



Your \$30 million licence to sue ICANN

As the controversial domain name expansion approaches, litigators are circling. *WTR* looks at the possible legal grounds for lawsuits against the policy and the \$30 million fund designed to fight them

As the expansion of the domain name space draws ever closer, trademark owners fearful that this will result in the wholesale infringement of their rights must begin to look beyond rights protection. It is only with an in-depth understanding of how the expansion policy has evolved that brand owners can plot their strategies for the online revolution.

The first thing they need to know is that the Internet Corporation for Assigned Names and Numbers (ICANN) plans to amass a hefty war chest to fight lawsuits arising from the expansion. The cash will come from the fees paid by applicants wishing to run a new generic top-level domain (gTLD) space. ICANN intends to set aside \$60,000 from every fee received for “risk costs” – that’s almost one-third of the full \$185,000 fee. Based on ICANN’s prediction of 500 new generic TLD applications, this could raise \$30 million for the non-profit organisation. When *WTR* asked Peter Dengate Thrush, chair of ICANN’s board, for the reasoning behind the risk tax, he answered: “Prudence. If we hadn’t done it, we would be highly criticised when the first lawsuits appeared. What fuels prudence is the uncertainty factor.”

The fund reveals not only that ICANN is arming itself for legal battles, but that it has put a figure on how much it may need. “All of the costings have gone through rigorous analyses,” Dengate Thrush explained. “We’ve taken financial advice and looked at buying insurance against the cost of litigation.” When asked whether this implied that the board expected litigation, he replied: “No, it’s just prudence – most people have life insurance.”

But life insurance policyholders know that they are going to die. In the same way, ICANN observers are certain that once the new gTLD programme takes off, its detractors will attempt to pull it back down to earth. Longstanding critics could even make the contentious policy the cornerstone of a lawsuit that attempts to contest ICANN’s perceived monopoly over the Internet – while ICANN may win praise from some quarters for its plurality, it also

attracts the ire of those who advocate alternative models of governance. With its very existence at stake, a challenge to ICANN on this basis is not one that the corporation will take lying down – hence its decision to levy the risk tax on new gTLD applicants. The full breakdown of the \$185,000 application fee is as follows:

- \$26,950 for development costs – that is, all costs incurred from the date of the new gTLD policy recommendation in October 2007 until the launch;
- \$97,800 for application processing costs, such as those required to process applications from submission until rejection, or delegation of the new string into the root zone of the Internet; and
- \$60,000 for risk costs, vaguely part-defined in ICANN’s cost analysis as including “unanticipated costs such as variations between estimates and actual costs incurred”.

Dengate Thrush all but admitted that moneys from the “risk costs” would be used to fight litigation. But this hedge has been panned by members of the ICANN community – not least those who participated in the painstaking process to develop what they consider to be a robust policy. “It is a steep amount, especially if you are going to apply for internationalised domain name transliterations of the same string under the same business model,” says Constantine Roussos, founder of the active ‘.music’ initiative, one of the more innovative potential global enterprises within the new space.

Pioneers such as Roussos are excited about new gTLDs, but the \$30 million risk tax does little to instil confidence in the new domain space for applicants or second-level registrants (a category which will doubtless include almost every brand owner with a net presence). ICANN admits that it is in a position where it must seek to mitigate the risk attached to its model of policy development. Kurt Pritz, who is leading the implementation of new gTLDs, says: “If this process attracts a lot of litigation, and ICANN published the process and then did not follow it, or that the process wasn’t clear so that the applicant had no way of predicting what was going to happen to its application, the risk is then litigation would halt the process and undermine the ICANN model.”

Just as members of ICANN’s IP Constituency have reacted vocally to the corporation’s approach to trademarks in the new gTLD process, so too have others questioned ICANN’s apparent interest in self-preservation. Robin Gross, a member of ICANN’s Non-Commercial Users Constituency, has said: “I’m concerned that there’s a new policy goal – a new primary policy goal – which is the risk mitigation strategy for ICANN. I don’t remember us ever deciding that that was going to be a policy goal. But it seems that now what is in the best interest for the Internet is irrelevant. The policy goal that rules is

Peter Dengate Thrush is preparing to end his term as chair of ICANN in June. Will he leave with the controversial organisation facing a barrage of lawsuits?



what is in the best interest for ICANN the corporation.”

Delaying influences

While self-preservation may be an implicit objective, ICANN's stated goal of launching the new gTLDs has been stymied by myriad factors. By far the biggest spanner in the works has been thrown by the IP lawyers, who have insisted throughout that trademark owners do not want new gTLDs. “But I don't believe the IP community seriously advances that as a proposition,” Dengate Thrush told *WTR* at ICANN's 38th meeting in Brussels. “It's just a device to slow down the process.”

Whether real or invented, rights holders' arguments are fast running out of steam. And new gTLD applicants are at the end of their tether over the delays caused by lawyers. Roussos suggests that in general, legal representation within the ICANN community can be skewed towards the fulfilment of commercial rather than policy needs.

“Some attorneys will look to find holes in any policy that ICANN tries to adopt,” he says. “Their primary objective is usually maximising their financial return over the longest period of time. This kind of behaviour can be detrimental to finding sound solutions or achieving successful policy-making for ICANN and the internet community.”

If mere criticism cannot delay the launch further, then the next step for opponents of the gTLD programme may well be litigation. This is something that has been mentioned openly in ICANN forums, including the new gTLD session at last year's International Trademark Association annual meeting. But while lawsuits have held up ICANN in the past, the new gTLD policy has been developed with such attention to detail that potential litigants may find it difficult to establish legal grounds this time around.

“ICANN is more stable, more secure and has more money than ever before,” observes Kieren McCarthy, ICANN's former public participation manager and organiser of February's .nxt conference, which sought to discuss new gTLD business models for the first time. “It is really in ICANN's interest not to allow its processes to be undermined by litigation. ICANN has been so conscientious about locking this programme down legally that it is relatively watertight.” McCarthy, who has followed ICANN from the inside as a staff member and from the outside as a journalist, predicts: “Someone will sue at some point, but it won't go anywhere.”

Implicit in McCarthy's viewpoint – and ICANN's “prudent” preparations – is that litigation is inevitable. And a trademark owner may well be the first to file suit. It is a fact that trademark owners and their attorneys have slated the expansion policy at every new gTLD discussion they have attended. They feel both sidelined by the process and vilified by many of its participants.

Due to ICANN's multi-stakeholder, bottom-up approach to policy development, almost one year passed from the time the board set the new gTLD wheels in motion until it formed the Implementation Recommendation Team (IRT) to address trademark protection. Comprising representatives from a registry, a registrar and brand owners such as Microsoft, Richemont and Time Warner, the IRT first considered all public comments on trademark issues and then proposed what it described as a “tapestry” of rights protection mechanisms, taking into account the respective positions of all ICANN constituents, including trademark owners and registry and registrar operators.

In its efforts to placate everyone, the IRT pleased no one. Trademark owners slammed the proposals as weak; domain name companies and investors claimed that they created new rights that would restrict business. Even ICANN appeared not to want to take ownership of the report it had commissioned from the IRT. Not only did the corporation request that IRT members hold a series of open meetings around the world in order to sell their proposals to the community, but its staff later removed one key provision from the process altogether: the

controversial globally protected marks list (GPML). Furthermore, Dengate Thrush later stated: “None of these rights protection mechanisms is set in stone. They are created by community processes and they should be editable by community processes.”

IRT members are still angry at ICANN's unexplained removal of the GPML, especially when this had a great deal of support among brand owners. Other observers find ICANN's characterisation of its policies as “editable” problematic. “That's impractical,” claims Nao Matsukata, senior policy adviser at Alston & Bird. “If they're saying they can change the trademark enforcement mechanisms, then it's a flawed process.”

Matsukata's gripe is a common one, but it may not be strong enough to build a lawsuit around. When *WTR* quizzed several attorneys about the possible grounds on which a trademark owner could sue ICANN with regard to the new gTLD programme, none could provide an answer. This may be because of the uncertainty surrounding the expansion of the domain name space: until the policy has been finalised for the first round of applications, or indeed until some applications have been filed, lawyers will remain reticent about potential litigation strategies. Despite their misgivings, they are continuing their participation in the ICANN process – and continue to remain irked by it. “There is a growing sense in the community that ICANN is just checking boxes,” said former IRT member and trademark counsel Kristina Rosette after ICANN's Cartagena meeting in December 2010. “For example, not only was the public comment period [for the proposed Final Applicant Guidebook] one of the shortest ever, it was also timed to close on the same day the board was due to vote” on whether to approve the guidebook.

These kinds of criticisms may be mere stones thrown at ICANN – but trademark owners have an entire sack of them. While they may not constitute legal grounds for a lawsuit, the persistence and ferocity with which they have been articulated have nevertheless created a divisive atmosphere. It has led to what McCarthy calls a policy development environment full of “fear-based reactions”. IP lawyers, he says, are the main doom-mongers. “It's mostly the negativity of the IP lawyers which has created this slightly dangerous environment where everyone's a bit worried what will happen,” he notes. “So what ICANN has done [in charging for risk costs] is react. If there hadn't been years of people saying, ‘This is wrong and if you do it, I'll sue you,’ then ICANN wouldn't need that fund.”

ICANN would understandably prefer not to dip into its \$30 million risk-mitigation fund (notwithstanding the issue of what the non-profit will do with the cash if it goes unused). New gTLD applicants that are staking their commercial futures on the programme share this hope. Roussos for one believes that trademark owners will be unable to establish legal grounds for litigation. “ICANN has followed due process and has shown to act in good faith to address the concerns of trademark holders,” he says. “The mere fact that the new gTLD trademark protection mechanisms go far beyond what is current in the domain marketplace (eg, for ‘.com’ trademark disputes) is enough evidence. But in addition, some TLDs, such as ‘.music’, will incorporate extra protective mechanisms for trademark holders, such as the GPML.”

Lawyers can always find grounds

Nevertheless, litigators representing dissatisfied trademark owners may still be charged with building a case against ICANN's new gTLD programme. ICANN has arguably escaped litigation so far only because the policy is still a work in progress. Once the policy has been

ICANN president and chief executive Rod Beckstrom: How big is the threat of litigation to ICANN's new gTLD programme?



finalised – expected at the 41st meeting, to be held in June in Amman – potential litigants may find it easier to make oppositional legal arguments. Of the many potential grounds that could be cited, three seem especially plausible.

The first is that because ICANN exists almost entirely extrajudicially, beyond any one legal framework, it is not an environment that can accommodate trademark protection, which is already codified in the laws of sovereign states. “The fact of the matter is that trademarks are to be protected,” says Rosette. “That’s the law. This isn’t something we all make up. It’s true that there are overly aggressive trademark owners out there, but in the ICANN policy-making system, it’s possible to have the voices of those who may not understand the law outweigh those who do understand it.”

Second, a party could oppose ICANN’s decision-making process. If the board approves and launches the new gTLD programme without fully explaining the hows and whys, a disgruntled trademark owner may cry foul. ICANN’s board has a history of taking decisions without explaining its rationale. “The board has demonstrated an ability to say one thing to keep you happy, but do another thing altogether,” warned Nick Wood, managing director of domain name management boutique Com Laude, when he spoke at a roundtable on new gTLDs hosted by the UK Intellectual Property Office in January.

While there are several examples of the board’s lack of transparency, two stand out in particular: its dismissal of the GPML and its surprise about-face permitting 100% cross-ownership of domain name registries and registrars. This latter snap decision was censured by the US Department of Commerce in December 2010. Lawrence Strickling, assistant secretary for communications and information, wrote: “The record of this decision fails to provide a thorough and reasoned explanation of how ICANN moved from a position in March 2010... of no cross-ownership, to the May, 31 2010 staff proposal contained in draft applicant guidebook, version 4 of *de minimis* (ie, no more than 2%) cross-ownership, to the November 5, 2010 decision allowing full cross-ownership.” ICANN has since detailed its reasoning and is taking steps to ensure that it publishes decisions and their rationale simultaneously.

And just as ICANN’s decision-making process is fertile ground for dispute, so too are its decisions themselves. ICANN has accepted registries’ proposals for new TLDs in the past and then later allowed the registries to change the type of registrants that are eligible for inclusion. Employ Media originally established its ‘jobs’ registry exclusively so that companies could register their ‘companyname.jobs’ domain names. After five years and only 15,000 largely under-used registrations, Employ Media convinced ICANN to allow it to liberalise its charter. When 500 new gTLDs come online, if even one is allowed shift the goalposts in this way, the rights protection mechanisms negotiated into the new gTLD policy by trademark owners may not be worth the paper they’re printed on.

Third and finally, disputes may arise between entities competing over the same string of characters – for example, between parties squabbling over the ownership or validity of a second-level domain name registration (eg, Apple Inc opposing a grocer’s registration of ‘www.apple.shop’ in the ‘.shop’ registry) or fighting over a new gTLD string (eg, Apple Inc v record label Apple Corps over the ‘.apple’ string).

ICANN has built an opposition procedure into the application window, but spats could still spill over into the courtroom. Generic strings will prove particularly contentious because they could be seen to represent a monopoly. If Bank of America won the right to build a net presence within ‘.bank’, would other banks be happy?

Although ICANN is concerned by this type of litigation, Dengage Thrush is confident that the corporation can fend it off. “We think we can point to a robust policy development process where we’ve done the

best we could,” he says. “I don’t think we could be accused as a board or company; we can show diligent attempts to protect the community.”

This is not to say that such disputes could not arise without ICANN; in fact, two organisations may already be squaring up. The Recording Industry Association of America (RIAA) has outlined its “concerns” over “music-themed gTLDs”, which could include Roussos’ proposed ‘.music’ string. The RIAA is worried that a music-themed gTLD could be used to infringe copyright and trademarks. In a letter to ICANN, Victoria Sheckler, RIAA’s deputy general counsel, explains the association’s “fear that we will have no realistic ability to object if a pirate chooses to hijack a music-themed gTLD”. Sheckler attempts to underscore this anxiety by pointing to “the massive online copyright infringement battle our industries have faced over the past decade”. She cautions: “We strongly urge you to take these concerns seriously... We prefer a practical solution to these issues, and hope to avoid the need to escalate the issue further.”

The letter does not refer to Roussos’ ‘.music’ initiative, but Roussos nevertheless addressed the issue by announcing that ‘.music’ will be restricted and community-based, in which only authenticated members of the music community will be able to register a domain name.

He adds: “By providing a safe haven and a trusted internet zone for music consumption, the ‘.music’ TLD will ensure that moneys flow directly into the pockets of artists and the music community, not pirates or unlicensed illegitimate websites. The ‘.music’ domain will serve as a badge of trust, safety and credibility to music consumers.”

Roussos’ intentions will likely be reflected in other gTLD initiatives. Indeed, his model is one that brand owners may well follow: one would have thought that RIAA members would be interested in building internet real estate for their artists in a dedicated ‘.music’ space managed by a registry that ensures a fair deal for artists. In the same vein, perhaps Bank of America would not need to face off against other legal financial institutions – provided that they could sit round a table and agree to collaborate in building a safe, secure and trusted ‘.bank’ space for any legitimate bank to use.

Problematic governance

Should businesses come to blows over the new gTLD programme, this would certainly open up for scrutiny the process that designed it. Criticisms of ICANN’s model of governance are nothing new: in many ways, it seems to be a softer target for condemnation than a political dictatorship. So while attempts to shine a light on ICANN will continue long into the gTLD expansion, critics believe they have now reached a crucial juncture.

Taking advantage of the power shift in the House of Representatives in November 2010 and the subsequent appointment of Republican Congressman Cliff Stearns to chair the Sub-committee on Oversight and Investigations in the House Energy Commerce Committee, anti-cybersquatting lobbyists stepped up their efforts. The Coalition against Domain Name Abuse (CADNA) hand-delivered a letter to Stearns imploring him to call a congressional hearing on ICANN. “CADNA wants to prove that the ICANN model is illegitimate,” says Josh Bourne, CADNA’s president. “If that’s exposed, the new gTLD policy as envisaged will be scrapped.”

While lobbyists are forever clamouring for congressional hearings, they can argue this time that the \$30 million risk fund certainly gives them sound basis. Its existence, they argue, pokes holes in ICANN’s

own governance model. "It's a fee to service something else within the organisation," says Matsukata. "It's another example of poor governance. If ICANN must create a fund for insurance purposes – using a high portion of the fee – they must be expecting serious problems. And if they're expecting problems of that magnitude, why haven't they developed a better policy to alleviate them?"

At the Department of Commerce, Strickling indicated in his condemnation last December that ICANN governance leaves a lot to be desired, pointing out where the corporation is failing to meet its obligations of transparency, accountability and fact-based policy development. ICANN's rejoinder? A promise from its chief executive and president to give this feedback "careful consideration".

But despite the lacklustre response, Strickling's intervention may yet have set the stage for a quiet revolution. Just days after the letter emerged, ICANN's Government Advisory Committee (GAC) saw that the board was set to approve the new gTLD policy – and quickly stepped in to stop it.

"I think that's something you really ought to reconsider," said UK GAC representative Mark Carvell. "We've worked hard, we've gone through the detail, we've consulted stakeholders, we've listened to the community – and we think you're not there yet."

A proposal was then accepted for an unprecedented meeting at which the ICANN board could consult the GAC. This signalled something of a sea change to the panel of advisers dispatched by more than 100 of the world's governments. "I've definitely seen a change in the position of the GAC within the ICANN structure," Carvell later told

WTR. "We've gained more respect – a reflection more on the people involved than anything else, because the quality of work has been consistently high. When I joined in 2008, meetings were closed and only six or seven people spoke. Now we have a bigger membership, attendance is up and more countries are involved in discussions."

So are governments looking more closely at ICANN? "I hope so," answers McCarthy, adding that, while the US Congress examines ICANN every couple of years or so, other governments could now become more involved. "The European Union has been a bit noisier recently," he reports. And, once again, concerns over ICANN are coalescing around trademark protection.

More specifically, Germany has thrown its hat into the ring in a recent letter to ICANN that focuses on trademarks. In the letter, seen by WTR, Bernd Pfaffenbach, state secretary at the Federal Ministry of Economics and Technology, raised the concerns of German trademark owners and industry in general. He writes: "I would like to point out that a better policy environment for the protection of trademark rights is not only of major importance for the holders of these rights but also for ICANN and for the registries of new TLDs as it reduces their risk of litigation."

For years, ICANN has been unable to shake off trademark concerns. As Pfaffenbach implies, they may even be the foundation for future litigation against the corporation. In the meantime, its \$30 million prudence pot cannot be established soon enough. [WTR](#)

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