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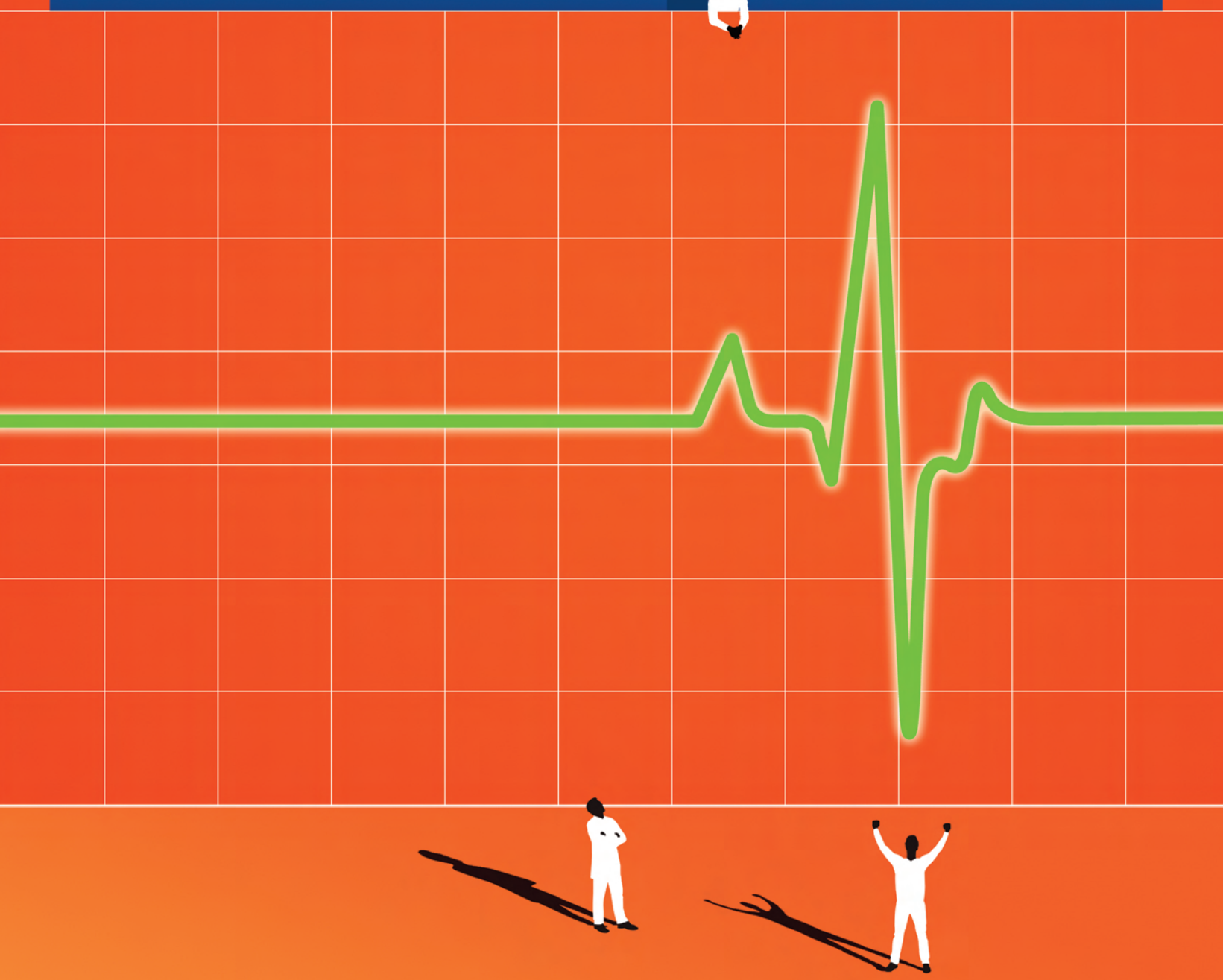

Measuring industry health

How brands and trademark teams are recovering from the economic slump

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Feature
By **David Taylor**

What do Columbus, the Americas and new gTLDs have in common?

As *WTR* went to press, ICANN had not yet revealed the list of first-round generic top-level domain applications. However, with the window now closed, it is useful to look back at the application process, costs and driving factors – as well as the objections and dispute resolution processes in place for non-applicants, and the defensive strategies available

On January 12 2012 the Internet Corporation for Assigned Names and Numbers (ICANN) began accepting applications for new generic top-level domains (gTLDs) – in layman's terms, the letters to the right of the dot in a website address, such as '.com'.

While clients – and some lawyers – may wonder what the fuss is about or be otherwise unaware of this, the change marks a significant development for us all. We are looking at an unprecedented expansion of the Internet's addressing system in the coming years. The rationale given is a perceived shortage of internet addresses or domain names; thus, in a little over a year from now, we will start to see new gTLDs such as '.paris', '.london', '.berlin', '.music', '.hotel', '.gay' and '.blog'.

Indeed, certain brand owners are seizing the opportunity and are applying for new gTLDs themselves. Many applications are in the offing and, while generally highly confidential, some companies have announced their plans, including Canon, Hitachi and UNICEF. Given that the application fee alone is $185,000 – and that is just the tip of the iceberg – not everyone will follow suit.

ICANN's expansion process has involved considerable debate among global stakeholders and nine versions of the so-called Applicant Guidebook, each one subject to comments as part of a multi-stakeholder process. That process – which has been something of a rollercoaster ride over the last six years –aims to enhance diversity, choice, competition and innovation. ICANN's president, Rod Beckstrom, has claimed that the process will "unleash global imagination... to better serve all of mankind".

While that statement may possibly be overly enthusiastic, the process clearly does provide opportunities for innovation. Potential benefits to the Internet include opening domains to users hitherto less well served through the ability to create gTLDs in non-Latin, non-English characters.

However, opponents are less optimistic about this process, driven by the registry operators and registrars that dominate ICANN, arguing that it is deeply flawed and will encourage a multitude of new opportunities for scammers, with significant ramifications for law enforcement and consumers.

It will also inevitably impose a considerable burden on brand owners. That will require a significant shift in online brand protection strategies; any business with a web presence will need to increase its budget in order to continue to protect its brands.

But brand owners and businesses have also been given the opportunity to register and run a '.brand' for themselves. It will be interesting to see how many avail of this opportunity. By the time you read this, you should know who has applied and who has not.

To apply or not to apply: that was the first question

The application window ran for only 90 days, from January 12 to April 12 2012 (but was unexpectedly extended to April 20 as WTR went to press). As yet, there is no clear date confirmed for the second round, which may be between two and five years away.

Therein lay the dilemma for many applicants. Most considered this process primarily with regard to the threat posed by cybersquatting across a multitude of new TLDs; applying was an afterthought for many.

The fear of missing a potential opportunity, which may not come around again for maybe two to five years, was a very real one – especially if a competitor took up that same opportunity. The decision as to whether to apply weighed heavily on many brands – and the last-minute frenzy that many experienced was not unexpected by those involved in the industry.

Application process – key stages

The application process, as defined in the current Applicant Guidebook published on January 11 2012, can be broadly broken down as follows:

- preparation and submission of the new gTLD application;
- ICANN administrative completeness check; and
- ICANN initial evaluation (and extended evaluation, if necessary).

Based on the Applicant Guidebook, the shortest timeline from submission of a new gTLD application to delegation of the new gTLD by ICANN is approximately nine months. This is for an application that passes the initial evaluation, has no objections and is not in a

string contention set.

A more complex application that requires extended evaluation, must undergo a dispute resolution process due to objections and involves the resolution of any string contention sets could take approximately 20 months to complete.

Potential costs

In essence, the applicant is not registering a domain name, but applying to run a domain name registry, just as Nominet runs '.co.uk, Verisign runs '.com'. This brings with it a plethora of responsibilities.

Each applicant must respond to 50 detailed questions, with the answers running potentially to several hundred pages. On the positive side, one could count on outsourcing the technical aspects to a registry service provider, of which there are about 20 in the market today, with varying experience; but choosing the right one for the job will depend on many factors, including cost and flexibility.

> "I believe that fear became one of the major driving factors for brand owners when considering applying"

The costs are significant: the application fee alone is $185,000, with annual fees of $25,000 a year to cover up to 50,000 domains, plus an annual fee of $0.25 per domain above this threshold.

Each applicant must provide financial evidence of creditworthiness worth the equivalent of the operating costs of the 'critical registry functions', estimated at between $18,000 and $300,000, depending on the number of domains – the goal being to seek to prevent eventual new gTLD failure.

Registry service provider charges depend on the type of registry. Whether a defensive registry with minimal registrations or a closed brand registry with up to, say, 10,000 domains, the annual costs may range between $50,000 and $150,000.

With consultancy fees and legal fees on top, plus the potential additional costs involved with an eventual extended evaluation, the costs over five years may be anywhere between $1 million and $2 million.

In addition, in cases where there are strings in contention with each other, the ultimate solution is auction, so the potential for incurring further costs is ever present. Thus, any new gTLD application needs to be made with a clear strategy in place.

Driving factors

I believe that fear became one of the major driving factors for brand owners when considering applying.

In some instances this was misplaced – arguments that cybersquatters may apply for a brand and thus prevent the brand owner from obtaining the top level in the future are pure scaremongering, for instance. With an application fee of $185,000 and mechanisms such as the legal rights objection (LRO) process in place (discussed further below), few cybersquatters would wish to risk that sort of money, so there will be no cybersquatting at the top level.

However, permanent string preclusion – being locked out of ever applying for a TLD in the future because of an identical or confusingly similar application – is a valid concern.

It exists because co-existence in the real world does not transpose to the domain name system and the virtual world of ICANN.

Thus, for example, an application for '.united' by Manchester United would permanently preclude any other application for '.united', whether by other famous football teams such as Carlisle United or other businesses in a completely different area, such as United Airlines or United Pharmaceuticals.

Similarly, if successful, an application for '.nationwide' by Nationwide Rental Cars in New Zealand could block Nationwide bank in the United Kingdom from applying in the future.

But worse still, since the exclusion will apply to confusingly similar TLDs, '.abc' could exclude '.bbc' forever, just as '.ups' could exclude '.ubs'.

A new era of cybersquatting?

Cybersquatting remains the biggest fear of brand owners and businesses, as well as law enforcement, and ICANN has sought to put in place appropriate mechanisms to combat this risk.

Top level

At the top level, any application may be subject to challenge by a trademark owner. The first application window will be followed by an opposition period, for various types of objection, which is expected to open in May 2012 and run for approximately seven months.

During this time trademark owners may file an LRO with the World Intellectual Property Organisation (WIPO). Under this

> **"My prediction has been the same for over a year: that the number of applications for TLDs will be 1,492, the year that Columbus discovered the Americas"**

procedure, and subject to a number of factors, a panel will determine whether the potential use of the applied-for gTLD, with regard to the objector's trademark:

- takes unfair advantage of its distinctive character or reputation;
- unjustifiably impairs its distinctive character or reputation; or otherwise creates an impermissible likelihood of confusion.

Second level

Over the last three years in particular, brand owners and representative associations have lobbied for the inclusion of substantial rights protection mechanisms, over and above the Uniform Dispute Resolution Policy (UDRP).

In March 2009 ICANN set up a special Implementation Recommendation Team (IRT) to propose and develop solutions to the issue of trademark protection in the upcoming new gTLDs. Despite the specific rights protection mechanisms put in place, at the end of last year certain parties which were unhappy with the outcome of this multi-stakeholder process sought to bypass ICANN by taking unilateral action via the US government in an attempt to delay the process. This has been unsuccessful to date, and most brand owners are now seeking to deal with the inevitable issues before them.

One proposal put forward by the IRT was for the creation of a Trademark Clearinghouse – effectively, a database of verified registered word mark rights. All new gTLD registries will be required to use the clearinghouse to support pre-launch or initial launch period rights protection mechanisms. These rights protection mechanisms must, at a minimum, consist of a trademark claims service and a sunrise process.

Trademark owners that file in the clearinghouse will also receive notice whenever a domain name identical to their mark is registered; although unfortunately, the sending of such a notification is not prior to the registration, thereby putting both the applicant and the brand owner on prior notice.

While the clearinghouse is not perfect, when coupled with the mandatory sunrise periods for each TLD, it will in all likeliness reduce the extent of infringing registrations at the second level - although it will still be an additional cost for brand owners.

As for sunrise itself, prior to any new gTLD going live, a trademark holder with filed trademarks in the clearinghouse will have the opportunity to pre-register certain domains. The fact remains, however, that if you wish to prevent your trademarks from being registered in all new gTLDs, you will have to participate in each sunrise period – a costly affair.

If a company has only a single brand, then costs may not be significant. However, if there are, for instance, 1,000 new gTLDs and a company seeks to defensively register one brand in half of those, at between $200 and $300 per registration, that entails a cost of between $100,000 and $150,000 - not insignificant for many businesses. I would hope that some new gTLDs put in place a sunrise period that allows a certain number of typo-squats around a trademark. Thus, if, for instance, my firm was to secure 'hoganlovells.paris' under sunrise, it might be allowed, say, 20 typo-squats around that for the same fee (eg, 'hogenlovells.paris', 'hoganlovels.paris').

Large corporations could find themselves with figures far in excess of that; Fox Entertainment Group estimated additional costs of $12 million at a US congressional hearing in May 2010.

Whether or not this is an excessive estimate, the fact remains that some large companies will need to assign significant resources to something which arguably has no positive purpose for them. Many have claimed that it is akin to extortion; others are concerned that such increased costs may ultimately be passed on to consumers.

The UDRP will be applicable to every new gTLD. The UDRP itself is widely recognised - by complainants, registrants and counsel to both - to have been effective at managing disputes over the last decade, thereby avoiding the expense of court proceedings.

In addition to the existing UDRP, the Uniform Rapid Suspension System (URS) – the new kid on the block – will be available as a rapid, low-cost alternative to the UDRP. The result of a successful complaint is the suspension of the domain for the remaining duration of the registration and notification of the dispute on the website.

Suspension, rather than transfer, is a key element of the process, designed to deal with clear-cut cases of trademark infringement, where a brand owner may be dealing with a registrant holding a multitude of domain names, and may well not wish to benefit from a transfer and incur the subsequent costs of maintaining those same domains.

However, the URS as proposed by the IRT was subjected to considerable tinkering over the ensuing two years, due to the nature of the ICANN process itself, resulting in a mechanism that is far removed from that designed at the outset. Unlike for the UDRP, the domain owner may file a response up to 30 days after a decision has been rendered and seek a *de novo* review of a URS decision. How readily the URS is taken up remains to be seen. It will also be interesting to see who ultimately acts as a URS provider, with no current domain dispute provider apparently jumping at the opportunity. A fast-track version of the UDRP may well have been a

preferable solution.

Another potentially important rights protection mechanism is known as the Post-Delegation Dispute Resolution Procedure (PDDRP). This was designed by the IRT, based on a model by WIPO, for trademark holders to proceed against registry operators that have acted in bad faith and with the intent to profit from the systemic registration of infringing domain names. The PDDRP could be an important preventative measure in deterring new gTLD operators from seeking to profit from infringing domains – something already seen in existing TLDs.

Outlook

Many of us are waiting with bated breath for early May, as only then are we likely know the total number of applications and who has submitted them.

My prediction has been the same for over a year: that the number of applications for TLDs will be 1,492, the year that Columbus discovered the Americas. Columbus made his inadvertent discovery when he landed in the Bahamas archipelago, at a locale he named San Salvador; he had been heading for Japan. This may prove to be an uncomfortable analogy with the new gTLD process itself and its goals - or perhaps my guess will prove about as wide of the mark as Columbus was!

The key task for brand owners over the last year – and no easy one - has been to evaluate the impact and potential benefits of this new gTLD opportunity, as well as the threats it poses. We have reached a pivotal point in online brand protection strategy. No one knows exactly how the process will change the face of the Internet.

In a decade, most major brands may have their very own gTLD registries; those that have seized the opportunity today may gain a significant advantage or may potentially have wasted their money. Brands and businesses may eventually be able to reduce their domain name portfolios and associated costs in the long term, but in the short term it seems that costs can only go up.

We may even find ourselves with a convergence of technology, using TLDs as keywords in a browser alongside the existing keyword offerings of Google, Yahoo! and Bing.

ICANN's goal of enhancing diversity, choice, competition and innovation may ultimately backfire, and without genuine innovation, consumers will find themselves baffled by the potentially thousands of different extensions. Perhaps ICANN may find that the end result of the new gTLD process is as far off target as Columbus was in looking for Japan; and we may yet see that search engines will be the ultimate beneficiaries. WTR

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