

# Lessons from the cases against Icann

As brand owners ready for the launch of new gTLDs later this year, **Flip Petillion**, **John Murino**, **Jan Janssen** and **Emily Alban** explain that litigation against Icann indicates the best ways to challenge aspects of the process

**G**iven Icann's control over the internet's domain name system (DNS), and its authority to delegate the existence and operation of top-level domains (TLDs or gTLDs), it is perhaps surprising that Icann's authority had not been seriously challenged in court until recently. For years, Icann observers have complained about its byzantine and insular nature, its seeming willingness to interject itself into internet governance debates (while at the same time absolving itself of accountability), and its all-too-familiar inability to adopt and then follow clear rules, deadlines, and processes.

These criticisms have increased as a result of Icann's decision to add potentially more than a thousand new TLDs to the internet, in the current, most ambitious round of internet expansion. Icann's previous expansion rounds, conducted in 2000 and 2003, were purposefully designed to be modest, and resulted in fewer than 20 additional TLDs. In this round, however, Icann opened up the application process, and has received more than 1,900 applications. As a result, Icann has evolved from a little-known (and even less understood) quasi-international organisation made up of technologists and civil servants deciding largely internet-coordinating functions, into a well-financed, multinational corporation deciding the future of the internet.

Predictably, then, while some companies are winners in that expansion, others are forced to consider whether (and how) this expansion affects their business – from a technology company believing it has the next great idea to compete with the TLD behemoth .com, to Fortune 500 companies managing domain name portfolios already numbering in the thousands. And as each day passes, it appears as though more and more companies are realising that it affects their businesses adversely.

## The cases against Icann

As a result, some companies are now turning away from Icann (and its internal accountability processes) and towards the courts. Two cases pending in the US, *Manwin Licensing v ICM Registry*, and *name.space v Icann*, and the recently dismissed *Image Online Design v Icann*, are the most recent public challenges. Because of the nature of the various plaintiffs' claims, and their requested remedies, the cases create a degree of uncertainty regarding Icann's authority over the pending TLD applications, as well as the acceptable practices for new TLD operators seeking Icann approval to launch their new businesses.

For a summary of the cases, see boxes at the end of this article.

While these recent court challenges may indicate increased dissatisfaction with Icann and its internal accountability processes, they also demonstrate inherent limitations in attacking Icann through the judicial process under US law. In general, it seems that US courts may be somewhat reluctant to disturb Icann's authority, and have used various legal vehicles to avoid difficult substantive questions about the limits of Icann's authority and the boundaries for its behaviour.

Although the findings in each case are limited to the specific facts and parties, five broad lessons can be drawn:

- 1) Current applicants with complaints about the conduct of the application should consider seeking remedies through Icann's own processes, as contract claims in US courts are likely to prove unavailing;
- 2) Applicants interested in acquiring trade mark rights in top level domains should begin developing plans to create a close relationship between the applied-for TLD and a particular brand identity;
- 3) Applicants should be aware that the *name.space* court could issue a decision rel-

## One-minute read



Icann has been fighting three pieces of litigation, *Manwin Licensing v ICM Registry*, *name.space v Icann* and *Image Online Design v Icann* concerning its process of delegating TLDs. It looks unlikely that they will disrupt the gTLD process, but they do indicate in which areas the courts are most likely to interfere with Icann and its delegation of TLDs. Brand owners that think they might suffer from the launch of new gTLDs this year, therefore, should look to these cases when assessing their strategy, whether it is to use Icann's own processes, look at its waivers or analyse whether Icann has acted anti-competitively.

## Image Online Designs: Iccann wins on trade marks

Since 1996 Image Online Design (IOD) has been operating the TLD .web in an “alternative root.” In 2000, IOD applied to Iccann to have .web added to the authoritative root. The application was neither approved nor rejected, but Iccann explained to IOD that it remained pending indefinitely.

Despite Iccann’s previous statements that IOD’s application for .web was still pending, when Iccann announced the applications it would be considering during the current round, IOD’s application was not included. Instead, Iccann announced it was considering new applications for .web, from applicants that were willing to pay Iccann \$185,000. IOD’s lawsuit, filed in October 2012, sought to enjoin Iccann’s consideration of these new applications. On January 28, the court dismissed IOD’s claims in their entirety.

IOD brought claims for breach of contract, breach of covenant of good faith and fair dealing, various trade mark violations, and interference with contractual relations and prospective economic advantage. In support of its breach of contract and breach of covenant and fair dealing claims, IOD argued that it entered into a contract with Iccann in 2000 when it submitted its .web application and paid the non-refundable application fee. According to IOD, Iccann breached that contract, and failed to abide by the covenant of good faith and fair dealing, by considering new applications for .web before approving or rejecting IOD’s application.

Iccann’s main argument in support of dismissing this claim – and IOD’s other claims – was that all of the claims are barred as a result of a waiver of claims IOD submitted with its application in 2000. In that round, applicants waived any rights they might otherwise have as a result of Iccann’s decision to delegate or not delegate any particular TLD. Iccann argued this waiver extends to all of IOD’s current claims. Additionally, Iccann argued that the application did not require Iccann to approve or reject IOD’s application, but only to “consider” the application.

The court agreed with Iccann’s interpretation of the application provisions, holding that Iccann had “no responsibilities with respect to IOD’s Application beyond its initial consideration of the Application”. Accordingly, IOD had failed to state a claim for breach of contract. Having

ruled on that basis, the court did not reach the issue of the waiver.

IOD also claimed that Iccann’s acceptance of new applications for .web violated its trade mark rights. IOD argued that it has both a legally registered trade mark and common law trade mark rights based on its use of .web, and that Iccann’s intention to approve one or more applications for new TLDs was likely to cause consumer confusion.

Iccann asserted that its mere acceptance of applications could not be an infringement, and

result in trade mark infringement, thereby requiring Iccann to set up an elaborate legal rights objection process. IOD argued that the introduction of thousands of new TLDs will eliminate any distinction between a domain name (which some courts have ruled communicate source information) and a TLD’s ability to convey or communicate information as to source. Moreover, IOD noted that the PTO has granted protection to domains, including .org, .biz and .travel, since such names do convey information about source.

Ultimately, on February 7, the court held for

## The court agreed with Iccann that a trade mark for .web, when used in connection with internet services, was generic

any claim for infringement that might occur if and when an application was approved in the future was too speculative. Accordingly, Iccann argued that IOD’s trade mark claims were not ripe for adjudication.

With regard to IOD’s .web trade mark specifically, Iccann alleged that the trade mark covered only things like mouse pads, CD holders, backpacks, thermoses, cups, mugs, insulating beverage can sleeves, and “online retail store services featuring computer accessories”. Accordingly, Iccann argued that the provision of registry services is not covered by the registered trade mark for .web.

More generally, Iccann also argued that there can be no trade mark rights in TLDs, noting that the USPTO does not recognise TLDs as worthy of trade mark protection as they “generally serve no source identifying function and, thus, are not trade marks”. Iccann cited a previous decision of the Ninth Circuit holding that “TLDs are generic when used in connection with domain name registration services and are not entitled to trade mark protection.” Iccann also cited an earlier decision of the PTO (still on appeal) denying trade mark protection to IOD’s .web mark.

IOD responded that the idea that TLDs serve no source identifying function is outdated in light of the current application round, especially as Iccann itself has acknowledged that new TLDs may

Iccann on the ripeness question, holding that any infringement was merely speculative until ICCANN selects an applicant, if any to operate a .web TLD. And notwithstanding this holding, the court further considered some of the parties’ arguments. With regard to the scope of IOD’s trade mark, and the possibility of consumer confusion, the court noted that IOD had failed to present evidence of consumer confusion; in the absence of such evidence, the court could not “infer a likelihood of confusion between the subject matter of the registered trademark (mouse pads and backpacks) and the products or services offered by Iccann (Internet DNS and TLD application services).”

Additionally, the court agreed with Iccann that a trade mark for .web, when used in connection with internet services, was generic and could not enjoy trade mark protection. The court cited multiple authorities for the proposition that TLDs generally do not serve a source identification function. Although there were some instances where this general rule might not hold (such as an .apple TLD, which could cause confusion if not operated by Apple Inc), according to the court, “only the most famous of marks could have a source indicating function as a TLD.” Even famous marks might remain generic, if, like .web, they refer to an internet service offered and not to a particular registry operator’s services.

evant to the scope of the waivers to which they’ve agreed to within the gTLD application;

- 4) Current applicants, current TLD operators, and those concerned with protecting their marks after the addition of new TLDs should be prepared for the possibility that new TLDs may have to adopt new rules for defensive registrations; and
- 5) Any company that believes that Iccann has acted anticompetitively should consider whether their concerns can be addressed through creative uses of antitrust law, as Iccann has been found to engage in commercial activity.

### Use Iccann’s own processes

In light of the *Image Online* ruling, it now seems apparent that breach of contract claims are unlikely to prove successful for TLD applicants who become dissatisfied with Iccann’s conduct during the current application process or its decision. As in earlier rounds, Iccann has clearly stated in the application materials that submitting the application and initial fee entitles the applicant to no more than consideration of the application. As a result, Iccann’s ultimate decision regarding whether to delegate any given TLD (to any particular applicant) can not form the basis for a contract claim under the plain terms of the application.

## *name.space*: What is the market for gTLDs?

The factual allegations in the *name.space* case, also filed in October 2012, are somewhat similar to those in *Image Online*. The plaintiff, *name.space*, applied for 118 TLDs in the 2000 round, including strings such as .blog, .inc, and .book. None of *name.space*'s 118 strings were approved, but Icann explained to *name.space* that its application for those TLDs remained pending indefinitely. Instead, *name.space* has been operating those TLDs (and several hundred others) in an "alternative root".

As in *Image Online*, Icann is now considering

similar California state laws. Icann filed a motion to dismiss, which the court recently converted into a motion for summary judgment.

The *name.space* antitrust claims involve substantive issues not yet considered by a US court. *Name.space* alleged that Icann conspired to restrain trade in or monopolised the market to operate a TLD registry. According to *name.space*, Icann and its co-conspirators, including current and former Board members, intentionally and unlawfully created barriers for entry in the gTLD market, and in particular

the TLD registry market, competition in the TLD registry market has been suppressed; consumers have fewer TLD choices, the price for a TLD is inflated, and an unnecessary market for defensive registrations has been created.. At this point, Icann has not contested the existence or definition of the gTLD registry market, but only contested various elements required to support the plaintiff's antitrust claim. Icann argued that *name.space* presented no evidence that Icann engaged in a conspiracy to restrain competition in that market, and further that Icann cannot engage in conspiracy with its own Board members. Icann also argued that it would be impossible for Icann to act as a monopolist in the gTLD market, as Icann does not participate in that market, and is in fact prohibited from operating a TLD. Moreover, Icann argued that it has not engaged in any anti-competitive or exclusionary conduct, but rather established reasonable procedures for approving new TLDs in accord with the authority which it has been given. Finally, Icann argued that *name.space* has not alleged an antitrust injury, but rather an injury only to itself; according to Icann, *name.space*'s main complaint is, in fact, that it will face increased competition from new TLDs.

Because no court has yet ruled on the existence of a market for gTLDs, or on Icann's power within that market, it remains to be seen how a court will evaluate *name.space*'s antitrust claims. However, the recent decision in *Image Online* indicates that a US court may be unlikely to interfere with Icann's authority.

## The *name.space* antitrust claims involve substantive issues not yet considered by a US court

new applications for several of the strings in *name.space*'s 2000 application, including .blog, .inc., and .book, among others, and *name.space*'s application is not under consideration.

*Name.space*'s lawsuit sought to enjoin Icann's consideration of these applications. *Name.space* alleged tortious interference with contract and with prospective economic advantage and trade mark infringement; additionally, *name.space* argued that Icann's consideration of the new applications constituted violations of US antitrust law – both Section 1 of the Sherman Act prohibiting conspiracies in restraint of trade and Section 2 of the Sherman Act prohibiting monopolisation and trade mark law – as well as

acted to exclude *name.space*. These alleged barriers included the "prohibitively high" \$185,000 per-TLD application fee (which represented a significant increase over the single \$50,000 charged for multiple strings in 2000).

*Name.space* also argued that Icann and its co-conspirators "created a process" for the current round "in which only industry insiders ... and industry behemoths", including the companies in which current and former Icann board members have significant interests or positions, "can realistically hope to get their applied-for gTLDs".

According to *name.space*, Icann's conduct resulted in an antitrust injury because, in addition to preventing *name.space* from access to

Instead, Icann's own internal accountability processes may be a better option. The dissatisfied registry in *Manwin* is thus far the only originally unsuccessful TLD applicant who has successfully challenged Icann's decision regarding a TLD delegation. After Icann announced that it had rejected ICM's application, ICM used Icann's own Independent Review Process – an international arbitration process – to argue that Icann's own rules, bylaws, and articles of incorporation required Icann to delegate .xxx to ICM. The Independent Review Panel found in favour of ICM, and Icann and ICM subsequently entered into the .xxx registry agreement.

There is, of course, no guarantee of success for claims arising from the very different application process currently underway. Nonetheless, while a court may be reluctant to act if it perceives a party as seeking to avoid or circumvent Icann's processes, arbitrators who are participating in the Icann-established review processes might be more willing to find against an Icann decision.

### Establishing trade mark rights

Despite the changes that can be expected to the TLD system, courts do not seem eager to re-examine conventional trade mark analysis, which views TLDs as generic and therefore not protected. The *Image Online* decision does, however, suggest that the analysis may be different in certain cases where the TLD string is closely tied to a brand.

As a result, brand owners who have applied for a TLD that matches that brand may be able to establish trade mark rights in the TLD. TLD applicants who are applying for something other than a brand may wish to take steps to tie their TLD string more closely to their brand — the clearer the tie between the TLD string and the applicant's brand, the greater the chances that the TLD could qualify for trade mark protection.

### The interpretation of waivers

Because the *Image Online* decision did not reach the issue of applicants' waivers of claims against Icann, the *name.space* court will likely be the first court to rule on the issue. Any decision that the waiver does not bar *name.space*'s claims will not be decisive on the question of the waiver in the current application round, because Icann has strengthened the language since 2000.

Nonetheless, a rejection of the waiver argument will give Icann great pause and may encourage current applicants to take their chance in court. Of course, a decision that the waiver language from the 2000 application does bar *name.space*'s application from the current round will bar similar claims for current applicants.

### Look to *Manwin* for defensive registrations

Despite the apparent reluctance of courts to intervene in Icann's processes, it is still possible that the *name.space* court

## Manwin: Ican loses competition argument

This earlier suit, filed against ICM Registry and Ican in November 2011, arose from the creation of .xxx, a TLD specifically for online adult entertainment. ICM applied for .xxx in Ican's 2003 TLD expansion round, and, after significant controversy and an arbitration between ICM and Ican, Ican ultimately directed that .xxx be added to the root in 2010. Plaintiffs, who are owners of adult-content websites in other TLDs and producers of adult content, object to Ican's delegation of .xxx to ICM. They brought suit against both Ican and ICM under the US antitrust laws on claims including conspiracy in restraint of trade in violation of Section 1 and conspiracy to monopolise trade in violation of Section 2 of the US Sherman Act. In December 2012, the court dismissed certain claims and allowed others to continue.

In its motion to dismiss the suit, Ican argued that it was not subject to antitrust laws: according to Ican, because it "does not (and cannot under its bylaws) participate in any way in any of the markets that may exist that involve the DNS, or TLD registries or registrars", it should not be subject to antitrust laws that regulate market participants. In particular, Ican argued that its actions in delegating the .xxx TLD fell squarely within Ican's non-commercial, public-benefit purpose, and therefore could not be reached by the Sherman Act.

The court ultimately rejected this argument, finding that Ican's grant of .xxx to ICM, in return for the payment of fees, was "quintessential" commercial activity. Regardless of

Ican's non-profit, public benefit purpose, it "may be held liable under the Sherman Act" when it engages in commercial transactions.

The *Manwin* plaintiffs alleged two relevant markets: the market for defensive registrations in .xxx and the market for affirmative registrations. Ican argued that there was no market for all defensive .xxx registrations, because each name within .xxx would be its own individual market. The court rejected this argument, holding that it was precluded by the Ninth Circuit's decision in *Coalition for Internet*

ular, free adult video websites in the .com TLD, it appeared that affirmative registration in another TLD was a substitute for affirmative registration in .xxx. Accordingly, the court dismissed all claims related to the market for affirmative registrations.

The *Manwin* court found that the plaintiff had sufficiently pled antitrust injury and anti-competitive or predatory conduct by arguing that Ican and ICM had "suppress[ed] or eliminate[ed] competing bids for the original .XXX TLD registry contract" and subsequent

## The court found that Manwin had sufficiently pled antitrust injury and anti-competitive or predatory conduct

*Transparency v VeriSign* (in which Ican was not a party) rejecting the argument that there was no market for expiring domain names because each such name constituted its own individual market. The court therefore found that plaintiffs had sufficiently pled a market for defensive registrations.

On the other hand, however, the *Manwin* court held that plaintiffs had failed to adequately plead a market for affirmative registrations in a TLD intended for adult content, because they had failed to allege why other operating TLDs are not reasonable substitutes for .xxx. The court noted that, because one of the plaintiffs claimed to operate the most pop-

ular, resulting in a contract with price and sales terms that "would not exist in a competitive market"; precluded creation of other adult-content TLDs; and had set above-market prices and restrictions on output.

The parties are now engaged in briefing the remaining claims relating to the defensive registration market, and ICM and the plaintiffs are also engaged in briefing various counterclaims filed by ICM. A scheduling conference, which will include discussions of discovery plans, is scheduled for March 18; it will likely be some time before there is any final resolution to the case, unless the parties decide to settle their respective claims.

will disrupt the current application process, or that the *Manwin* court will rule in a way that requires TLD operators to change their rules for defensive registrations. Because the *name.space* court is considering the antitrust implications of the entire TLD market, a ruling against Ican, although unlikely, might invalidate the procedures developed in the current round for distributing the names in that market.

A ruling against Ican in the *Manwin* case would not have such sweeping consequences for the entire round, but may alter the rules that TLD operators can implement with regard to defensive registrations. TLD applicants – and brand owners who are concerned with the possible need for increased defensive registrations should follow the *Manwin* case.

It is possible that TLD operators may have to begin offering defensive registrations in some other manner, which could affect revenue models for TLD operators or expense projections for brand owners.

### Antitrust may be the key

Of immediate interest – and in contrast to the general trend that courts are reluctant to interfere with Ican – is the *Manwin* holding that Ican is subject to antitrust laws as a commercial actor. Despite the other difficulties with holding Ican accountable in US court, this holding does provide a solid basis for challenging Ican in the future.

Of course, potential challengers will have to define a rele-

vant market, describe Ican's power in that market, and show an antitrust injury. The *Manwin* and *name.space* cases describe two possible markets, but there are no final rulings on those questions yet, and Ican may well be liable in other markets in which it conducts some commercial activity. Accordingly, there is room for creative thinking about ways in which Ican may be liable under antitrust and competition laws in light of *Manwin*.

### Ican is waiting

The full ramifications of the recent court challenges will not be clear for some time. Nonetheless, it seems likely that additional cases will be brought in the coming months. Ican is certainly expecting it and is prepared – it has publicly stated that it has set aside significant funds for the purpose of responding to legal risk. Thus far, plaintiffs have found mixed success in their complaints against Ican, but even their failures may prove instructive to future challengers.



Flip  
Petillion



Emily  
Alban



Jan  
Janssen

© Flip Petillion, John Murino, Emily Alban and Jan Janssen 2013. Petillion is a partner, Murino is a counsel and Alban and Janssen are associates at Crowell & Moring