



August 4, 2011

Mr. Rod Beckstrom
President
Internet Corporation for Assigned Names and Numbers
4676 Admiralty Way, Suite 330
Marina del Rey, CA 90202-6601 USA

Generic Top Level Domain Program

Dear Mr. Beckstrom:

I am the President and Chief Executive Officer of the Association of National Advertisers, a trade association whose membership includes more than 400 companies, representing in excess of 10,000 brands that annually collectively spend over \$250 billion in marketing, communications and advertising. We are writing to you in connection with the proposed generic top level domain (“TLD”) program (the “Program”) approved on June 20, 2011 by the Internet Corporation for Assigned Names and Numbers (“ICANN”).

Implementation of a Program with unlimited TLDs is economically unsupportable and likely to cause irreparable harm and damage. At the same time, the Program contravenes the legal rights of brand owners and jeopardizes the safety of consumers. By introducing confusion into the marketplace and increasing the likelihood of cybersquatting and other malicious conduct, the Program diminishes the power of trademarks to serve as strong, accurate and reliable symbols of source and quality in the marketplace. Brand confusion, dilution, and other abuse also poses risks of cyber predator harms, consumer privacy violations, identity theft, and cyber security breaches. The decision to go forward with the Program also clearly violates sound public policy and constitutes a breach of ICANN’s own Code of Conduct and its undertakings with the United States Department of Commerce as most recently embodied in the Affirmation of Commitments.

Critically, the Program violates simple common sense. There are no material or obvious benefits from the Program that provide true, measurable advantage to major parts of the constituency ICANN is charged to protect. Importantly, material gains are sorely lacking for commerce, competition and innovation. While no doubt some industry sectors will make money, most will suffer enormous costs that far outweigh the gains. Simply throwing the domain name universe into substantial confusion while generating untold costs to domestic and international businesses and consumers violates the framework of rationality, reasonableness and credibility.

Importantly, in our research, we found no consensus support for the Program among businesses, consumers, academics, researchers, agencies or government for a wholesale opening of the TLD marketplace. Quite to the contrary, there is little support at all. The paucity of support suggests an overwhelming rejection of ICANN’s assertions that there would be “benefits” to some constituency in the universe and for business and industry at large. Without credible independent support for the Program recommendations and design, we find your assertions of “positive outcomes” to be lacking in merit.

Mr. Rod Beckstrom
August 4, 2011
Page 2

We urge your organization to reassess its objectives and work with us collaboratively for better solutions, one of which is most certainly not the Program. There are better solutions that do not send shock waves to critical parts of the Internet community and burden the ecosystem with incremental and unnecessary time and cost investments that have no proven benefits other than for your own organization and domain name sellers, *e.g.*, perhaps the systematic one-by-one introduction of new TLDs. This type of approach, however, should be carried out only after independent research demonstrates that the addition will have a measurable, positive, and balanced impact on the marketplace, taking into consideration all of the constituencies through consensus, the standard by which ICANN is bound.

Our industry is absolutely convinced that the Program is incorrect and damaging to many parties. It is critical for ICANN to understand what those implications are. If possible, we are prepared to work with you to generate far better outcomes, but if such collaboration is possible to avoid far more expensive alternatives, we must know now if ICANN is willing to do so. Just know that we are directly and forcefully communicating that the path ICANN is taking has been flatly rejected by American business and industry. From our conversations with our global partners – it is rejected by those organizations as well.

The Program

Under the Program, scheduled to launch in January 2012, organizations located anywhere in the world will be able to apply to operate a TLD that corresponds to virtually any word or phrase, including an organization's name or brand. The ANA and its membership regard the Program as not merely unsupportable, but potentially disastrous — exacting outrageous fees and costs, requiring massive diversion of resources, and instituting an application, evaluation and dispute resolution process that is certain to lead to increased contention and costly federal and international legal action with no demonstrable benefit to businesses or consumers. These concerns are especially heightened in an economy that day by day continues to pose ever-increasing challenges and unprecedented uncertainties for businesses and consumers worldwide. Another layer of unnecessary and unjustifiable costs is the last thing the selling and buying public needs in the middle of the worst economic crisis since the Great Depression.

This should not come as a surprise to ICANN. The dangers inherent in the Program have been expressed repeatedly. To the business community, those dangers include, in addition to resource diversion, cybersquatting, infringement, brand dilution, and consumer confusion. Most recently, Esther Dyson, the founding Chairwoman of ICANN, noted the serious trademark issues with the Program. This is a “way for registries and registrars to make money,” says Dyson. She also pointed out that “there are huge trademark issues. I just think it is offensive. If I own a trademark, now I have to go register it on 2,800 domains. It will create a lot of litigation.”¹

For consumers, the possibilities are frightening. The Internet can become a veritable minefield for criminal activity when it becomes easier for online felons to cloak themselves in the name of a trusted

¹ See Eric Schonfeld, Esther Dyson on New Top Level Domains: "There Are Huge Trademark Issues" (July 21, 2011) at: http://www.washingtonpost.com/business/technology/esther-dyson-on-new-top-level-domains-there-are-huge-trademark-issues/2011/07/21/gIQAAnu7dRI_story.html.

brand. One can only imagine the harm such operators could have if they owned sites with TLDs attractive to children, to the aged, or to otherwise vulnerable citizens.

ICANN's Justification for the Program

Despite ICANN's stated benefits of adopting the Program, the economic studies commissioned by ICANN fail to demonstrate, and in fact, contradict ICANN's conclusion that the new TLDs are necessary.

ICANN justifies the Program on grounds that it: "might" or "may" (1) spur competition, (2) relieve scarcity in domain name space and (3) support differentiated services and new products. Yet evidence is sorely lacking that the introduction of new TLDs will actually achieve these goals. The very reports relied upon by ICANN prove that such justifications are unsupportable.

Competition. Regarding competition, in the December 2010 report commissioned by ICANN, entitled "Economic Considerations in the Expansion of Generic Top-Level Domain Names, Phase II Report: Case Studies" ("Phase II Report")², the authors of the Phase II Report clearly conclude that the introduction of new undifferentiated gTLDs is not likely to have a "significant competitive impact" in the market for registry services (Phase II Report, ¶ 12).

Scarcity. It is equally clear that scarcity is not a current problem. As the Phase II Report concludes, ". . . [T]he relief of name scarcity is unlikely to be the principal source of social benefits derived from new gTLDs" (Phase II Report, ¶ 20).

Differentiated Services and New Products. The Phase II Report notes new domain uses that are possible with TLDs, comparing such prospects to existing TLDs, e.g., domains that are restricted to particular functions or applications (such as existing TLD .mobi), domains that restrict second level registration to a particular class of owners (such as existing TLDs .museum, and .aero), and domains that restrict second-level registration to presenting a certain type of content (such as current domains relating to a specific geographic area). However, in each case, the experts conclude that the benefits were little more than speculative and that many of the TLDs adopted by ICANN in the last expansion round have been practical failures. (Phase II Report, ¶¶ 39, 50, 58, 59, 62).

Certainly, as the experts note, TLDs can be internationalized (in different language scripts or alphabets), but that is less an argument for the Program than internationalizing the current system or perhaps

² Michael L. Katz et al., Economic Considerations in the Expansion of Generic Top-Level Domain Names Phase II Report: Case Studies (2010) <http://www.icann.org/en/topics/new-gtlds/phase-two-economic-considerations-03dec10-en.pdf>. See also, Michael L. Katz et al., An Economic Framework for the Analysis of Expansion of Generic Top-Level Domain Names (2010), <http://www.icann.org/en/topics/new-gtlds/economic-analysis-of-new-gtlds-16jun10-en.pdf>; Michael L. Katz et al., Reply to Comments on An Economic Framework for the Analysis of the Expansion of Generic Top-Level Domain Names (2010 [sic]) <http://www.icann.org/en/topics/new-gtlds/analysis-response-economic-framework-21feb11-en.pdf>; Michael L. Katz et al., Reply to Comments on Economic Considerations in the Expansion of Generic Top-Level Domain Names Phase II Report: Case Studies (2011) <http://www.icann.org/en/topics/new-gtlds/analysis-response-phase-ii-report-21feb11-en.pdf>.

introducing a very limited number of internationalized domains. Yet even with respect to that observation, the experts report, “[m]any of the benefits of IDNs can be realized by implementing IDNs at the second level. . . . [and] it is our understanding it would be possible to write software that would allow a browser to operate in his or her language and alphabet of choice without the creation of a new IDN TLD.” Phase II Report, ¶ 25).

Economic Impact if the Program is Adopted

Not only are the benefits of the Program speculative, but the studies themselves recognize that the Program may cause several severe economic harms. As set forth in Paragraph 63 of the Phase II Study, the costs of the Program may include the following:

Misappropriation of Intellectual Property – The experts cite a key concern of misappropriation of intellectual property rights, including the “costs of domain watching, defensive registrations, litigation or other measures to end misappropriation, and costs due to misappropriation that is not blocked (e.g., lost profits due to sales of counterfeit goods or brand dilution).”

Defensive Registrations – As noted, brand owners may be compelled to file defensive registrations, *i.e.*, “registrations undertaken to protect legitimate trademark or intellectual property rights from misuse, not registrations undertaken as the ‘defense’ of one’s business against increased competition on the merits.” This cost alone could be in the hundreds of thousands of dollars per brand name, creating a multi-million dollar liability for major corporations and a multi-billion dollar cost to the industry.

Domain Navigation Dilution because Consumers have More Places to Look – The experts note that the “introduction of additional gTLDs may increase the costs of Internet navigation by increasing the number of potential domains over which a user may search. To the extent that such effects arise, they can dilute the value of existing domain names as navigation devices. The costs associated with such dilution include the costs of defensive registrations . . . and the costs due to dilution that cannot be mitigated.”

Harm to Internet Users from Increased Cybersquatting – One of the most incipient and costly challenges to the adoption of any new TLD is the prospect of cybersquatting and the substantial costs associated with preventing and policing it, which are already well into the billions. With respect to cybersquatting, the experts note, “In addition to harm in the form of increased search costs consumers may suffer more direct harm from increased cybersquatting. This direct harm may result from malware, phishing, and the unknowing purchase of counterfeit goods.” While the experts opine that such a result “may” occur, history proves that cybersquatting will occur just as it has with every TLD that has ever been administered by ICANN.

Reduced Investment by Intellectual Property Owners – The protection and development of intellectual property is a core value for the global economy, particularly given the world’s reliance on technology. As its own experts conclude, the Program seriously undermines intellectual property rights – “There may also be indirect harms from the loss of

intellectual property owners' incentives to invest in that intellectual property due to concerns that some of the benefits of that investment would be misappropriated."

Losses from Failed TLDs – History itself discredits ICANN's position that the introduction of new TLDs will increase innovation and competition. One need only look at the dismal financial registration and track record of TLDs like .museum and .aero to prove the point. Such failures are very disruptive and costly to companies that have registered. This reality is borne out by the authors of the Phase II Report, who conclude that "[i]f a new gTLD failed and ceased operation, external costs might be imposed on the Internet community. Registrants in a failed gTLD might be stranded, unable easily to move their websites (on which they may have based their business) to other TLDs due to embedded links. More generally, Internet users might face increased clutter on the Internet if links fail to resolve."

ICANN Board Deliberation and Decision

ICANN is now moving forward with the Program despite the conclusions of its own experts. ICANN justifies ignoring these studies in its report entitled "Rationale for Board Decision on Economic Studies Associated with the New gTLD Program."³ With all due respect, the "Rationale" is nothing short of a nullification of ICANN's own mandate to conduct economic studies. Rather than calling for further expert analysis, ICANN dismisses the very economic evidence derived from the studies and opts for a default justification of "competition" in which any TLDs may be adopted. Furthermore, ICANN minimizes the Phase II Report's conclusion that registry competition will not be significantly affected by the Program; ICANN says what it really is interested in is competition in business generally, and claims that any additional economic study on that subject would be futile.⁴ We understand that ICANN contemplates further studies once the new TLD program is underway,⁵ but at that point, the damage will have been done. Once new TLDs are deployed, there is no turning back.

This scant and conflicting economic analysis is one of many examples in which ICANN has disregarded its own requirements and unilaterally issued an edict. ICANN's Code of Conduct⁶ mandates that ICANN will "Work to build consensus with other stakeholders in order to find solutions to the issues that fall within the areas of ICANN's responsibility. The ICANN model is based on a bottom-up, consensus driven approach to policy development." Its undertakings with the U.S. Department of Commerce

³ Available at www.icann.org/en/minutes/rationale-economic-studies-21mar11-en.pdf. See also ICANN Board Rationales for the Approval of the Launch of the New gTLD Program, available at www.icann.org/en/minutes/rationale-board-approval-new-gtld-program-launch-20jun11-en.pdf. Even in its final rationales, ICANN acknowledges that no determination could be made that the benefits of the new gTLD program will outweigh the costs.

⁴ See ICANN, Minutes of Board Meeting 25 January 2011, Economic Studies - <http://www.icann.org/en/minutes/minutes-25jan11-en.htm> ("[T]he Board has determined that no further commissioned economic studies could better inform the Board's decision." *Id.* at 8). See also ICANN, Rationale for Resolution 2011.01.25.22 (2011) at 1, <http://www.icann.org/en/minutes/rationale-economic-studies-21mar11-en.pdf>.

⁵ <http://www.icann.org/en/minutes/minutes-25jan11-en.htm>.

⁶ <http://www.icann.org/en/documents/code-of-conduct-10jan08-en.pdf>

additionally require that ICANN act rationally and transparently.⁷ Clearly, the legal and due diligence requirements of ICANN's own mandates have not been met here. Pushing on the world community and markets a change of this magnitude is not the measured "bottom up" approach described in the Code of Conduct. Moreover, it is impossible to describe the decision to adopt the Program as a decision based upon consensus where the research, comments and reports submitted to ICANN clearly show that there was and still is no consensus on the need for the purported benefits of the Program.

By allowing the unrestricted expansion of TLDs, the Program, if implemented, will create titanic changes in the TLD architecture and an immeasurable disturbance of the hard fought equilibrium in legal, market, and architectural forces that are the foundation for brand protection today. Moreover, the Program, if adopted, will force brand owners to protect brands over hundreds (and into the future, thousands) of new second level channels. The flood of malicious conduct will introduce confusion into the marketplace and is likely to weaken the communicative power of brand identification generally.⁸ In addition, the unrestricted expansion of generic top level domains will enable a single entity to register, control and effectively claim quasi-trademark rights in generic terms — a policy that not only has been proven to inhibit competition, but has long been prohibited by trademark law.⁹ Such a result affords entities de facto trademark protection for generic terms that have never been protectable.

⁷ ICANN's Code of Conduct at <http://www.icann.org/en/documents/code-of-conduct-10jan08-en.pdf>; see also, Affirmation of Commitments by the United States Department of Commerce and the Internet Corporation for Assigned Names and Numbers (September 30, 2009) at <http://www.icann.org/en/documents/affirmation-of-commitments-30sep09-en.htm> ("ICANN commits to maintain and improve robust mechanisms for public input, accountability, and transparency so as to ensure that the outcomes of its decision-making will reflect the public interest and be accountable to all stakeholders by: . . . (c) continually assessing and improving the processes by which ICANN receives public input (including adequate explanation of decisions taken and the rationale thereof); (d) continually assessing the extent to which ICANN's decisions are embraced, supported and accepted by the public and the Internet community; and (e) assessing the policy development process to facilitate enhanced cross community deliberations, and effective and timely policy development.").

⁸ So-called "rights protection mechanisms" have been built into the Program, which include the following (1) Trademark Claims Services, (2) Sunrise Services, (3) Uniform Rapid Suspension, (4) Post-Delegation Dispute Resolution Procedures and (5) Registry Restrictions Dispute Resolution Procedures. Yet, due to the inadequacies of these mechanisms, namely, the extremely narrow scope of the protection, and limited time frame in which they are made available, the protections do little, if anything, to minimize monitoring and enforcement costs. In fact, the economic studies commissioned for ICANN acknowledge that "whatever rights protection mechanism[s] [are] adopted for a particular gTLD, 'monitoring costs, defensive registrations, cease and desist letters, UDRP proceedings or official dispute mechanisms (i.e., lawsuit) are, and will be, a significant post-launch external cost to brand owners.'" (*Reply to Comments on Economic Considerations in the Expansion of Generic Top-Level Domain Names Phase II Report: Case Studies*, page 9). Not to mention, the more marks that are at stake (which by definition will increase with the new gTLDs), the higher the cost of protection. Thus, these studies reinforce what the ANA and other members of the intellectual community have been saying all along: the cost of monitoring and enforcement (not to mention the harm to the public from cybersquatting) will rise dramatically with the adoption of new gTLDs, with very little or no benefit.

⁹ See Lanham Act § 14(c), 15 U.S.C. § 1064 ("A petition to cancel registration of a mark may be filed . . . (3) at any time if the registered mark becomes the generic name for the goods or services, or a portion thereof, for which it is registered."); see also *in re Merrill Lynch*, 828 F. 2d 1567, 1569 (citing *Dan Robbins & Associates, Inc. v. Questor Corp.*, 599 F.2d 1009, 1014, 202 USPQ 100, 105 (CCPA 1979) ("Generic terms, by definition incapable of indicating source, are the antithesis of trademarks, and can never attain trademark status. . . . "To allow trademark protection for generic terms, i.e., names which describe the genus of goods being sold, even when these have become identified with a first user, would grant the owner of a mark a monopoly, since a competitor could not describe his goods as what they are.").

Consumer Privacy

Customer confusion of brands could lead to consumer disclosure of sensitive personal information to persons intent on committing online identity theft as well as robbery and physical harm offline, particularly with respect to children. These persons may or may not be readily identifiable on the web, particularly if the number of TLDs, as ICANN hopes, proliferates in unprecedented numbers. The Program will also create major vulnerabilities in the arena of consumer and children's privacy on the second-level domain. At a time when consumers are being victimized online on a daily basis, ICANN's continuing the Program with the known risk of increased consumer privacy violations and cyber security lapses cannot be credibly defended.

A Hobson's Choice for Brands

Under the Program, companies face a truly Hobson's choice: expend precious and limited resources to monitor and police their brands over the second level of many new channels or risk brand dilution. Leading brands will feel compelled to divert valuable marketing, legal, financial and technical resources to TLDs — whether or not they elect to buy into the Program.

It is simply unacceptable to assert, as some have suggested, that companies can avoid these costs by simply deciding not to purchase TLDs for their brands. In truth, as economists know, competitive enterprises cannot simply put their heads in the sand and hope that threats around them will go away. The Program callously imposes an unjustified burden of choice where no choice should be needed — and the burden of choice here has huge costs, adverse consequences, and implications. Additionally, companies that feel compelled to buy will face application costs, a massive application process (involving a drain on internal resources), possible objection proceedings, consulting fees, and technology costs — with first year out of pocket costs rising to as much as \$500,000 or more for the processing of a single name. And from there, the costs will only escalate; even more so if a company does not have the internal resources to manage and administer the TLD itself or if multiple TLDs are seen as being necessary, whether to accommodate language nuances or multiple brands. It also appears to be incremental to the existing naming conventions that apply on the Internet, forcing new TLD applicants to also continue to maintain their existing URLs, many of which have earned both international reputation and significant goodwill.

Public Policy

The Program is an example of public policy gone awry with attendant unintended consequences that cannot be accepted. Indeed, implementation of the Program will serve to create the very type of conduct that U.S. federal laws, and the laws of many nations confronting the same problem, have sought to prevent. Brand owners are essentially being forced to *buy their own brands from ICANN* at an initial price of \$185,000. For companies with robust trademark portfolios considering multiple TLDs, the application costs can be exorbitant because a separate application must be filed (and paid for) for each separate name. At the end of this name-selling application process, if there are two applicants seeking TLDs with confusingly similar strings, ICANN determines the winner by auction, at costs to brand owners that could be staggering. Further, the new TLD edifice, including truly generic names and trademarked TLDs, will unquestionably be used by scammers at the second level through increased and renewed cybersquatting, typosquatting, and other malicious conduct.

Mandates in the Department of Commerce's prior Memorandum of Understanding and Affirmation of Commitments and ICANN's Code of Conduct

The Program is made all the more unsettling by ICANN's relationship with the U.S. Department of Commerce. As explained above, ICANN is failing to observe its own required processes. In addition, ICANN is not complying with its covenants to the Department of Commerce. The result is a Program that threatens immeasurable and irreparable damage to businesses around the world. While one often hears businesses talk of the enormous financial burdens they must bear as the result of regulation, here the Association members face the worst regulatory nightmare: the very real possibility of having to bear crushing costs as a result of the lack of effective government oversight and enforcement over a quasi-governmental body, over-reaching its authority and ignoring the obligations it owes to the Department of Commerce, if not the public at large.

Specifically, ICANN's Affirmation of Commitments by ICANN with the United States Department of Commerce (September 30, 2009)¹⁰ mandates that:

"ICANN commits to maintain and improve robust mechanisms for public input, accountability, and transparency so as to ensure that the outcomes of its decision-making will reflect the public interest and be accountable to all stakeholders..."

The Memorandum of Understanding with the Department of Commerce¹¹ (in effect prior to the Affirmation of Commitments) mandated that ICANN work in collaboration with the Department of Commerce to assure that ICANN's processes and decisions are "transparent, non-arbitrary, and [adopted in a] reasonable manner."

The ICANN Board's decision violates these principles under which it is authorized by the Department of Commerce to act. ICANN cannot defend its process as transparent, non-arbitrary or reasonable. Granted, ICANN has been debating the idea of the Program for years without resolution. The very fact that the debate has waged on for so many years begs the question: Is ICANN's decision to end the debate and adopt the Program while largely ignoring the serious issues that remain unresolved, arbitrary and unreasonable? Clearly it is.

The Road Ahead

ICANN must not ignore the legitimate concerns of brand owners and the debilitating effect on consumer protection and healthy markets its unsupervised actions will cause. Should ICANN refuse to reconsider and adopt a program that takes into account the ANA's concerns expressed in this letter, ICANN and the Program present the ANA and its members no choice but to do whatever is necessary to prevent implementation of the Program and raise the issues in appropriate forums that can consider the wisdom, propriety, and legality of the Program. We suspect that the ANA and its members are not the first group that has come forward since the June 20th announcement to question the Program.

¹⁰ <http://www.icann.org/en/documents/affirmation-of-commitments-30sep09-en.htm>

¹¹ www.ntia.doc.gov/ntiahome/domainname/icann-memorandum.htm

Mr. Rod Beckstrom
August 4, 2011
Page 9

On behalf of our members, ANA requests that ICANN abandon the Program and that if any change in the TLD architecture is to be adopted, it be justified by sound research, through compliance with ICANN's legal and contractual obligations, through a true consensus. We look forward to your written response to this letter and request such by August 22, 2011.

This letter is without waiver or prejudice to any rights, remedies, or causes of action the ANA or any of its members, individually and collectively, may have against ICANN, its constituents, and third parties, private or public, or any person, firm or enterprise that is found to aid and abet ICANN in connection with the Program and any other concerted actions or activities undertaken in the past or future by ICANN and such other parties.

Very truly yours,



Robert D. Liodice
President and Chief Executive Officer
Association of National Advertisers

cc: Ms. Victoria Espinel, U.S. Intellectual Property Rights Enforcement Coordinator, White House
The Honorable Rebecca M. Blank, Acting U.S. Secretary of Commerce
Mr. Lawrence E. Strickling, Administrator, National Telecommunications and Information Administration, U.S. Department of Commerce
Ms. Suzanne Radell, Senior Policy Adviser, NTIA, U.S. Department of Commerce
Ms. Fiona M. Alexander, Associate Administrator, Office of International Affairs, National Telecommunications and Information Administration
The Honorable Patrick Leahy, Chairman, Senate Judiciary Committee
The Honorable Charles E. Grassley, Ranking Member, Senate Judiciary Committee
The Honorable Robert W. Goodlatte, Chairman House Judiciary Subcommittee on Intellectual Property, Competition, and the Internet
The Honorable Melvin L. Watt, Ranking Member House Judiciary Subcommittee on Intellectual Property, Competition, and the Internet