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VIA FEDERAL EXPRESS & EMAIL (irtp-draft-report@icann.org; 2gtld-guide@icann.org)

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Re: Comments on IRT Draft Report Dated April 24, 2009
On Behalf of Ford, Volvo, Honda, Porsche, Volkswagen, Audi, and Hertz

To Whom it May Concern:

We submit these comments in response to the IRT's Draft Report dated April 24, 2009, which recommends a "tapestry" of "solutions to some of the major overarching issues of trademark protection in connection with the introduction of new gTLDs." These comments are submitted on behalf of a group of world-renowned automobile manufacturers and other prominent trademark holders.

Our overarching response to the Draft Report is that it is flawed at a threshold level—in its acceptance of the justification for a regime that imposes substantial costs on trademark owners upon registration of gTLDs that incorporate trademarks (or confusing variations thereof). The IRT commendably recognizes the substantial difficulties faced by trademark holders in protecting their trademarks in connection with internet domains, and properly acknowledges that "even together all the above-mentioned solutions [in the Draft Report] by no means present a panacea to all the overarching issues of trademark protection in connection with the introduction of new gTLDs." Yet the Draft Report fails to address a fundamental question of crucial significance, which is whether the species of ".trademark" gTLDs should be rejected at the threshold — an approach that would come much closer to the "panacea" that is concededly lacking in the current approach.

A global rejection of the ".trademark" gTLD is a far superior response to the granular "solutions" presented by the IRT. For reasons set forth in detail below, the IRT should adopt a

standard that forecloses registrability of any domain that incorporates a registered trademark or confusing variation thereof. There is no basis in any of ICANN's economic evaluations for finding that the benefits of a ".trademark" gTLD registration outweigh its costs. Alternatively, the monitoring and enforcement costs caused by any ".trademark" registration should be imposed on ICANN and its contracting registrars, not on trademark holders. The Draft Report's proposals for an IP Clearinghouse, a Globally Protected Marks (GPM) list, and Uniform Rapid Suspension (URS) system are also problematic, even on their own terms.

THE COSTS OF ".TRADEMARK" DOMAINS OUTWEIGH ANY BENEFITS

In order to evaluate the viability of the ".trademark" gTLD, the starting point should be an assessment of the overarching benefits and costs presented by the allowance of such domains. Last December, the Departments of Commerce and Justice raised the objection that it was then "unclear that the threshold question of whether the potential consumer benefits outweigh the potential costs has been adequately addressed and determined." Letter from Meredith A. Baker, Acting Assistant Secretary for Communications and Information, Dept. of Commerce, dated December 18, 2008; see also Letter from Deborah A. Garza, Acting Assistant Attorney General, Dept. of Justice, Antitrust Division, dated December 3, 2008 (explaining that "[t]he creation of new gTLDs could generate consumer harm" in that "approval of new gTLDs would proliferate the number of TLDs in which registrants feel that they must purchase registrations to protect their domain names, increasing their costs"). That question still has yet to be adequately addressed. ICANN has proffered a Preliminary Report of economist Dennis Carlton, but the analysis in the Preliminary Report focuses principally on the economic effects of non-trademark gTLDs (such as a ".generic" domain like ".cars"), while openly begging the question of the consumer impact of the ".trademark" species of domains. Specifically, the Carlton Report asserts that "ICANN's plan to introduce new gTLDs is likely to benefit consumers by facilitating entry which would be expected to mitigate market power associated with .com and other major TLDs and increase innovation," while acknowledging that the net impact on consumers depends on a comparison of these benefits with the costs associated with the new gTLDs. As the Carlton Report puts it, "[r]estricting ICANN's ability to expand the number of gTLDs is economically efficient ... if costs from new gTLDs, including increased consumer confusion and/or higher costs of monitoring and enforcing trademarks, exceeds the potential benefits to consumers from new gTLDs, which include lower prices for domain names, increased output, and increased innovation."

Carlton ultimately reaches the conclusion that the benefits outweigh the costs, but he does so by focusing his analysis on *non-trademark* gTLDs and by unrealistically minimizing the costs associated with consumer confusion and trademark protection. Thus, in concluding that "deployment of new gTLDs does not appear to raise" any "substantial new enforcement costs," Carlton offers the example of a generic product category gTLD—"*.cars* designed for sites related to car [sic]." Carlton asserts that the introduction of this new gTLD would not "further increase the required effort and associated costs of monitoring use of [General Motors] marks," since in

his view "[t]he introduction of GM trademarks in the *.cars* gTLD raises the same concern as in other gTLDs and thus appears to raise no new issues relating to the use of trademarks in domain names."

This analysis is deeply flawed. If there is anything that the past decade or more of cybersquatting litigation has taught us, it is that there is no end to the innovation and industry of the domain registrants who stand to profit from the goodwill developed by others in their trademarks. Courts and UDRP panels alike face new issues every day, and there is little doubt that the introduction of a new phase of domains incorporating trademarks (at the gTLD level) would introduce a host of "new issues relating to the use of trademarks." The example presented here is loaded, as it employs a non-trademark gTLD. The potential defensive enforcement costs would be much greater in the ".trademark" scenario, such as .PORSCHE, .HONDA, or .HUMMER. Any such ".trademark" gTLD would introduce a broad range of new legal issues and "would further increase the required effort and associated costs of monitoring use of [such] marks." Thus, the Carlton Report falls far short of establishing a basis for the conclusion that benefits of implementation of the new gTLDs outweigh the costs. Particularly in the ".trademark" scenario, there is every reason to expect that consumer confusion and enforcement costs outweigh any conceivable benefit.[1] Thus, with all due respect, ICANN still finds itself in the position that the federal government found it in a few months ago, in which there is every reason to believe that "approval of new gTLDs" will "proliferate the number of TLDs in which registrants feel that they must purchase registrations to protect their domain names" and incur other enforcement costs. Letter from Deborah A. Garza, Acting Assistant Attorney General, Dept. of Justice, Antitrust Division, dated December 3, 2008.

Admittedly, there are economic and other benefits that would flow from the introduction of certain new gTLDs. Yet both the Carlton Report and the federal government have focused their analysis of these benefits on *non-trademark* gTLDs. As the Department of Justice explained, "new gTLDs may benefit unique registrant populations that might value a domain in a particular gTLD," such as "a new gTLD that represents a particular community of people." Yet "ICANN has not attempted to distinguish the registrants that might value having a domain in a … new gTLD from those registrants that would feel compelled to purchase one or more domains in the new gTLD" or would otherwise incur substantial costs of trademark protection. *Id.*

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[1] While recognizing that trademark enforcement is costly, the Carlton Report blithely asserts that a "loser pays" fee-shifting rule "would deter frivolous attempts by non-trademark holders to obtain domain names that are based on trademark terms or are confusingly similar to such as well as the need for defensive registrations." This dismissive conclusion is naïve and unrealistic for at least three reasons: (a) not all such attempts will be sufficiently "frivolous" to sustain a fee award; (b) the fees shifted by a "loser pays" rule will hardly encompass all of the costs (such as monitoring costs) of enforcement; and (c) there is hardly a guarantee that all fees will be shifted even for "frivolous attempts" (so that the deterrence would be far from perfect).

That was true a few months ago, and it continues to be the case today. The IRT Draft Report identifies "various proposals that it believes warrant further consideration," including the creation of a "special status in the application process for '.brand' type TLDs," but the IRT's specific proposals presuppose that such TLDs will be generally available for registration (subject to limited exceptions, which are insufficient for reasons set forth below). In light of the Carlton Report and letters from the Departments of Commerce and Justice, there is every reason to suspect that the costs of ".trademark" gTLDs outweigh any benefits, and absolutely no basis for the endorsement of this species of domains.

The Carlton Report's only justification for the endorsement of this particular species of new gTLDs is its bald assertion that "company-specific TLDs (e.g., *.GeneralMotors*) may facilitate the ability of General Motors' customers to obtain product information as well as the interaction of suppliers and dealers with General Motors." This conclusion is as telling as it is specious. Its premise is demonstrably false. If there truly were some benefit to a ".trademark" TLD, there would be no reason not to give the trademark owner a veto over the registration of a new domain incorporating its mark (or confusing variations on it), under a provision allowing trademark registrants generally to foreclose their marks from TLD registration. Yet the Draft Report inexplicably fails to do that, opting instead to preserve a general rule that treats ".trademark" gTLDs like all others (including ".generic" and ".geographic location" domains), subject to ineffectual limitations such as the GPM List and URS System.

The fact of the matter is that most trademark owners—and certainly all of our clients—have absolutely no interest in opening the Pandora's box of a ".trademark" domain incorporating their trademark. Such a move would introduce extensive enforcement costs that would far outweigh any supposed benefit from facilitation of their customers ability "to obtain product information as well as the interaction of suppliers and dealers," as suggested by the Carlton Report. The benefits of such facilitation are already available under the second-level domains currently controlled and operated by the trademark owner. There is little to be gained, and much to be lost, from adding a first-level domain incorporating the trademark.

In any event, that decision should belong to individual trademark owners, as they are the ones whose investments created the goodwill and value that sustain whatever demand may exist for a ".trademark" gTLD. Ultimately, if a trademark owner decides that trademark protection costs would outweigh any benefits flowing from the registration of a ".trademark" domain, ICANN has no grounds for allowing that registration to go forward. The only legitimate benefit from such registration is the one identified by ICANN—that of facilitating communication and interactions among the trademark owners' customers, suppliers, and dealers. Admittedly, ICANN may have an interest in allowing ".trademark" registrations even where the trademark owner objects. But that interest is an economic self-interest that cannot be reconciled with ICANN's mission of managing gTLDs in a way that protects the public. There may well be value (to the tune of $185,000 per application) in allowing ".trademark" registrations opposed by the trademark holder, but that value is rooted in the trademark owner's investments in goodwill (and perhaps in the prospect of consumer confusion that would-be cybersquatters will bank on).

ICANN should not treat the ".trademark" domains in the same way it treats other gTLDs (of the ".generic" or ".geographic location" variety); it should adopt a general rule allowing any trademark registrant to foreclose use of its trademark in a TLD registration.

The Draft Report states that the IRT "considered and rejected the idea of a single, all-encompassing Trademark Reserved Names List as a universal protective mechanism," on the grounds that "(1) such a list could not accommodate the various types (and corresponding scope of legal protection) of protected marks or the possibility of calibrating the recommended RPM to these differing types and scope of protection; (2) designing workable, specific, flexible and inclusive criteria for a single, all-encompassing Trademark Reserved Names List would be extremely difficult—if possible at all; and (3) such a 'one size fits all' solution is unlikely to be broadly acceptable to the ICANN community, especially as controversy and uncertainty continue to surround the issue of protection for geographical names." This analysis is unpersuasive. Ultimately, the Draft Report *does* adopt a list that establishes a "universal protective mechanism"—in the form of the GPM list. For reasons explained in greater detail below, the GPM list is (or at least should be) at least as troubling as the broader list dismissed out of hand by the Draft Report. Of course the GPM list is much more constrained than the broader list rejected in the Draft Report; but the arbitrary criteria that define the GPM list also fail to "accommodate the various types (and corresponding scope of legal protection) of protected marks" and likewise is "unlikely to be broadly acceptable to the ICANN community (at that part of it consisting of trademark owners)."

Thus, a general "all-encompassing" list is no more untenable than the GPM list. The former could be said to be overinclusive. But the latter is just as surely underinclusive (for reasons explained in more detail below). The question is whether to err on the side of protection of the rights of trademark owners and the concomitant interests of consumers, on the one hand, or on the side of broader gTLD registration, on the other. In the absence of any ground for finding a public interest in the expansive availability of ".trademark" domains, ICANN should adopt an "all-encompassing" list that protects trademark holders and consumers.

MONITORING AND ENFORCEMENT COSTS SHOULD BE BORNE BY ICANN

The Draft Report eschews this approach in favor of a general rule allowing ".trademark" registrations subject to some specific grounds on which a trademark holder may protect itself (e.g., the IP Clearinghouse, GPM list, and URS system) by incurring specific enforcement costs. This approach is problematic in its basic premise and in its implementation. As to the premise, the Draft Report's approach is problematic in that it embraces a regime under which the *benefits* of a ".trademark" TLD are enjoyed by ICANN and its contracting registrants while the *costs* are imposed primarily on trademark holders. This is unfair, economically inefficient, and ultimately costly for consumers.

The fairness problem is evident: If ICANN decides to adopt a domain registration regime that is aimed at lining its own pockets (and those of its contracting registrars) despite the lack of any benefit to the party that created the demand for the domain in the first place (the trademark owner), then it is entirely unjust to impose the costs associated with such registration on trademark owners. As a matter of fundamental fairness, ICANN should incur the costs where it is the party that stands to benefit. If ICANN decides to proceed with the registration of gTLDs incorporating registered trademarks, it should be required to bear the monitoring and enforcement costs imposed by that approach (such as the costs associated with the IP Clearinghouse).

For the same reasons, the Draft Report's presumption in favor of ".trademark" domains will lead to economic inefficiencies. The problem is rooted in the economic concept of "externalities," under which an economic actor is able to internalize the benefits of a particular action while externalizing the costs on third parties.[2] The prospect of externalities leads to inefficiencies, as an actor that does not incur the costs of its activity will make inefficient economic decisions. This is precisely the problem with the prospect of registration of ".trademark" gTLDs. If ICANN is permitted to reap all of the benefits of a ".trademark" registration while externalizing the costs on third-party trademark owners, registration decisions will be made even where the costs substantially outweigh the benefits.[3] The net impact of these inefficiencies ultimately will be felt by consumers, who eventually will feel the brunt of the costs externalized by ICANN onto trademark owners.

For these reasons, there is no basis for treating ".trademark" domains in the same way that other new gTLDs are treated. Trademark owners should be given veto power over the registration of new gTLDs incorporating their registered trademarks.

THE GPM LIST IS FLAWED

The Draft Report proposes to protect trademark holders through more limited methods of trademark protection. Those proposals, specifically the GPM list, is problematic not only because its costs are borne by trademark owners, but also because it fails to provide adequate protection in any event. The proposed GPM list is vastly underinclusive. There are many famous trademarks of world-renown (including some on our own "who's who" list of

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[2] A prototypical example concerns the external cost (air pollution) associated with industrial activity. Without a mechanism for government regulation, the industrial actor will ignore the external, social costs of its activity, ultimately producing in excess of the social optimum.

[3] The Carlton Report acknowledges that expansion of "the number of gTLDs is economically efficient only if costs from new gTLDs, including increased consumer confusion and/or higher costs of monitoring and enforcing trademarks, exceeds the potential benefits to consumers from new gTLDs." For TLDs of the ".trademark" variety, ICANN's assessment of the costs and benefits is likely to be skewed by the fact that it has effectively externalized the "costs of monitoring and enforcing trademarks" on third-party trademark owners.

automobile manufacturers and other prominent clients) that would not qualify under the rigid requirements of 200 trademark registrations in at least 90 countries, or registration of second-level domains in 50 TLDs, or that "no other party owns a trademark registration for the applied-for GPM." Given the worldwide prominence of our client list, one wonders what basis ICANN might have for imposing these rigid, arbitrary requirements.

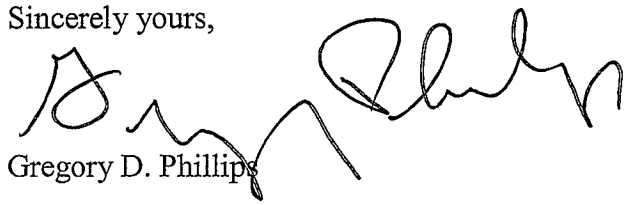
The 50-TLD registration requirement is particularly troubling. ICANN obviously has a self-interest in increasing the incentive for widespread registration of domains across multiple TLDs. But that self-interest should not be permitted to drive the standards for identifying which domain registrations will impose disproportionate costs of trademark enforcement. There are plenty of famous, distinctive brands (including, again, some of our own clients) who have made a business decision not to multiply their domain registrations across a broad range of TLDs, choosing instead to focus on the standard .com domain (and perhaps a certain limited number of additional domains). The requirement of 50 TLD registrations is an arbitrary, self-serving bootstrap for ICANN. It and the other arbitrary standards should be rejected in favor of a broad veto power for any trademark registration.

CONCLUSION

The IRT is flawed at a threshold level—in its acceptance of the justification for a regime that imposes substantial costs on trademark owners upon registration of gTLDs that incorporate trademarks (or confusing variations thereof). The Draft Report fails to address a fundamental question of crucial significance, which is whether the species of ".trademark" gTLDs should be rejected at the threshold—an approach that would come much closer to the "panacea" that is concededly lacking in the current approach. The IRT should adopt a standard that forecloses registrability of any domain that incorporates a registered trademark or confusing variation thereof.

We appreciate being able to bring these important matters to your attention. We sincerely hope that the information provided in this letter assists you in implementing mechanisms to protect the invaluable rights of famous trademark holders. Please let me know if we can provide any additional information.

Sincerely yours,



Gregory D. Phillips

GDP:
cc: The Honorable Orrin G. Hatch

United States Department of Commerce
United States Department of Justice