THE SECRETARY OF COMMERCE
Washington, D.C. 20230

July 28, 1999

The Honorable Patrick J. Leahy
Ranking Member
Committee on the Judiciary
United States Senate
Washington, DC 20510-6275

Dear Senator Leahy:

Thank you for your recent letter requesting my views on S. 1255, the "Anticybersquatting Consumer Protection Act."

The Administration has repeatedly voiced its belief that electronic commerce is an extremely important engine for economic growth. To this end, we have been working since 1997 to ensure that the online environment is one in which consumers feel secure and confident in their activities, so that the full promise of electronic commerce may be fulfilled. The Department of Commerce released its annual report on "The Emerging Digital Economy II" in June of this year. In this report, we acknowledged that the technological revolution of the Internet has created new and unanticipated opportunities, as well as new and unintended risks.

Cybersquatting -- the abusive registration of domain names by bad faith actors who seek to capitalize on the goodwill earned by trademark owners by hijacking Internet addresses -- is one of these risks. Domain names are particularly vulnerable in the online environment; the domain names of successful businesses may be manipulated by predators who claim rights to use the domain names of well-known brands to exploit the goodwill that businesses have spent considerable years and financial investment creating. Cybersquatters who engage in this practice generally do so in order to mislead consumers into believing that they are accessing the website of a reputable establishment, or to extort payment from the rightful trademark owner for the right to use its own name in online commerce.

Cybersquatting is a deceptive and unfair practice that is an impediment to the potential presented by electronic commerce. We must protect the public from the activities of people or entities that foster fraud and deny rightful trademark owners the chance to establish an easily accessible online address. However, we believe that attempts to find a legislative answer to the problem of cybersquatting are premature.

As you know, the National Telecommunications and Information Administration (NTIA) issued the *Statement of Policy on the Management of Internet Names and Addresses* (the White Paper), on June 5, 1998. The White Paper identified important policies with respect to the transfer of the domain name system from the United States Government to a new, private, not-for-profit corporation, which has since been established in the form of the Internet Corporation for Assigned Names and Numbers (ICANN).

One priority identified in the White Paper is the need for adoption of policies to reduce conflicts between trademark holders and domain name registrants, including cybersquatting. The White Paper committed the U.S. Government to seek international support to call upon the World Intellectual Property Organization (WIPO) to develop specific recommendations for a "uniform approach to resolving trademark/domain name disputes involving cyberpiracy." The involvement of the multinational organization WIPO, with its 171 Member States,[1] was recognized to be a desirable step in obtaining input on these issues on a global basis reflecting the worldwide nature of today's Internet.

It has been just 14 months since NTIA published its White Paper, and already WIPO has undertaken the extensive international process of consultations called for in the White Paper. The outcome of this process with regard to enforcement of trademark owners' rights is set forth in the Final Report of the WIPO Internet Domain Name Process (the Final Report), issued on April 30, 1999.

The WIPO Final Report recommends that cybersquatting should be dealt with by the adoption of a uniform administrative dispute resolution procedure. The mandatory administrative procedure suggested by the Final Report would have considerable advantages: it would be quick, cost-effective, and it would be conducted mainly online. The WIPO mechanism would also grant the remedies of cancellation of a cybersquatter's domain name registration, transfer of the disputed domain name to the rightful owner, and allocation of responsibility for payment of the costs of the proceedings.

The Department of Commerce strongly supports the principles underlying the administrative procedure outlined in the Final Report. As Congress considers attempts to square various legislative options for criminalizing cybersquatting with First Amendment and other concerns, some basic WIPO principles at the heart of the administrative resolution process bear repeating:

(i) The procedure should permit the parties to resolve a dispute expeditiously and at a low cost.

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[1] Notably, the vast majority of WIPO Member States are party to either the Paris Convention for the Protection of Industrial Property and/or the Agreement involving Trade-Related Aspects of Intellectual Property Rights (better known as the TRIPS Agreement), both of which create obligations for the protection of trademarks.

> (ii) The procedure should allow all relevant rights and interests of the parties to be considered and ensure procedural fairness for all concerned parties.
> (iii) The procedure should be uniform or consistent across all open gTLDs [generic top-level domains]. If different procedures were available in different domains, there might be a danger of some domains, where procedures are weaker or do not lead to binding, enforceable decisions, becoming havens for abusive registrations...
> (iv) ...[T]he availability of the administrative procedure should not preclude resort to court litigation by a party...

With regard to the Final Report, at page 52, ICANN has embraced the WIPO recommendations relating to cybersquatting, and has asked its domain name policy body to report on their implementation later this summer. In the meanwhile, a group of ICANN Accredited Registrars are working together to develop a uniform dispute resolution policy that incorporates the WIPO recommendations.

The Department of Commerce is pleased at the significant progress that has been made over the last 14 months to prevent cybersquatting. We are confident that we will soon begin to see the results contemplated by the NTIA White Paper in the area of enforcement of intellectual property rights. We also believe that implementation of the WIPO recommendations on cybersquatting will provide valuable information and insights into how to eliminate this practice as we go forward. We are also concerned that other countries may view any domestic legislation enacted by the United States as an invitation to enact their own, potentially conflicting, approaches to cybersquatting. If different countries each enact their own laws, trademark owners could find it more confusing and more costly to enforce their rights in cyberspace. Domestic legislation thus may make it more difficult to implement a uniform, cost-effective approach to cybersquatting worldwide.

In your introductory remarks to the July 22nd hearing, "Cybersquatting and Consumer Protection: Ensuring Domain Name Integrity," you observed that "[i]n light of the developing case law, the ongoing efforts within WIPO and ICANN to build a consensus global mechanism for resolving online trademark disputes, and the implementation of domain name registration practices designed to discourage cybersquatting, we should be precise about the problems we need to address before we legislate in this area." The Department of Commerce would go a step further to state that the number and concentration of efforts targeted at this form of cyberspace fraud would counsel for legislative restraint at this time.

Finally, as case law on cybersquatting is beginning to develop, it has becoming evident that the court system is often a successful mechanism for trademark owners to obtain remedies against cybersquatters. Notably, in all of the cases that we have seen involving a cybersquatter registering large numbers of domain names for resale, the cybersquatter has lost. While we do not wish to subject legitimate trademark owners to the threat of litigation, we have found the courts to be hospitable to victims of cybersquatting. *McMaster-Carr Supply Company v. Supply Depot, Inc.*,

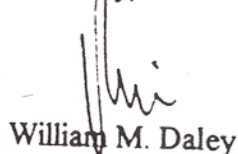
No. 98-C-1903, 1999 U.S. Dist. LEXIS 9559 (N.D. Ill. June 14, 1999) (denying defendant's motion to dismiss complaint alleging trademark violation, with court noting that, "[defendant] intentionally registered [plaintiff's] mark as its domain name, an act that it knew would harm [plaintiff]"), *Washington Speakers Bureau, Inc. v. Leading Authorities, Inc.*, No. 98-634-A, 1999 U.S. Dist. LEXIS 7558 (E.D. Va. May 19, 1999) (defendant ordered to cease using and relinquish ownership of the relevant domain name), *Cardservice Int'l, Inc., v. McGee*, No. 97-1211, 1997 U.S. App. LEXIS 32267 (4th Cir. Nov. 18, 1997) (affirming lower court's finding that defendant's domain name use constitutes trademark infringement and granting plaintiff a permanent injunction), *Intermatic Inc. v. Toeppen*, 947 F. Supp. 1227 (N.D. Ill. 1996) (adopting the report and recommendation of Magistrate and adding, "by applying the law of trademarks to the Internet, [the Magistrate Judge] strikes an appropriate balance between trademark law and the attendant policy concerns raised by defendant").

We are aware of, and sensitive to, the fact that trademark owners have expressed frustration that they cannot take legal action against cybersquatters without proof that the infringing domain name is actually used or offered for sale. This can be a serious impediment to protection of legitimate trademark rights. However, even in light of this practical barrier, it is premature to move forward with legislation. For example, a potential landmark case, *Porsche Cars North America, Inc. et al. v. PORSH.COM*, No. 99-0006-A, 1999 U.S. Dist. LEXIS 8750 (E.D. Va. June 8, 1999), is now on appeal to the Court of Appeals for the Fourth Circuit. To legislate at this crucial juncture would deny the appellate court the opportunity to use existing law to address the issue of jurisdiction in cybersquatting cases.

For all of the above reasons, we believe that the time simply is not ripe for legislation on this topic. If there is, nonetheless, a determination to legislate against cybersquatting, we would suggest that any legislative proposal track the Final Report recommendations. Any legislative effort should be technology-neutral, codify current case law, and refrain from imposing criminal penalties. Above all, any legislation designed to prevent cybersquatting should be carefully tailored to further, rather than impede, the development of the Internet as a tool for electronic commerce.

Thank you for soliciting my views on this important matter. Please let me know if the Department of Commerce can be of any further assistance in responding to your inquiry.

Sincerely,



William M. Daley

cc: The Honorable Orrin G. Hatch