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Domain Name Trademark Disputes: Should Trademark Protection Extend to Domain Names?

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Domain Name Trademark Disputes:

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Introduction & Overview:

It is quickly becoming folklore. Every day brings a new tale of some devious net surfer who nimbly attempts to extort money from a big corporation by registering a domain name that mimics the corporation's trademark. No one will forget Joshua Quittner, the bold journalist who registered mcdonalds.com in advance of the fast food giant. Backed into a corner, McDonald's was forced to pay a New York City public school $3,500 for computer equipment in return for this domain name. But this is hardly the quintessential example. Most net surfers are not so charitable, preferring to simply pocket these profits.

Disputes like the Quittner episode have popped up all along the virtual landscape, igniting a choleric battle between Corporate America and the insolent entrepreneurs of cyberspace. At the crux of this debate lies a subtly profound question: should trademark protection extend to domain names? And this question, in turn, raises others. What are the economic costs of denying trademark protection to domain names? Do companies have a legitimate need for domain name protection, or might they be advocating excessive limitations on the freedom of net surfers?

This paper attempts to answer these questions within the confines of an economic framework. Beforehand, however, the stage must be set in the following section with some background on the specifics of domain names and trademarks, and a brief introduction to the major players in the debate. Shifting gears, I then probe the economic costs of denying trademark protection to domain names — inefficiency and underprovision of goods and services — that lend tremendous weight to the argument for trademark protection. Afterwards, I explore the economic features of three basic sources of domain name trademark disputes: cybersquatters, parasites, and twins. And for each type, in turn, I delve into the current policies issued by Congress, the Courts, and the International Corporation for Assigned
Names and Numbers (ICANN) to resolve the conflict, emphasizing the degree to which these policies reflect a solid appreciation of the economics involved. These policies generally exhibit a pro-business slant and an awareness of the significant costs of denying trademark protection.

Background:

If you have ever visited a site on the Internet, then you have already been exposed to Internet domain names. Just as residences in the real world are located by their street address, Internet websites are identified by their virtual address, namely their Internet Protocol (IP) address. For instance, the IP address of the main web server at Stanford University is 171.64.14.237. While this numerical address may be easy for computers to manipulate, it proves inconvenient and nearly impossible for human users to remember. The Internet domain name system was developed to mask these unwieldy IP addresses with easy-to-remember alphanumeric addresses, such as www.stanford.edu in the case of Stanford University. When someone types www.stanford.edu into the address bar in an Internet browser, however, the browser must translate this domain name back into an IP address in order to locate the site. Notice the implicit uniqueness requirement of domain names creates an exclusivity that has important economic consequences – no two users can have the exact same character string as a domain name. Nevertheless, domain names allow computer users to access and revisit information on the Internet with greater ease (Project, 1999).

These alphanumeric addresses pave the way for a second major benefit of the domain name system: faster access. This advantage is best illustrated by example. Imagine yourself browsing the Internet, hoping to locate the online storefront for Circuit City, a major electronics vendor. To find this website, an inexperienced computer user might prematurely
procure the services of an Internet search engine. But a savvy computer user would first visit www.circuitcity.com, and only resort to a search engine if this site address proved incorrect. This guessing relies on the common practice of launching an Internet operation at www.mytrademark.com (where a company replaces mytrademark with its own trademark), allowing computer users to easily locate and recognize their site.

The prevalence of www.mytrademark.com websites highlight how domain names have acquired a significance as business identifiers, and, as such, have come into conflict with the system of business identifiers that existed before the arrival of the Internet and are protected by intellectual property law. But why didn’t companies register their desired domain names in the early stages of the Internet and avoid this whole mess?

Though hard to believe given its ubiquitous presence today, the Internet came from humble beginnings. Initially, the Internet playground was bullied by techno-geeks committed to creating a forum for the sharing of knowledge. And while some visionaries predicted the global role the Internet would play in the exchange of ideas, few recognized the tremendous business opportunities that the Internet offered, least of all the businesses themselves (Project, 1999). As a result, Network Solutions Inc. (NSI) – NSI was the only provider of domain name registration services, between 1993 and 1998, for the .com, .net, and .org top-level domains (TLDs) pursuant to a Cooperative Agreement with the U.S. Department of Commerce – initially performed the domain name accreditation process in a simple first come, first served fashion (Network Solutions, 1999). But a few cunning individuals understood the coming opportunities for big businesses on the Internet and ignited the practice of registering domain names involving famous trademarks (Siskind, 1999). Thus, as the Internet expanded, major companies clued in and ventured onto it only to find their desired domain names already licensed to someone else. Companies like McDonald’s, enraged by
these profiteers, pressured NSI to modify its domain name accreditation process to protect trademarks.

When the registrar accreditation process was transferred to the International Corporation for Assigned Names and Numbers (ICANN) in 1998, the push for trademark protection by big business persisted (Network Solutions, 1999). The World Intellectual Property Organization (WIPO) – founded by 171 Countries in the United Nations “as the vehicle for promoting the protection, dissemination, and use of intellectual property throughout the world” – spearheaded this campaign for trademark protection (WIPO, 1999). And WIPO recently issued a Final Report of the Internet Domain Name Process recommending that ICANN permit “the owner [of a trademark to] obtain an exclusion for the name of the mark where the mark is famous or well-known on a widespread geographical basis and across different classes of goods or services. The effect of the exclusion would be to prohibit any person other than the owner of the famous or well-known mark from registering the mark as a domain name” (Final Report, 7). Not stopping there, corporations have also sought protection in Congress and the courtroom.

But WIPO is not running unopposed. Numerous coalitions have been formed to protect the interests of the “little guy,” two of which are particularly heavy-hitters. These are the Domain Name Rights Coalition (DNRC) and the Electronic Frontier Foundation (EFF) who responded to the WIPO recommendations accordingly: “We believe that the provision of Internet domain names if fundamentally a human rights issue, not an intellectual property issue. All discussions on how to protect the rights of intellectual property holders in the domain naming system are starting with the flawed premise that those rights are superior to those of the public-at-large” (Personal Rights, 1999). These organizations are currently lobbying ICANN and the U.S. Department of Commerce to modify their Technical
Management of Internet Names and Addresses Green Paper to secure small businesses and individuals who may not have federally-registered marks the right to keep their domain names.

Before it is possible to analyze the clash between WIPO and DNRC, a basic understanding of trademark law is necessary. According to the Lanham Act, "any word, name, symbol, device, or any combination thereof used to identify and distinguish goods and to indicate the source of the goods" constitutes a trademark (Lanham, 1946). And all marks must be distinctive, requiring "a mental leap of imagination, thought and perception to reach a conclusion as to the nature of [the] goods" (Nathenson, 22). For this reason, the Patent and Trademark Office (PTO) rejected an application on behalf of some personal injury attorneys to trademark the term "Injury" (USPTO). However, trademark law does permit concurrent use of the same trademark so long as such use is not likely to "cause confusion, or to cause mistake, or to deceive" (Lanham Act). For example, both Prince Consulting, a British consulting firm, and the American tennis equipment manufacturer Prince were permitted to register the trademark "Prince."

But if one of these companies had been trying to free-ride on the brand name recognition of the other, then the PTO would certainly have suspended the infringing company’s trademark. Together the PTO and Corporate America are vigilant for this and other forms of illegal trademark practices that dilute the selling power of a legitimate mark. There are two basic forms of illegal dilution: tarnishing and blurring. A trademark is tarnished when it is associated with products of poor quality or simply portrayed in an unsavory manner. For example, I once purchased Oakley sunglasses in Mexico at an amazingly low price, only to realize that they were counterfeit glasses when they broke on me two weeks later. The sale of these inferior sunglasses clearly tarnishes Oakley’s brand name.
Blurring occurs when unauthorized use of a mark disassociates the mark from the product it is intended to sell. The terms "Coke" and "Kleenex" have been blurred accordingly, becoming synonymous with any type of soda and personal tissue respectively rather than Coca-Cola and Kleenex specifically.

Now you might be wondering: How does trademark law apply to domain name disputes? Suppose for the moment that trademark protection extended to domain names and then stories of illegal trademark dilution abound. For instance, the test preparation experts at Princeton Review surely tarnished the trademark of their archrival Kaplan when they acquired the site www.kaplan.com and posted strongly anti-Kaplan propaganda. And if Coca-Cola unveils its website at www.cocaccola.com then doesn’t the existence of an unrelated website at www.coke.com constitute blurring?

Despite these subtle issues of trademark protection and enforcement, a more fundamental disagreement exists as to the application of trademark law to domain names. Recall that a symbol may be trademarked only if it identifies or indicates the source of goods and services. Strong disagreement has erupted over whether domain names are an indicator of the source of goods. Opponents of trademark protection contend that domain names provide information as to how to contact an entity, rather than identifiers of a service. They distinguish between the domain name, which they view as a mere address, and the web page title that is trademark protected. Since court cases affirm that marks primarily geographic in nature are not entitled to protection, neither would domain names if used more like addresses than identifiers (Mummery, S8).

Supporters of trademark protection, however, are adamant that domain names are an indicator of the source of goods. They point to the www.mytrademark.com format that companies adopt and Internet users expect, where the mytrademark portion serves to indicate
the source of the goods and services. In the words of one supporter, “Domain names are evolving as a new breed of trademark as commerce and high technology meet on the Internet. They are like postal addresses, vanity license plates, and billboards all rolled into one digital enchilada” (Mummery, S8).

Having introduced the political and legal issues surrounding domain name trademark disputes, it is now imperative that we examine the economic costs of denying trademark protection to domain names.

Economic Costs of Denying Trademark Protection:

An obvious cost of no trademark protection is an underprovision of goods and services. When firms are not assured brand name protection on the Internet, fewer companies will go through the costs of launching an Internet operation. To hammer this point home, consider the related concept of patents. Patents encourage innovation by assuring innovators the economic rents on their ideas. Without these assurances, innovators would fear not being reimbursed for their ideas and so fewer would opt to innovate. This failure of market signals to stimulate adequate innovation has obvious costs to consumers. Similarly, Internet consumers are hurt by the lack of trademark protection; they are denied the benefits of more suppliers, namely cheaper prices and greater product variety. These would-be suppliers are turned off by the high cost of acquiring a desired domain name currently in the possession of some lone profiteer.

Firms might try to circumvent this exorbitant price tag by registering a domain name that no one else owns but doesn’t capitalize on the strength of their original trademark. But this tactic introduces a second equally significant cost: inefficiency. Let’s assume for the moment that McDonald’s refused to pay off Mr. Quittner and instead opened the website
www.burgers.com. However, computer users will still start by guessing www.mcdonalds.com to find McDonald’s website according to the www.mytrademark.com format. And so a user’s time is wasted loading the incorrect site, realizing this site is incorrect, and locating the correct site via some search engine site. If this is performed on a slow modem, the time can add up quickly, especially if the www.mcdonalds.com site was engineered to confuse users into thinking they reached the correct site, as is often the case. And when you consider that www.mcdonalds.com might attract tens of thousands of hits a day, this wasted time really adds up. In addition, Internet resources – like servers and routers – are wasted locating pages users don’t actually want.

These time and resource costs translate into wasted dollars. The excess time users spend on the Internet equals higher Internet Service Provider (ISP) bills. At the other end, companies must spend more money marketing a site name that doesn’t benefit from the preexisting famous mark. All this assumes, additionally, that users persist in looking for the McDonald’s website after the initial failure instead of trying something like www.burgerking.com. This would have devastating costs for McDonald’s online venture.

All these factors considered, a company might resort to buying its desired domain name despite the high price. But even this solution is inefficient since profiteers provide nothing of social value. They simple make something for nothing, shortchanging companies that could be putting their resources to better use. For instance, it would be difficult to argue that Joshua Quittner earned the $3,500 from McDonald’s. In reality, only the profiteers face minimal costs when trademark protection is denied. ICANN charges only $35 for the first year’s registration of a domain name; a small price for profiteers considering the payoffs are often in the thousands (Siskind, 3).
These economic costs – underprovision and inefficiency – suggest that trademark protection of domain names is justified.

Trademark Disputes & Policy Solutions:

Let us now review the common sources of domain name trademark disputes – cybersquatters, parasites, and twins – in light of the economic costs of no trademark protection. In the three sections that follow, each of these sources of disputes will be individually explored. The focus will be on the governmental and legal policies issued to overcome the specific economic hurdles.

A Source of Disputes: Cybersquatters:

Cybersquatters purposefully register domain names that mimic famous trademarks. And they do so in “bad faith,” with the intent to sell the domain names back to the infringed companies for profit or to simply tarnish their trademarks. Examples of both practices are common. The McDonald’s saga is one. Another example of squatters holding a domain name for ransom involves Dennis Toeppen demanding $15,000 to turn over www.americanstandard.com to American Standard and $45,000 in exchange for www.aircanada.com (Nathenson, 3). And the best example of a trademark being tarnished is the aforementioned anti-Kaplan material posted on www.kaplan.com by Princeton Review (Brunel, 3).

To the surprise of many, the Courts have sided with cybersquatters in most major cases. One of the most recent and telling cases is Avery Dennison v. Jerry Sumpton heard in the U.S. 9th Circuit Court of Appeals (Letts, 1999). Jerry Sumpton is the president of Freeview, which does cybersquatting business on the Internet as mailbank.com (Siskind, 3).
His cybersquatting business has registered 12,000 domain names, including 10,000 based on family surnames covering more than 200 million people. In this case, Avery Dennison sued Mr. Sumpton for registering “avery.net” and “dennison.net” (Letts, 1999). The Court ruled that “Avery Dennison failed to create a genuine issue of fact on required elements of the dilution cause of action” (Letts, 1999).

But the Courts and ICANN have a history of contrasting decisions, and the current ICANN Cybersquatting Dispute Resolution Policy is no different. This policy endorses the pro-business recommendations issued by WIPO, protecting famous marks by readily suspending any domain site that is based upon another’s famous mark (Oppedahl & Larson). In fact, ICANN even stretched trademark law by “strongly discouraging” non-commercial and/or non-misleading uses of a mark by other firms, presumably because this website would inevitably free-ride on the brand name investment and recognition of the infringed company (Bad News, 2). Evidently, ICANN appreciated the costs of denying trademark protection – inefficiency and underprovision – when formulating their policy. ICANN conducts dispute resolution meetings when a domain name holder is challenged. Again differing from the Courts, ICANN shifts the burden of proof in these meetings from the complainant to the defendant.

The “faith” of the defendant is pivotal to this resolution outcome. If ICANN perceives acts of “bad faith” on the part of the defendant, then it is much more willing to suspend the site. Evidence of “bad faith” includes:

a. Circumstances indicating that you have registered or you have acquired the domain name primarily for the purpose of selling, renting, or otherwise transferring the domain name registration to the complainant who is the owner of the trademark or service mark or to a competitor of that complainant, for valuable consideration in excess of your documented out-of-pocket costs directly related to the domain name; or
b. You have registered the domain name in order to prevent the owner of the trademark or service mark from reflecting the mark in a corresponding domain name, provided that you have engaged in a pattern of such conduct; or

c. You have registered the domain name primarily for the purpose of disrupting the business of a competitor; or

d. By using the domain name, you have intentionally attempted to attract, for commercial gain, Internet users to your website or other on-line location, by creating a likelihood of confusion with the complainant’s mark as to the source, sponsorship, affiliation, or endorsement of your website or location or of a product or service on your website or location (ICANN, 2).

ICANN is obviously opposed to the money for nothing schemes of cybersquatters. Unfortunately, the threat of suspension still might not be enough to discourage cybersquatters from gambling with the $35 registration fee in hopes of making thousands, especially given the Court’s support.

Congress has noticed this deficiency in the current system and is considering legislating major economic disincentives for cybersquatting. Senator Spencer Abraham (MI, Rep.) and Senator Orrin Hatch (UT, Rep.) introduced the Anti-Cybersquatting Consumer Protection Act this June. If enacted, it will outlaw cybersquatting, fining violators as much as $300,000 per squatted domain name (Clampet, 1999). Ironically, however, Senator Hatch was a victim of cybersquatting within days of introducing this bill; he was asked to pay $50,000 in return for the site www.senatorhatch.com (Barry 1999).

All in all, ICANN and Congress support a very pro-business trademark protection policy. Despite the Court’s disapproval, ICANN recognized the formidable economic costs of no trademark protection and altered its dispute resolution policy accordingly. And Congress has responded by attacking the root of the problem: economic incentives. Cybersquatters will lose the incentive to gamble $35 if a real possibility exists that they will lose $300,000 in the end.
Another Source of Disputes: Parasites:

Parasites prey on confusion. They register domain names confusingly similar to famous ones, realizing that Internet users often misspell Internet addresses when browsing (Nathenson, 1999). Similar to cybersquatters, parasites act in “bad faith.” Most leverage their “accidental” customers to compel infringed companies to purchase the domain name from them for a large sum. But some enterprising parasites actually open companies at these websites, drawing on their base of accidental customers. Consider the site www.eddiebauer.com (notice the extra “d”) that, until a week ago, operated an online clothing store independent of the major chain Eddie Bauer at www.eddiebauer.com. And this website was specifically engineered to dupe Internet users into believing they reached the legitimate Eddie Bauer online store. Fortunately, companies sometimes beat parasites to the punch; Eddie Bauer registered www.ediebauer.com (notice the missing “d”) to capture potentially lost customers.

But the quintessential parasite is www.whitehouse.com. This site benefits from the tendency of Internet users to append “.com” to the end of any domain name, forgetting that governmental agencies end with the “.gov” TLD. So instead of meeting the president at www.whitehouse.gov, computer users are shocked with pornography at www.whitehouse.com. Like cybersquatters, these parasites piggyback on the brand name recognition of another firm or organization. This free-riding can dilute the trademark of the mocked company both by blurring, when a user mentally disassociates the actual company from the trademark, and tarnishing (consider the eddiebauer.com example) by linking the trademark to products of poor quality. And inefficiency becomes relevant as users can waste a lot of time online before realizing that these intentionally misleading sites are not the legitimate ones they are looking for. Should this be permitted?
The Courts have been surprisingly quiet on this subject. However, court cases involving telephone mnemonics are abundant and suggestive of the Court’s probable position regarding parasites. Telephone mnemonics are analogous to domain names; both mask “real” numerical addresses with easy-to-remember alphanumeric phrases. In mnemonics, people often confuse the letter “O” and the numeral “0” (“zero”). Mnemonics parasites thrive on this, as in the Sixth Circuit case of Holiday Inns, Inc. v. 800 Reservation, Inc. (Nathenson, 30). In this case, 800 Reservations, Inc., maintained the number 1-800-HOLIDAY to book vacation getaways. Holiday Inns then registered 1-800-HOLIDAY (the “O” replaced with a “zero”) to lure unsuspecting customers. The court ruled ambiguously: both numbers could continue to operate, yet when callers reach the Holiday Inns hotline, operators were required to clear up any confusion as to which number they had reached. This is critical in relation to domain name parasites: it may come down to what the user sees when he gets to the site. If the content on the website allows someone to reasonably believe they have reached the legitimate site, then a finding of infringement is far more likely.

ICANN also stresses “bad faith” when ruling on cases of parasites. Like cybersquatters, ICANN conducts dispute resolution meetings where the burden of proof is shifted onto the defendant. And if ICANN perceives the intent to “confuse or mislead” on the part of the parasite, then the website is immediately suspended (Clampett). This is yet another endorsement of WIPO’s recommendations for extensive trademark protection. In fact, it stretches actual trademark law; the law does not expressly prohibit the use of marks very similar to famous marks. ICANN justifies this decision on the grounds of reducing trademark blurring and inefficiency on the Internet (ICANN, 1999). So to return to an earlier example, ICANN’s current policy awards Coca-Cola both www.cocacola.com and www.coke.com.
While “bad faith” is an integral part of parasitic and cybersquatting behaviors, some disputes arise even when both parties act in “good faith” (Domain Name Disputes, 2). We now turn our attention to such situations, termed twins.

Another Source of Disputes: Twins:

Twin disputes occur when two or more parties each have a legitimate claim to the same domain name (Domain Name Disputes, 2). This situation is particularly awkward since trademark law permits concurrent use of the same trademark provided confusion does not exist. Reconsider the earlier example of Prince Rackets and Prince Consulting. While both companies can share the trademark “Prince,” only one company can operate the website www.prince.com. In reality, both companies wanted the name, but neither one exhibited “bad faith” (Grossman, 1). So which company should get the name?

ICANN answers with a “limited” first come, first served domain name accreditation system (ICANN, 1999). The catch is that a domain name holder must be “commonly known” by a domain name if challenged by another party. While this criteria is extremely vague, it highlights the importance of the strength of the trademark for the two parties in the dispute. Even though Prince Consulting registered www.prince.com first, ICANN awarded the site to Prince Rackets since Prince Consulting was not widely recognized by its trademark (Grossman, 1). Again, ICANN remains committed to promoting efficiency and preventing free-riding on another’s brand name, even if the free-riding happens to be unintentional. But in the case where two parties are both well recognized by the same trademark – as in the hypothetical example of the trademark “united” for United Van Lines and United Airlines – the contested domain name remains with the first party to have registered it.
This ICANN policy is modeled on the Coase Theory of Bargaining. This theorem states that given no transaction costs, parties will come to voluntary agreements that “yield efficient outcomes” regardless of initial conditions (Dixit, 1). ICANN aims to provide efficient rules of interaction to promote these efficient solutions. So with the example of www.united.com, for instance, if 99% of the hits to the page are for United Airlines, the two companies will reach a mutually beneficial agreement whereby the domain name is transferred to United Airlines. While this theorem is wonderfully promising, it has significant limitations. Namely, it makes the impractical assumption of no transaction costs and ignores problems of asymmetric information. For instance, how can the value of a website be accurately gauged?

Because twin disputes have proven the most difficult to resolve, these dispute policies are in a constant state of revision. One possible improvement relies on Internet links (Prof. Rosston). For instance, if United Airlines maintained www.united.com, ICANN could require them to display a link to United Van Lines prominently on their homepage. Or perhaps www.united.com could be a simple page with links to both United Van Lines and United Airlines. Both of these solutions greatly reduces inefficiency by eliminating the need for a search engine in order to locate either business. Nevertheless, twin dispute policies are still having the kinks worked out.

Conclusion:

Trademarks appear closely related to domain names: the www.mytrademark.com format is sufficiently common to justify trademark protection on the grounds of efficiency. Accordingly, ICANN has proven determined to eliminate free cyber-lunches. And it appears to be working: the number of disputes in 1998 fell almost 10% from the numbers in 1997,
with 838 and 905 disputes respectively (McWilliams). This dip occurred despite the fact that domain name registrations rose from 962,000 in 1997 to 1.9 million in 1998. And data suggests that this trend is continuing into 1999. Furthermore, companies are wising up: the number of actual “.com” trademarks filed with the PTO is up 572% in the first six months of 1999 over those same months in 1998 (Omega Communications, 1).

At the same time, reliance on domain names may decrease as search engines become more reliable and efficient (Our Alternatives, 1999). And since search engines weigh web page titles heavily in their searches – titles that all sides of this debate agree deserve trademark protection – domain name trademark disputes may quiet down.

This combination of effective dispute resolution policy and promising technological improvements should continue to deter domain name disputes. It will be interesting to see if ICANN’s policy will survive criticism from DNRC, EFF, and other groups opposing trademark protection. And as for twins specifically, where policy disagreement is still most heated, the evolution of this policy will surely be fascinating.
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