TLDs has increased by only a few dozen the total number of registered domain names has exponentially exploded during the past decade.

So, if the total number of projects that have been (unofficially) announced will actually materialise, it will be likely that the number of TLDs in the DNS will at least double over the next two years¹.

The total number of domain names registered in the TLDs that have launched over the past decade amounts to about 17 million, being less than 10% of the total number of domain names registered currently across all TLDs. Prior to and during the launches of these TLDs, various attempts were made to facilitate the protection of trademark rights in these new extensions. This was generally done by employing two types of RPMs:

- Processes allowing trademark owners to notify the existence of an intellectual property claim to the registry (so-called "IP claims" processes). If a domain name was registered for which an IP claim existed, such registration could then be challenged under a separate process, or under the Uniform Dispute Resolution Policy (UDRP);
- Processes allowing trademark owners to (defensively) register domain names identical to their trademarks in new domain name extensions (so-called "Sunrise" processes).

Both processes were organised prior to the launch of a TLD, and this for a limited period of time (mostly a couple of months before making domain name registrations available to the public at large).

The paradox of choice²

One of ICANN's objectives for the new gTLD programme is increasing competition and consumer choice.

It is generally accepted that the fact that consumers have choice contributes to their welfare. But, on the other hand, there is also evidence that having too much choice may cause

consumers not to make choices at all, rather than being selective in the choices they make. We believe that this will clearly be the case for brand owners with the advent of new TLDs.

Future registries of new TLDs will need to develop strong plans in order not to only overcome this choice paradox, but also to make sure that the options are adequately presented to registrants in order to be successful themselves. So putting in place an effective network of ICANN-accredited registrars will be vital for these registries of new TLDs, which will not be an easy task.

There is a clear risk that by exponentially increasing consumer choice, the effective participation rate will be lower, instead of the predicted increase. This could eventually also impact registries of new gTLDs, unless they can convince registrars and registrants of the added value their extension will bring.

For some extensions, these advantages are more obvious than others. Brand owners operating their proprietary brand-TLDs will be able to create distinct platforms for more efficient and secure communications with their customers. The key here is to look at long-term effects and not merely question whether a brand-TLD will make the domain registration in .COM obsolete (which is, in any case, not recommended). Specific language communities that are contemplating implementing IDNs to use their own script throughout the URL do have the ability to prosper.

In particular with regard to vertical models like the registry-registrar distribution model we know in existing gTLDs, the choice paradox also states that by reducing choice, one will not only sell more, but also that you will have a higher customer satisfaction.

Dilemmas for new gTLD registries

Those registries that will offer domain name registrations to the market will face a number of dilemmas. Perhaps the most relevant to brand owners will be whether the registry will focus on short-term revenues (in order to recover investments and costs), or deploy a long-term strategy, enhancing the visibility of the TLD.

Considering the fact that most of the true gTLDs will launch the extension with a Sunrise process, the easiest of targets will be the brand owners. It is possible that a number of future gTLD registries will charge premium registration fees for domain name registrations during their (mandatory) rights protection mechanisms that will precede the effective land rush or general registration of domain names.

In some cases, domain name registration fees charged by registries during the TLD's Sunrise process amounted to USD\$300 or even more, in particular when combined with a multi-year domain name registration term. And for most of these TLDs, the acquisition cost of the extension was far less than the USD\$185,000 per extension, as proposed by ICANN.

If this fee of USD\$300 per domain name registration during a Sunrise period is used as a yardstick, brand owners who would like to protect their brand in every new TLD that will impose no or surmountable eligibility criteria, will see their initial domain name registration budgets increase to at least USD \$75,000 or more per brand. This figure does not take into account the fees charged by registrars or the annual renewal fees.

One of the proposed ways of lowering the actual fees for protecting trademarks at the domain name level is putting in place a central mechanism that deals with trademark-related claims. ICANN's answer to this issue is the trademark clearinghouse.

Trademark clearinghouse: not an RPM!

The fact that there will be a trademark clearinghouse is a step in the right direction. A trademark clearinghouse will allow brand owners to report their trademarks to one single repository, which will then make available validated trademark data to registries of new gTLDs in order to facilitate their launch processes.

Although one of the primary reasons for having a trademark clearinghouse in place was to reduce costs for trademark owners – by taking one-off validation fees out of Sunrise registration fees, it is still questionable whether

the ultimate goal (cheaper domain name registrations) will be reached. But the devil is clearly in the detail.

The functionalities of the proposed trademark clearinghouse are not those of an RPM, as it only stores and provides access to trademark-related information.

Given the risk of choice paralysis discussed already, we believe there may be additional roles to play for the clearinghouse that would be beneficial for brand owners.

When multiple new gTLDs launch within a short period of time, chances are high that brand owners will put more reliance on their

RPM, and not “just a database”, may prove to be beneficial for all the different actors involved.

The principal-agent problem

According to the PFAG, registries of new gTLDs will be required to provide equal access to ICANN-accredited registrars. This implies that it will be key for a new gTLD applicant to have a vast network of effective registrars (accredited by ICANN or re-sellers), in order to be successful. The issue with TLDs is that, generally speaking, the registrars who will be supporting brand owners to meander through the mandatory rights protection mechanisms are *de facto* different from the distribution channels who focus on the land rush and general availability phases during which domain name registrations become gradually available to the general public or target audience.

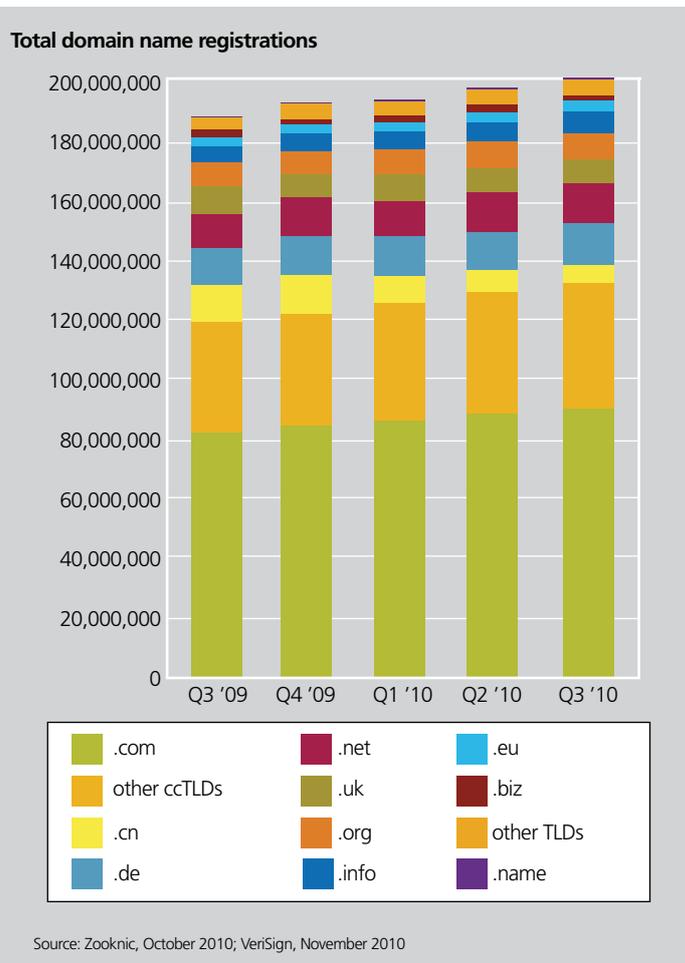
Many who venture into new gTLDs who think that their visibility in the marketplace will be guaranteed because there is a vast number of ICANN-accredited registrars who will “carry” your extension: think again.

It takes time, money and effort to be visible. And with hundreds of new TLD applicants seeking a quick return on investment immediately following the delegation of their gTLD, airtime with these distribution channels will be expensive. And this high priced attention will come with no guarantees.

Therefore, it is likely that registrars will be selective when it comes to becoming accredited with new gTLDs. Whereas most registrars are perfectly equipped to fulfil and complete the accreditation and technical testing requirements put in place by a new TLD, it generally takes them a number of weeks or even months in order to properly inform their customer base, develop comprehensive marketing materials,

follow-up clients and take in orders. And given the fact that chances are high that the number of TLDs will (at least) double with the new gTLD programme, brand owners are likely to become more selective in which TLDs they will (defensively) register domain names.

So, although more TLDs could imply more choice for registrars and registrants, it is far



Source: Zooknic, October 2010; VeriSign, November 2010

domain name registrars in order to make sure that their brands will be adequately protected. Given the fact that any pre-launch RPM implies additional and specific requirements from a policy perspective, registrars will need to cope with these complexities as well.

So allowing the trademark clearinghouse to play a more active role by making it a proper

from certain whether these additional options will provide for additional returns.

Uniform rapid suspension (“URS”)

In addition to the Uniform Dispute Resolution Policy (UDRP), a new process is being proposed by ICANN, whereby brand owners will be able to suspend the functioning of a domain name if the use made of such a domain name would infringe the brand owners’ rights and/or reputation.

Although one of the objectives of the URS was to lower costs for brand owners – in particular the costs of filing a UDRP and taking over and maintaining the “infringing” domain name in the brand owners’ portfolio – the URS primarily intended to provide the brand owner with an expedited process to stop infringing use of the domain name.

Looking at the way how the URS is currently described in the PFAG, the effectiveness can be questioned. Different scenarios show that a UDRP can, in fact, be a more effective and expeditious way to effectively suspend and terminate trademark infringement at the top level.

Trademark protection at the top level: is attack the best form of defence?

The PFAG contains a number of processes whereby third parties have the opportunity to object against an application for a new gTLD. This is also the case for brand owners who fear their trademark will be infringed not only at the second (domain name) level, but also at the top (extension) level.

Legal rights objection

ICANN has put in place a process that will exist next to regular court proceedings for resolving potential issues between brand owners and new gTLD applicants. According to the PFAG, ICANN’s process allows brand owners to object to a new gTLD if “[t]he applied for [gTLD] string infringes the existing legal rights of the objector”³.

However, the requirements to be taken into consideration by the holder of “legal rights” are much more onerous than the PFAG seems to indicate.

In order to qualify for these proceedings, the objector must be a “rightsholder”. In order to demonstrate this, the objector must demonstrate “[t]he source and documentation of the existing legal rights the objector is claiming (which may include either registered

or unregistered trademarks) are infringed by the applied-for gTLD”⁴.

Although this wording seems to imply that the applied-for gTLD, which is not in use, actually infringes the trademark, the PFAG seems to leave it up to a WIPO panel to determine “whether the potential use of the applied-for gTLD by the applicant takes unfair advantage over the distinctive character or the reputation of the objector’s registered or unregistered trademark or service mark [...] or unjustifiably impairs the distinctive character or the reputation of the objector’s mark [...] or otherwise creates an impermissible likelihood

Domain names registered at the end of January 2011 for European country code top level domains

France	1,913,143
Belgium	1,108,683
Austria	1,001,878
Czech republic	753,868
Netherlands	4,221,694
Germany	14,095,753
Denmark	1,095,690
Italy	2,067,842
UK	9,005,676
Norway	501,907
Finland	256,675
Sweden	1,056,023
Poland	2,009,224
European Union	3,365,187
Ireland	154,757
Lithuania	123,255
Slovakia	231,409
Luxembourg	57,166
Slovenia	91,148
Portugal	349,770

of confusion between the applied-for gTLD and the objector’s mark [...].”

Given the fact that ICANN will not publish the complete application file for information or public comment purposes means that a brand owner could find himself in the virtually impossible situation of proving actual trademark infringement on the basis of potential use. Even though the PFAG provides for a number of non-exclusive “factors” that will be considered by the legal rights objection panel, we believe these are inconclusive in the way they have been formulated.

For instance, the identity, or even similarity, between a trademark and an applied for gTLD is insufficient to demonstrate whether or not

there is trademark infringement. In order to prove trademark infringement, the trademark holder needs to be aware of the use the applicant for the new gTLD is actually making or intends to make of the extension.

In brief, the legal rights objection process, as currently laid down in the PFAG may be ineffective for brand owners. In our view, also brand owners who are not interested in applying for a gTLD should be able to rely on transparent, measurable and objective criteria, rather than on “factors” that could be interpreted as broadening the protection they have under trademark law and/or raise the impression that they must provide evidence of absence.

“Defensive applications” for new gTLDs

Strangely enough, depending on the actual trademark rights held by the brand owner, attack could be the best form of defence. In this case, attack means “apply for a brand-TLD yourself”.

In such case, the PFAG suggests that the brand owner obtains access to additional means to protect its brand, such as being invited by ICANN to come to an amicable solution with other applicants for identical or confusingly similar TLDs and, ultimately, participate in an auction process for such a TLD.

Clearly, brand owners who hold trademarks that may become “contentious” in the context of ICANN’s liberalisation process will face the need for adopting a proactive strategy. Given the fact that ICANN provides for the opportunity to claim refunds when an application for a new gTLD is withdrawn could prove to be a workable, although still expensive, compromise.

Summary

According to the ICANN Board, ICANN’s bottom-up policy development processes have done their job, and apparently resulted in “workable compromises” for the protection of trademarks in the context of the new gTLD programme. But the issue remains that brand owners are unlikely to accept compromises regarding their brands, and rightfully so. It is highly unlikely that the welfare of consumers and internet users in general will increase when leaving the door open for confusion and reputation damage.

The risk here is that future gTLD registries are going to consider the RPMs laid down in the PFAG as a ceiling, and not as the floor. The assumption that brand owners will automatically defensively register their trademarks as domain names in TLDs may well prove to be wrong. Registries that base their strategy on this

assumption and grant too much weight to the RPMs will expose themselves to various risks, not only from a legal, but also from a commercial and visibility point of view.

gTLD registries can mitigate this risk through the development of right protection mechanisms that go beyond the RPMs laid down in the PFAG and through specific and focused outreach campaigns in order to make sure that brand owners and their registrars were informed. Examples can be found in the past.

The .EU, .MOBI, .ASIA and .TEL registries took years to build strong and workable RPM policies and processes. More recently, the .CO registry voluntarily implemented all RPMs proposed by the implementation recommendation team, and even went beyond that, much to the satisfaction of brand owners. Specific and focused outreach campaigns were implemented in order to make sure that brand owners and their registrars were informed.

The TLD carries more than 600,000 domain name registrations.

Also in the domain name industry, history can be a good teacher.

Footnotes

1. Assuming that ICANN's timelines for receiving and evaluation applications for new gTLDs and the delegation of these extensions will remain as they currently stand.
2. Reference is made to Barry Schwartz' book *The*

Paradox of Choice : Why More is Less, 2004.

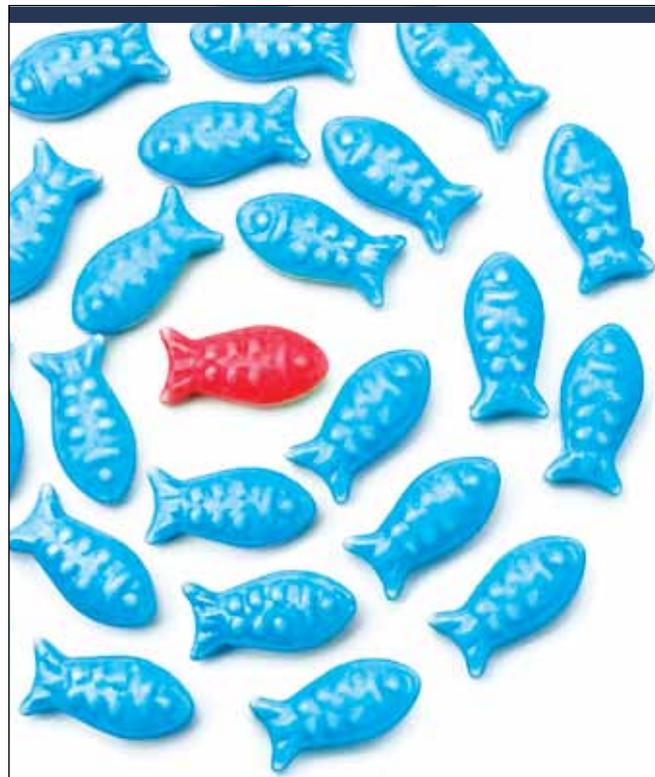
3. PFAG, Module 3, page 1.
4. Also International Organisations are eligible to file a legal rights objection if (i) it has been established by way of an international treaty or among national governments ; and (ii) it must be widely considered to have independent international legal personality and must be the subject of and governed by international law.

Authors



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