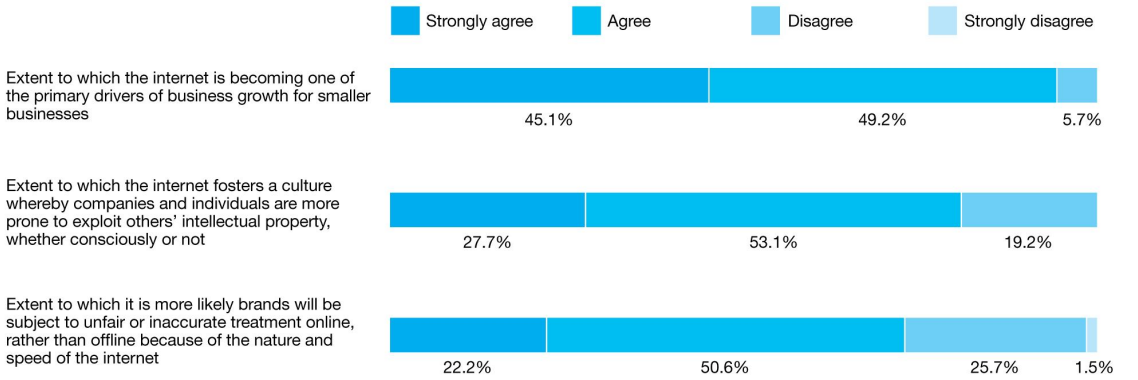
Digital challenges to brand owners

By Kirsten Gilbert, Partner at Marks & Clerk Solicitors

According to recent UK industry research[1] on brands in the digital age carried out by intellectual property firm Marks & Clerk, over 94 per cent of brand owners believe that the internet is becoming one of the primary drivers of business growth for smaller businesses. At the same time, the survey results showed that over 80 per cent of respondents (see Figure1) think that the internet fosters a culture whereby companies are more prone to exploit others' intellectual property. These results illustrate the tension for brand owners in the digital arena which on the one hand provides increased opportunities but which on the other exposes them to increased risks.

Figure 1

Views on business in the digital age



The survey also highlighted that issues of particular concern to companies in the digital arena are those of repeated copyright threat on the part of consumers and the more commercially driven problem of 'cybersquatting'.

The issue of fair usage of domain names has become an increasing focus of attention in the media. Domain trolls or 'cybersquatters' refer to entities that acquire a domain name corresponding to a trade mark, usually in the hope of selling it back to the brand owner for a profit at a later date. A clear majority of respondents (7 in 10) did not support this activity. To put this in context, they were more comfortable with secondary marketplaces like eBay benefiting from brands commercially, or for rivals to utilise aggressive comparative advertising strategies online. Clearly, entirely *opportunistic* commercial advantage such as that of cybersquatting is the most objectionable in the eyes of brand owners, over the more subtle interplay of free

[1] The Marks & Clerk cross-sector research was conducted by way of a detailed online survey of 264 UK brand owners and business executives. The findings are summarised in a report "Brand Challenges and opportunities in the digital age".

and fair competition raging within e-commerce as a whole and currently being examined across the courts.

Plans are also now well advanced by The Internet Corporation for Assigned Names and Numbers (ICANN) to open up domain names further in the near future. In so doing, we face the prospect of anything from .xxx to .microsoft or .apple domains, which raises a particular question about whether trade mark owners ought to enjoy special rights.

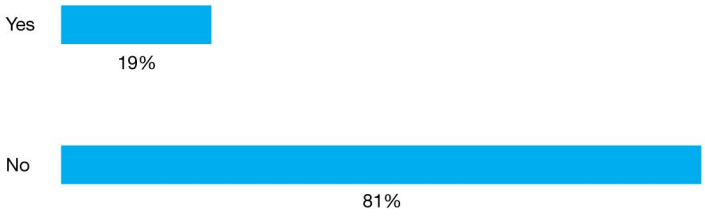
The vast majority of our respondents (85 per cent) feel that in this scenario bidding wars for domain names corresponding to a trade mark would be unacceptable, and that the brand owners in question should have special first rights to the domain name. Their expectation is in line with the currently adopted procedure which has developed in recognition of commercial needs. Historically, brands have enjoyed a “sunrise” period when domains have first been opened up to users, such as in the case of .eu or .asia – ahead of the “landrush” that follows in the scramble for new domain names.

The launch of the new gTLD program is currently on hold while certain outstanding issues are addressed. One of those concerns is the question of trade mark protection and ICANN have formed an Implementation Recommendation Team to provide possible solutions to the trade mark protection issues. Such recommendations include the introduction of a pre-clearance system for brand owners to demonstrate their rights prior to the registration process being opened and the introduction of a rapid suspension system to deal with abusive registrations amongst others.

The effectiveness of these procedures will be under close scrutiny especially if the new gTLDs prove popular with businesses. Our survey results also showed that 81 per cent of respondents did not think that IP law has kept up with the challenges posed by the rise of the internet. (See Figure 2)

Figure 2

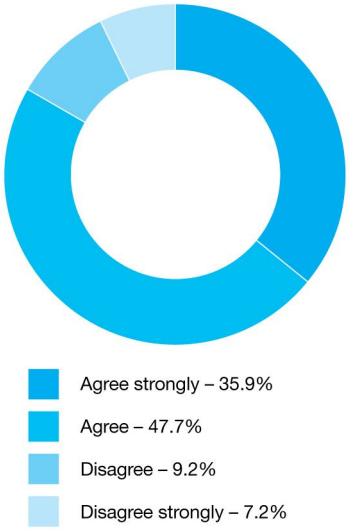
View on whether IP law has kept up with the challenges posed by the rise of the internet



Separately, respondents’ views were also explored with reference to the recent proposals by the British and French governments to block internet access to users who repeatedly violate copyright law (for example, through the illegal downloading and distribution of music, films etc.). Strikingly, a clear majority of 84 per cent support this idea – albeit that the UK has recently moved away from such a notion (See Figure 3). Also being considered is the blocking access to individual websites that host illegal content. In the media, the prospect of denying internet access has even fuelled discussion over whether internet access should constitute a human right.

Figure 3

Extent of agreement with the proposals put forward by some major governments to block internet access to those that repeatedly infringe copyright



In the UK, the Digital Economy Act has given Ofcom the power to draw up a code of conduct for the digital industry to include processed to be followed, rights and obligations of rights owners, ISPs and subscribers. The draft code has been produced and earlier this year was submitted for public consultation. Many comments were submitted and they are in the process of being reviewed. Ofcom plans to publish the final code in January 2011. At present the code requires warning letters to be sent to subscribers when complaints about them are made by copyright owners. Records of such warning letters will be kept and details of the number of letters sent to individual subscribers (on an anonymous basis) can be provided in certain circumstances to rights owners for them to consider what further action to take. It remains to be seen what will remain in the code after the consultation and the redraft. This is clearly an area to watch over the coming year.

In general, the survey respondents were clear in their verdict that the lines for brand owners need to be more clearly drawn, not just for the future health of industry but also the consumer. Almost all respondents (96 per cent) suggested that brands are likely to become increasingly aggressive in tackling online infringement with respect to these new digital challenges, with three-quarters suggesting consumers will ultimately bear the cost. Above all, they argue for consistent and stiffer penalties to be levied directly on infringers in the courts (91 per cent).

On the part of brand owners themselves and their defensiveness, 6 in 10 respondents foresee major brands seeking out a wider array of intellectual property protection for key products so that major brands may better fight rivals on a number of fronts. 40 per cent think this will extend to wider and more unusual trade mark protection, covering aspects of the brand such as colour and overall ‘look and feel’.

However, their ideal agenda is one involving far-reaching legal reform. 92 per cent of respondents call for further harmonisation of European trade mark and copyright law, in order to increase efficiency and consistency across Europe for brand owners. 96 per cent wish to see legislation enacted to clearly spell out the distinct responsibilities of brand owners and online commercial entities such as Google and eBay.

In short, while predicting increased hostility on the part of brands themselves, the Marks & Clerk research clearly shows that in the minds of brand owners, the law also has some important catching-up to do to continue to be fit-for-purpose.

For more information, or for a copy of the full report, contact Kirsten Gilbert at kgilbert@marks-clerk.com
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