

News from our Trademark, Copyright & Advertising Group

New GTLDS: Potential Opportunities and Headaches for Trademark Owners

Overview

On June 26, 2008, the Internet Corporation for Assigned Names and Numbers (ICANN) approved a plan to add more generic top-level domains (gTLDs). Under the draft rules, applicants may propose almost any name or word to become a new gTLD. On one hand, this plan affords new opportunities for trademark owners who can escape the current zero-sum landscape of cyber real estate where only one company at a time can, for example, register the .com domain for a particular mark. However, the plan also requires greater investments by mark holders to protect brands from abuse.

Background

Currently, 21 gTLDs exist for internet users. They include popular domains like .com, .edu, .org, and industry-specific ones such as .mobi (for sites accessed from mobile devices) and .travel (sites related to the travel industry). Citing the need for more cyber real estate and a streamlined TLD-granting procedure, ICANN agreed to add more gTLDs. On October 24, 2008, ICANN released the Draft Applicant Guidebook,¹ which is available for public comment until December 8, 2008. ICANN expects to publish a second draft for further comment before finalizing the Applicant Guidebook in early 2009. Initial forecasts estimate 500 applications for new TLDs in the first round.

Applicants face stringent requirements to own and serve as an administrator for a new TLD. First, ICANN will evaluate each

applicant's business plan and technical capacity. Applicants must demonstrate the technical, financial, and operational ability to administer the new TLD. Second, a new TLD is expensive. Based on tentative figures in the Draft Applicant Guidebook, a new gTLD price tag includes: application fee of \$185,000; annual registry fee, which is the greater of \$75,000 or 5% of transactional revenue; user registration fee of \$100; possible extended review fee of \$50,000; possible dispute resolution costs estimated at \$2,000-\$122,000; possible auction bidding costs; possible comparative evaluation fee; and costs associated with marketing the new TLD to users.

Aside from capacity and costs, the draft rules pose virtually zero restrictions on the applicant. Any established corporation, institution, or organization from any country may apply to turn any brand, name, or word, in English or certain non-English languages, into a TLD. For example, a new TLD may be .shop, or .wikipedia.

However, the draft rules allow third parties to object to proposals on any of four grounds:

1. The proposed TLD infringes on the existing legal rights of others;
2. The proposed TLD is confusingly similar to an existing TLD;
3. The proposed TLD is contrary to morality and public order;
4. There is substantial opposition from a significant portion of the community targeted by the TLD.

Independent organizations² would resolve objection disputes between the applicant and third parties. In the event that more than one entity wants identical or confusingly similar TLDs, the name will be auctioned off to the highest bidder.

All new TLDs must also include a "Rights Protection Mechanism." At a minimum, this requires that all second-level registrations will be subject to ICANN's Uniform Domain-Name Dispute-Resolution Policy.

Opportunities for trademark owners

The new TLDs present a golden opportunity for some trademark owners. Owners

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of conflicting but equally valid marks may particularly benefit from expanding cyber real estate. Currently, prime real estate on the internet is scarce. .Com, the most valuable TLD, is a zero-sum universe for mark holders. Although different companies may legitimately hold identical trademarks, only one may own the mark as a second-level domain on .com. For example, DELTA is a valid trademark held by an airline, a faucet company, and a dental insurance company. Yet, only one company can own www.delta.com (incidentally, Delta Airlines). With additional TLDs, Delta faucet and Delta dental insurance could establish themselves at www.delta.shop and www.delta.health, respectively. Indeed, the demand for more real estate for brand owners is one of the reasons behind introducing the new TLDs.

Additionally, a branded TLD could hold significant consumer and corporate value for the owner. For example, the authentication value of a trademarked TLD is immeasurable for businesses whose customers are regularly targeted by phishers. By having the companies' own branded TLDs, their customers are assured of the legitimacy of emails and websites ending in that TLD. Therefore, Citibank may acquire .citi or .citibank and ensure that all/only communications through those TLDs are authentic. Citibank's TLDs would consequently protect the company and its customers from fraudulent scams by hackers or phishers.

Challenges for trademark owners

Nevertheless, trademark owners anticipate more problems than opportunities ahead. Trademarks are already exploited in existing cyberspace. Mark holders currently invest substantial time and money protecting their brands against infringement, confusion, and cybersquatting. Companies operating a website with significant traffic, for example, often must register multiple misspellings and other potential abuses of their name. Otherwise, cybersquatters

may purchase similar-sounding domains to resell for a profit, misdirect potential consumers, or infect user computers with viruses or unwelcome software. Increased domain space will likely lead to a corresponding proliferation of trademark abuse.

With the new TLDs, trademark owners will continue to bear the burden of policing their marks. Proposed TLDs are not supposed to infringe on others' existing legal rights. However, ICANN will not maintain a trademark registry or filter against any database to prevent such registrations. ICANN also will not affirmatively check whether the applicant is the rightful trademark owner. Therefore, trademarks will not receive automatic protection from third party registration; owners must rely on their own policing efforts and raise timely objections. Consequently, increasing domain space will very likely require significant additional investments in policing efforts for mark holders.

To prevent registration of an infringing domain, brand owners must initiate a dispute resolution process. The effectiveness of that dispute resolution process is still unclear. How will it be decided who receives the TLD where multiple legitimate but conflicting marks exist? In what jurisdiction must a mark be "confusingly similar"? The nascent dispute resolution process may ultimately prove unsatisfying to brand owners.

Trademark owners may always preempt abuse by defensive registration. The feasibility of this solution largely hinges on the company's trademark management budget. For some trademark owners, defensive registration may be a more economical alternative to policing new TLDs administered by third parties. Businesses that will gain important consumer and corporate value in the new TLDs may find this option to be particularly cost-effective. However, for other mark holders, defensive registration could be an unrealistic solution due to prohibitive costs.

New TLDs may also pose a free riding problem. Developing a brand presence on a new TLD entails major initial outlays. However, some companies may free ride on consumer traffic produced by the investment of others. For example, for a new .cars TLD, Ford and Toyota may spend significant sums on advertising to brand ford.cars and toyota.cars. However, Nissan may acquire nissan.cars and spend nothing to promote it, yet free ride on consumer awareness of .cars sites generated by Ford and Toyota's marketing investments.

Conclusion

ICANN's approval of new gTLDs presents fresh opportunities as well as challenges for trademark owners. Although the future of the new generation of TLDs is uncertain, at a minimum, businesses should revisit their trademark/domain name management budgets and policies in advance. Early attention will help trademark owners position themselves to respond to new TLDs efficiently and effectively. For help navigating the upcoming changes in the TLD structure, or domain name issues generally, please contact one of the attorneys listed above. ■

Notes

1 New gTLD Program: Draft Applicant Guidebook, Oct. 24, 2008, www.icann.org/en/topics/new-gtlds/draft-rfp-24oct08-en.pdf.

2 ICANN's selected dispute resolution providers include the Arbitration and Mediation Center of the World Intellectual Property Organization (for legal rights objections), the International Chamber of Commerce (for morality and public order objections and community objections), and the International Centre for Dispute Resolution (for string confusion objections). "New gTLDs—Frequently Asked Questions" n. 14, www.icann.org/en/topics/new-gtld-strategy-faq.htm.