

INTA Internet Committee Comments on Defensive Applications for New gTLDs

February 27, 2012

The Internet Committee of the International Trademark Association is pleased to submit comments concerning defensive applications for new gTLDs as requested by ICANN on 6 February 2012.¹

Introduction

As INTA previously identified through public comments several years ago,² defensive applications are an unfortunate, but real consequence of the New gTLD Program. To address these significant external costs imposed by the New gTLD Program, we recommend remedies based on ICANN's obligation to reduce harm and enhance potential benefits of new gTLDs, consistent with its obligations under the Affirmation of Commitments.³

We proceed by describing various causes of defensive applications, and propose tailored solutions to mitigate the incremental costs generated by such defensive filings. At the outset, we should clarify that the call for comments appears to proceed from a false assumption that the pressures for defensive applications for new gTLDs are merely "perceived" and not a reality. On the contrary, we believe the pressures faced by applicants for defensive registrations are real. Many of the pressures on brand owners to apply for defensive gTLD registrations are broader than pure trademark protection concerns, and indeed are not exclusive to applicants considering a branded gTLD.

The Last Mover Disadvantage

One primary example of these non-trademark pressures is analogous to the classic "prisoner's dilemma" from game theory. It will not be known until after the close of the initial application period whether enough major brand owners will obtain their own gTLDs to create a perception that brands *without* a gTLD are somehow deficient. Similarly, a brand owner does not know whether its own major competitors will all apply for branded TLDs, leaving that brand the only one without a TLD (what one might call the "last mover disadvantage"). At the same time, it is unclear when a second gTLD application period may occur, with many estimates being years in the future. Brand owners therefore feel pressure to apply for gTLDs now, even if they would not otherwise, simply to avoid being locked out for years of what may come to be seen as the premium strata of the Internet. These rules and policy limitations generate artificial demand and pressure for defensive applications.

¹ See <http://www.icann.org/en/public-comment/newgtlds-defensive-applications-06feb12-en.htm>.

² See comments from INTA on the Expressions of Interest proposal. January, 2010, available at: <http://www.inta.org/Advocacy/Documents/January272010.pdf>

³ See Affirmation of Commitments. Section 9.3 Promoting competition, consumer trust, and consumer choice: ICANN will ensure that as it contemplates expanding the top-level domain space, the various issues that are involved (including competition, consumer protection, security, stability and resiliency, malicious abuse issues, sovereignty concerns, and rights protection) will be adequately addressed prior to implementation.

Uncertainty over Improper String Similarity Preclusion

Another non-trademark pressure to apply defensively for a gTLD stems from uncertainty over how the String Similarity rules will play out as binding decisions. Because the String Similarity Panel has not yet made any actual decisions, brand owners have no feel for how closely Panel decisions will follow the algorithmic score, beyond the statement in the Applicant Guidebook that whilst the score is only indicative “applicants should expect that a higher visual similarity score suggests a higher probability that the application will not pass the String Similarity review” (Applicant Guidebook (AGB) 2.2.1.1.2). The algorithmic scores are themselves problematic, because experimentation with the publically available algorithm tool shows that many sets of words, particularly shorter terms, which would not create confusion in a trademark analysis, nonetheless receive very high percentage scores. This uncertainty over how broad String Similarity preclusion will work creates an incentive to make defensive gTLD applications in the first round, if a potential applicant is concerned that its desired mark or string may be similar to another string that could be the subject of an unrelated application. If the potential applicant goes ahead and applies and the Panel declares an applicant’s string to cause string confusion with another applicant within the first round, the strings will be placed in a contention set, giving the applicants opportunities to argue their positions, seek a settlement or ultimately proceed to auction. Any applicant waiting until the second or later round of applications, however, runs the risk of having its application fail completely, with no possibility of further review, if its proposed string is found to be too similar a previously-registered string. Moreover, as pointed out by the Intellectual Property Constituency in its April 2011 comment on the AGB, there is not a clear mechanism to permit two applicants that have been placed into a string contention set to enter into consent or co-existence arrangement concerning their respective applied-for top-level domains.⁴ This severe disadvantage to applying in later rounds, coupled with uncertainty over how broadly the Panel will apply the similarity rules, strengthens the pressure to make a defensive first-round application.

Multiple User Competition

Another situation in which a brand owner may feel motivated to apply defensively to operate a gTLD is in the situation in which it would not otherwise apply to operate the TLD, but is concerned that another party with legitimate rights might apply, thereby potentially forever blocking the brand owner from using the TLD. This could either be another trademark owner that uses the same term for dissimilar goods or services or in another region, or could be another with legitimate interests in using the term because it is generic in connection with a different set of goods or services. One frequently-discussed hypothetical might be if Apple Inc., the maker of MacBook’s, iPhones and iPods, applied for .apple to avoid the possibility that the string might be controlled by an apple growers’ association, or if United, the airline, applied for .united so that the registry would not be controlled by United Van Lines, or if Prudential, the U.K. financial services company, applied for .prudential, to avoid it being controlled by Prudential, the U.S. financial services company. The only way that a brand owner can ensure control of the string

⁴ See IPC Comments available at: <http://forum.icann.org/lists/6gtld-guide/pdfnOrfLLmjCP.pdf>

that corresponds to its mark, even if the brand owner deems it most likely that it will have no business use for the registry, is to file its own defensive gTLD application.⁵

Other Concerns – Defects in, and Uncertainty about, RPMs May Lead to Defensive Applications

Beyond these specific pressures described above, ICANN’s entire process for developing gTLD application rules and procedures has not engendered confidence in brand owners. In light of extensive levels of intellectual property abuse prevalent in the current generic domain name space, the IRT report proposed a suite of measures that were designed to work in concert to minimize intellectual property infringement in and through the new gTLDs. We regret that ICANN chose to reject some of the proposed measures, most notably the Globally Protected Mark List, and diluted the effectiveness of many of the measures that it did adopt.

For example, a trademark owner whose brand is also, in another context, a dictionary word that may be a generic for another category of goods or services might be content for a third party to operate a gTLD using that generic word if it can be reasonably secure that the terms of the application make it clear that domain name registrations will only be issued to registrants outside of the trademark owner’s field of operation. Again, hypothetically, Apple, Inc. might be concerned that a registry by apple growers for .apple not be flooded with domains referring to computers, phones, and music players. However, the recourse afforded to the brand owner by the PDDRP may not be adequate to give them comfort if the gTLD is then used inappropriately. The burden of proof on the complainant is a high one; except in limited circumstances the recommended remedy cannot take the form of deleting, transferring or suspending offending domain name registrations; and ICANN is not a party to the PDDRP proceedings, nor is it bound to adopt the recommendations of the Expert Panel. The weaker the overall trademark rights protection tapestry became, the more pressure was placed on trademark owners to apply for defensive gTLD registrations in order to protect their rights.

This is the first time that there has been such an extensive and unregulated gTLD launch. Previous launches have been limited in number and there has been certainty in advance as to the TLD strings in question. The new gTLDs are essentially launching in a “landrush” at the top level, without any initial phase or other process affording priority or protection for trademark rights. There is a well-founded belief, therefore, that inadequate consideration is being given to intellectual property rights protection in this process. In recent TLD launches there were a range of measures adopted, which were intended to offer a degree of trademark protection. At the second level of the domain space, it has also been common to see an initial phase of one or more sunrise periods, during which those who can demonstrate genuine trademark rights (both registered and, in some cases, unregistered) are given a priority application period during which they can acquire domain names before the landrush begins. Alternatives to such a sunrise have included the 6-week defensive registration period for trademark owners in .pro and the 30 day period in .xxx for submission by trade mark owners of blocking applications lasting for 10 years.

⁵ Once the trademark owner becomes an applicant, a set of additional protections become available (e.g., String Similarity Review, String Confusion Objection, etc.). This is “justice for sale” (or at least “access for sale”), since the brand owner needs to commit to paying \$185,000 just to participate in these protective procedures.

In this landscape it is not surprising that some brand owners consider a defensive application to be the only option. It would in fact be surprising if they did not.

Recommendations

Given the reality (not the “perception”) that trademark owners need to consider defensive new gTLD applications, we suggest that ICANN consider at least the following changes to the application process. While other protections might have been desirable from the outset, and while ICANN’s belated solicitation of proposals therefore limits the range of solutions that might be considered, we are mindful of the need to suggest changes that might be adopted at this late stage.⁶ These changes would help address the reality that brand owners are currently facing, which in turn would help reduce the pressures that they are facing to consider defensive applications.

- ***The “Opt-Out” or Refund Process:*** Neither ICANN nor the Internet community is interested in having gTLDs owned solely for defensive purposes. Removing some defensive applications from the process would allow ICANN to focus its evaluation efforts on productive gTLDs serving the purpose of the new gTLD program. The Committee recommends affording new gTLD applicants an opportunity for a full refund of USD 180,000. (USD 185,000 application fee, less the USD 5,000 registration fee). This model is consistent with the USD 5,000 nonrefundable component as currently set forth in the New gTLD Financial Assistance Handbook for reduced evaluation fees (Version 2012-01-11, page 5). The opt-out or refund decision would need to be made by new gTLD applicant after the list of all new gTLD applicants is published, currently planned for May 2012. Allowing for a full refund option until one month after the publication of the applicant list, should not interfere with ICANN’s Initial Evaluation, which is expected to begin June 2012. As a result, the Refund table in section 1.5.1 of the AGB should be revised as follows:

New Item: Within 30 calendar days after the applications are publicly posted on ICANN’s website (1 May “Reveal Day”). Refund Available to Applicant - 100% (USD 180,000)

Revised Item (currently 1st item in table): Within 21 calendar days of a Government Advisory Council (GAC) Early Warning - 80% Refund, unless still within 30 calendar days after the applications are publicly posted on ICANN’s website, then 100%

⁶ Years after ICANN declined to adopt the Globally Protected Marks List (GPML), its basic concept is still alive and requested under a different name, the ‘Do Not Sell List.’ This shows that the principle of blocking terms from the outset has not lost demand by the community, even after several years and multiple iterations of the Applicant Guidebook. While we expect ICANN will continue to ignore such concepts, adding that they come too late in the process, the community should recognize that it is only now late in the process because ICANN unwisely dismissed the proposal in the first place.

Revised Item (currently 2nd item in table): 31 days after posting of applications until posting of Initial Evaluation results - 70%

The last 3 items in the table remain the same.

- **Batching Applications:** Upon urging from the U.S. Department of Commerce, the ICANN Board commissioned an economic report by Greg Rosston from Stanford University and Michael Katz from the University of California Berkeley to: (1) survey published studies and resources that describe the potential impacts of gTLD introduction; (2) examine theoretical arguments about benefits and costs of gTLDs; and (3) consider and impose new empirical studies that could help access costs and benefits. Their recommendations were published in a June 2010 report entitled, “An Economic Framework for the Analysis of the Expansion of Generic Top-Level Domain Names” (the “Economic Framework Report”).

The Economic Framework Report concluded that the decision to approve a particular new gTLD should be made on the basis of whether the net social benefits from its introduction are positive. Importantly, the drafters of the Economic Framework Report expressed that the introduction of large numbers of new gTLDs would be a historical experiment for which no one can extrapolate the future costs and benefits. As such, the drafters felt that ICANN should carefully weigh, on a case-by-case basis, the benefits and costs of each new gTLD. To accomplish this, the Economic Framework Report recommended that, “...it may be wise to continue ICANN's practice of introducing new gTLDs in discrete, limited rounds...and that ICANN could structure its approval process to favor those proposals that offer high expected values of *benefits to other parties* and low expected values of *costs to other parties*.”⁷

The Committee believes that if ICANN is serious in providing relief from the very real pressures of defensive applications, it should consider batching new gTLD applications to minimize external costs and enhance potential benefits, with applications for .brands and .generics processed after applications for IDN and community names. The concept of allowing IDN, community and geographic applications to be examined and delegated first, in combination with an opportunity to Opt-Out, or other similar mechanism, may allow some of the most beneficial applications to proceed, would allow brand owners to forestall the expenses of running registries and potentially withdraw applications under the rules if their continued prosecution appeared unnecessary, and would give ICANN the time that it needs to develop policies to relieve defensive application pressures.

Conclusion

We urge ICANN to consider these proposals, and move swiftly to change the current situation that is otherwise likely to lead to the reality, and not merely the “perception,” of defensive registrations of gTLDs.

⁷ See An Economic Framework for the Analysis of the Expansion of Generic Top-Level Domain Names, prepared for ICANN June 2010. Page 17, Section 25.

Thank you for considering our views on these important issues. If you have any questions regarding our submission, please contact INTA External Relations Manager, Claudio Digangi at: cdigangi@inta.org

About INTA & the Internet Committee

The International Trademark Association (INTA) is a more than 131-year-old global organization with members in over 190 countries. One of INTA's key goals is the promotion and protection of trademarks as a primary means for consumers to make informed choices regarding the products and services they purchase. During the last decade, INTA has served as a leading voice for trademark owners in the development of cyberspace, including as a founding member of ICANN's Intellectual Property Constituency (IPC).

INTA's Internet Committee is a group of over two hundred trademark owners and professionals from around the world charged with evaluating treaties, laws, regulations and procedures relating to domain name assignment, use of trademarks on the Internet, and unfair competition on the Internet, whose mission is to advance the balanced protection of trademarks on the Internet.