

Copyright	Date	June 29, 2021	Court	Intellectual Property High Court, Second Division
	Case number	2021 (Ne) 10024		

- Even in the case of an industrial product that is provided for practical use, if it is found to have "artistic features that can be identified apart from its practical functions that may be aesthetically appreciated," the industrial product has copyrightability as a work that falls under the "artistic" domain as set forth in Article 2, paragraph (1), item (i) of the Copyright Act; however, in cases where it is not found to have such artistic features, it does not have copyrightability.

- A case in which the court did not find copyrightability with a posture maintenance device named "Good Core" as it is identified as an industrial product that is provided for practical use as a whole and its form, etc. is designed based on the purpose of making it fit a wide range of body shapes and the function of serving as an aid for exercise and stretching, and therefore it was not found to have "artistic features that can be identified apart from its practical functions that may be aesthetically appreciated."

Case type: Compensation, etc.

Result: Appeal dismissed

References: Article 112 of the Copyright Act, etc.

Judgment of the prior instance: Tokyo District Court, 2019 (Wa) 34531, rendered on February 17, 2021

#### Summary of the Judgment

1. In this case, the Appellant alleged against the Appellee that the Product manufactured and sold by the Appellee (posture maintenance device, "Good Core") had been developed jointly by the Appellant and Appellee and that the Appellant and Appellee concluded an Agreement on the payment of commissions, etc. in relation to the Product; and the Appellant [i] sought, as a principal claim, (a) a declaratory judgment that the Appellant has the right under the Agreement to receive the payment of commissions and demanded (b) that the Appellee pay the commissions based on the Agreement and; as an alternative claim, in cases where the effectiveness of the Agreement is not found, claimed (c) the injunction against the manufacturing and sale of the Product by the Appellee based on Article 112 of the Copyright Act and Article 3 of the Unfair Competition Prevention Act, and [ii] also sought payment of compensation for damages based on a tort (abuse of an advantageous position and filing an application for trademark registration without permission, etc.) committed by the Appellee.

2. The court of prior instance (Tokyo District Court, 2019 (Wa) 34531, rendered on February 17, 2021) dismissed all claims of the Appellant. Concerning the part of the claims set forth in 1. [i] (c) above based on Article 112 of the Copyright Act, the court of prior instance ruled, that it cannot be said that any ingenuity was exerted for the Product: which falls under the category of industrial products with a practical aim, that would allow it to be aesthetically appreciated, and concluded that copyrightability cannot be found for the Product as an artistic work.

3. In this judgment, the court dismissed the appeal on the grounds that there are no grounds for the claim of the Appellant; however, it held as outlined below concerning the part of the claims set forth in 1. [i] (c) above based on Article 112 of the Copyright Act.

(1) Even in the case of an industrial product that is provided for practical use, if it is found to have "artistic features that can be identified apart from its practical functions and may be aesthetically appreciated," the industrial product has copyrightability as a work that falls under the "artistic" domain as set forth in Article 2, paragraph (1), item (i) of the Copyright Act; however, in cases where it is not recognized to have such artistic features, it does not have copyrightability. Industrial products that are provided for practical use are protected by the Design Act. In consideration of differences in requirements, terms, and forms, etc. of protection under the Design Act and the Copyright Act, aside from cases where the industrial products are found to have the aforementioned "artistic features," in cases where they are not found as such, it is reasonable to understand that they are not under the provisions of the Copyright Act but are solely under the provisions of the Design Act, in light of the intellectual property laws as a whole in Japan.

(2) The Product is identified as an industrial product that is provided for practical use as a whole, and its form, etc. is designed based on the purpose of making it fit a wide range of body shapes and the function of serving as an aid for exercise and stretching. The Product is not found to have "artistic features that can be identified apart from its practical functions that may be aesthetically appreciated."

Judgment rendered on June 29, 2021

2021 (Ne) 10024, Case of appeal for intellectual property and seeking compensation

(Court of prior instance: Tokyo District Court, 2019 (Wa) 34531)

Date of conclusion of oral argument: June 3, 2021

#### Judgment

Appellant (first-instance Plaintiff) X

Appellee (first-instance Defendant) Modern Royal Co., Ltd.

#### Main text

1. The Appeal shall be dismissed.
2. The Appellant shall bear the cost of the appeal.

#### Facts and reasons

The abbreviation of terms and meaning of the abbreviations shall be subject to the judgment in prior instance excluding those defined in this judgment and all of the terms "Attachment" as used in the citation in the judgment in prior instance shall be changed to "Attachment to the Judgment in Prior Instance."

#### No. 1 Object of the Appeal

1. The judgment in prior instance is rescinded.
2. The Appellee shall pay to the Appellant 2,000,000 yen and an amount accrued thereon at the rate of 5% per annum for the period from January 15, 2020, until the completion of the payment.
3. (1) Principal claim

It is hereby declared that the Appellant has the right to receive commissions from the Appellee based on the Memorandum of Understanding as indicated in Attachment 1 to the Judgment in Prior Instance.

#### (2) Alternative claim

The Appellee must not manufacture and sell the product that is indicated in the List of Articles of Attachment 2 to the Judgment in Prior Instance.

4. The Appellee shall pay to the Appellant 1,200,000 yen and an amount accrued thereon at the rate of 5% per annum for the period from January 15, 2020, until the completion of the payment.

#### No. 2 Outline of the case

##### 1. Outline of the case

- (1) In this case, the Appellant made the following claims to the Appellee by alleging that

the product in question (the "Product") that is manufactured and sold by the Appellee as indicated in the List of Articles of Attachment 2 to the Judgment in Prior Instance (a posture maintenance device, named "Good Core" [hereinafter sometimes referred to as the "Cushion" for the sake of convenience]) was developed jointly by the Appellant and the Appellee and that the Appellant and Appellee concluded an agreement with the details indicated in the Memorandum of Understanding as indicated in Attachment 1 to the Judgment in Prior Instance (hereinafter the agreement is referred to as the "Agreement").

A. Claim based on the effectiveness of the Agreement in April 2019 and after

(A) Claim to seek a declaratory judgment that the Appellant has the right under the agreement to receive commissions as specified in Article 1 of the Memorandum of Understanding from the Appellee on the grounds that as the requirements for extension of the agreement period that are specified in the Memorandum of Understanding were met, the Agreement remains effective (principal claim as set forth in No. 1, 3. (1) above; hereinafter referred to as "Claim for a Declaratory Judgment").

(B) Claim to pay 1,200,000 yen as commissions from April 2019 to December 20, 2019, and delay damages accrued thereon at the rate of 5% per annum as provided for by the Civil Code before amendment by Act No. 44 of 2017, for the period from the day following the day on which the complaint was served (January 15, 2020) until the completion of the payment (claim as set forth in No. 1, 4. above; hereinafter referred to as the "Claim to Pay Commissions").

B. Alternative claim in the case where the effectiveness of the Agreement is not found at this time

Claim for injunction against the manufacturing and sale of the Product by the Appellee on the grounds as set forth in (A) or (B) below (claim as set forth in No. 1, 3. (2) above; hereinafter referred to as the "Alternative Claim for Injunction").

(A) Claim for injunction based on Article 112 of the Copyright Act

The Appellee's act to manufacture and sell the Product infringes the copyright (including overall partial copyright) of the Appellant related to "Good Core."

(B) Claim for injunction based on Article 3 of the Unfair Competition Prevention Act

The Appellee's act to manufacture and sell the Product falls under an act to transfer products that imitate the configuration of the Appellant's product (Article 2, paragraph (1), item (iii) of the Unfair Competition Prevention Act).

C. Claim for compensation due to a tort

Claim to pay compensation for damages of 2,000,000 yen due to a tort (Article 709 of the Civil Code) and delay damages accrued thereon at the rate of 5% per annum as indicated above from the day following the day on which the complaint was served as

indicated above until the completion of the payment on the grounds that the Appellee's act falls under a tort against the Appellant as indicated in (A) and (B) below (claim as set forth in No. 1, 2. above; hereinafter referred to as the "Claim for Compensation").

(A) Abuse of an advantageous position

The Appellee's act of unilaterally notifying the Appellant of the reduction of the commission rate of 3% as indicated in the Memorandum of Understanding and presenting the intention to refuse to sign an agreement under which the commission rate is maintained at 3% upon renewal of the Agreement (hereinafter the act is referred to as the "Act of Giving Notification, etc.") falls under the abuse of an advantageous position as specified in Article 2, paragraph (9), item (v), (c) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (hereinafter referred to as "Anti-Monopoly Act") and therefore the act falls under a tort.

(B) Unauthorized act of filing an application for trademark registration

The Appellee's act of filing an application for trademark registration alone without permission of the Appellant in response to the Appellant's disapproval for re-signing of the Agreement, even though the Appellee had given a negative response to the Appellant, who devised the name "Good Core" and proposed trademark registration, etc. (hereinafter the Appellee's act is referred to as the "Act of Filing an Application, etc."), falls under a tort of infringing the right of the Appellant to obtain trademark registration.

(2) The court of prior instance dismissed all the Appellant's claims. Dissatisfied with this, the Appellant filed the appeal.

2. Basic facts

The basic facts have been changed as indicated below and the remaining basic facts are as indicated in No. 2, 2. in the "Facts and reasons" section of the judgment in prior instance and therefore they are cited.

(1) In the judgment in prior instance, the part from "Memorandum of Understanding" on page 3, lines 5 to 6 to the end of line 7 is changed to "The Memorandum of Understanding (Exhibit Ko 5) was delivered; however, neither the Appellant nor the Appellee affixed a seal on the Memorandum of Understanding subsequently" and the part from page 3, the beginning of line 8 to the end of line 18 is changed as indicated below.

"There are the following statements in the Memorandum of Understanding.

'Article 1 (Commissions)

1) Commissions on sales

Sales price (for consumers) x 3.0% of the sales amount (number of products sold - returned products) (tax not included)

\* Sales price shall not be a fixed price, but the actual sales price for consumers.

## 2) Payment method

The figures shall be tallied at the end of every month and the amount of commissions shall be determined.

The commissions shall be transferred to the bank on the 5th day of the month two months after the closing date.

### Article 2 (Payment Period)

It shall be two years from the release date.

However, if monthly average sales after two years exceed approximately 100 pieces, an extension of the period may be re-contracted.

\* The agreement period shall be revised every six months and the agreement shall be terminated under conditions where average sales are less than 100 pieces."

(2) In the judgment in prior instance, the phrase "commissions related to the Product" as indicated on page 3, lines 20 to 21 is changed to "the amount that is calculated in accordance with the formula set forth in Article 1, paragraph (1) of the Memorandum of Understanding as commissions related to the Product"; and the term "Agreement" as indicated on page 4, line 3 is changed to "provisions of the Memorandum of Understanding", respectively.

## 3. Issues

[Issues related to the Claim for a Declaratory Judgment]

(1) Whether the Agreement is effective between the Appellant and Appellee at this time or not (hereinafter referred to as "Issue 1")

[Issues related to Claim to Pay Commission]

(2) Whether the Appellant has the right to request commission from the Appellee for the period from April 2019 until December 20, 2019, or not (hereinafter referred to as "Issue 2")

[Issues related to the Alternative Claim for Injunction]

(3) Whether the Appellant is a copyright holder related to the Product or not (hereinafter referred to as "Issue 3")

(4) Whether manufacturing and selling of the Product by the Appellee falls under act constituting unfair competition in the form of imitation of a configuration or not (hereinafter referred to as "Issue 4")

[Issues related to the Claim for Compensation]

(5) Whether a tort is established with the Act of Giving Notification, etc. or not (hereinafter referred to as "Issue 5")

(6) Whether a tort is established with the Act of Filing an Application, etc. or not (hereinafter referred to as "Issue 6")

(7) Whether there are damages to the Appellant and the amount thereof if any (hereinafter referred to as "Issue 7")

(omitted)

### No. 3 Judgment of this court

This court also rules that there are no grounds for the claims of the Appellant in accordance with the judgment in first instance. The grounds are as indicated in No. 4, 1. through 6. in the "Facts and reasons" section of the judgment in prior instance, including the judgment on the supplemental allegation of the parties in this instance as indicated in No. 2, 5. above (however, the details of each issue indicated in the title of each item are amended as indicated in No. 2, 3. (1) through (6) above), excluding the following changes, and therefore they are cited.

1. In the judgment in prior instance, the phrases "agreement related to the Memorandum of Understanding" as indicated on page 9, line 14 and "agreement" in line 16 are changed to "Agreement"; the phrase "draft of the Memorandum of Understanding" as indicated on the same page, line 17 is changed to "Memorandum of Understanding"; the term "release" as indicated on the same page, lines 17 to 18 is changed to "sale"; the part from "paid commissions related to the Product" as indicated on the same page, line 19 to "could not be seen" in lines 20 to 21 is changed to "paid the amount that is calculated in accordance with the formula set forth in Article 1, paragraph (1) of the Memorandum of Understanding as commissions related to the Product. On the other hand, the fact that negotiations were conducted again or objections were stated between the Appellant and Appellee concerning the details of the Memorandum of Understanding during the period from delivery of the Memorandum of Understanding on or around March 31, 2016, through March 2019 cannot be found"; and the phrase "at the latest by March 2019" as indicated on the same page, line 21 is changed to "at the time on or around June 5, 2017, when the commissions for April 2017 seem to have been paid in accordance with the provisions of Article 1, paragraph (2) of the Memorandum of Understanding", respectively.

2. In the judgment in prior instance, the phrase "said provisions of the Memorandum of Understanding" as indicated on page 10, line 3 is changed to "Article 2 of the Memorandum of Understanding"; the phrase "automatically updates" on the same page, line 6 is changed to "is automatically updated"; the term "the agreement" as indicated on the same page, line 9 is changed to "the Agreement"; the part from "the Plaintiff's" as indicated on the same page, line 12 to the end of line 14 is changed to "there are no

grounds for the Appellant's Claim for a Declaratory Judgment"; and the part from "sales related to the Product in said month and thereafter" as indicated on the same page, line 20 to the end of line 23 is changed to "there are no grounds for the Appellant's Claim to Pay Commissions", respectively.

3. In the judgment in prior instance, the part from the beginning of line 7 on page 11 to the end of line 22 is changed as follows.

"(2) Even if it is an industrial product like the Product that is provided for practical use, in cases where it is found to have 'artistic features that can be identified apart from its practical functions that may be aesthetically appreciated,' it is construed that the industrial product has copyrightability as a work that falls under the 'artistic' domain as set forth in Article 2, paragraph (1), item (i) of the Copyright Act. However, in cases where it is not found to have such artistic features, it is construed that it does not have copyrightability. There are no explicit provisions in the Copyright Act concerning the aforementioned points; however, industrial products that are provided for practical use are protected by the Design Act. In consideration of differences in requirements, terms, forms, etc. of protection under the Design Act and the Copyright Act, aside from cases where the industrial products are found to have 'artistic features that can be identified apart from their practical functions and may be aesthetically appreciated,' in cases where they are not found as such, it is construed to be reasonable to understand that they are not under the provisions of the Copyright Act but are solely under the provisions of the Design Act, in light of the overall intellectual property law system in Japan. The allegations of the Appellant against the above cannot be accepted.

(3) The Product is identified as an industrial product that is provided for practical use as a whole; its form, which gives the impression of an X-shape, is adopted for the purpose of making it fit a wide range of body shapes (Exhibit Ko 1 [xv]); there are two types of protrusions based on the same reasoning (Exhibit Ko 3 [iii]); and six protrusions are designed based on the function of serving as an aid for exercise and stretching (Exhibit Ko 3 [iii] through [vii], Exhibit Ko 16 [i], and Exhibit Ko 19). It cannot be found that the Product has artistic features that can be identified apart from its practical functions of serving as an aid for exercise and stretching that may be aesthetically appreciated, even though, as the Appellant alleged, the shape of the Product is devised to give an impression of beauty to persons who see it, and for this reason, certain functional sacrifices were made.

The Appellant alleged, in particular, that when the Appellant changed the design in response to the Appellee, who pointed out the similarity of the Product with another company's product, the Appellant prioritized creativity the most; however, it is indicated



in the project plan (Exhibit Ko 3) at that time that 'Emphasize its practical aspects, such as providing comfort (effects of stretches, massages, and finger pressure) and correcting posture (pelvis), as its points of attraction' (Exhibit Ko 3 [ii]) concerning its 'concept for modification.' Based on these facts, the aforementioned allegation of the Appellant cannot be accepted. None of the other circumstances alleged by the Appellant affect the aforementioned findings of determination."

4. In the judgment in prior instance, the part from "out of the Plaintiff's alternative claim" as indicated on page 11, line 25 to "the Copyright Act" on the same page, line 26 is changed to "out of the Appellant's Alternative Claim for Injunction, the part based on Article 112 of the Copyright Act"; the phrase "it does not fall under 'another person' as set forth in said item" as indicated on page 12, lines 8 to 9 is changed to "it cannot be said that the Product falls under 'goods that imitate the configuration of another person's goods (...)' as set forth in said item"; and the phrase "oral argument in this case" as indicated on the same page, line 10 is changed to "oral argument in prior instance", respectively; the phrase "based on Article 3 of the Unfair Competition Prevention Act" is added after "in this regard" as indicated on the same page, line 12; and the part from "out of the Plaintiff's alternative claim" as indicated on the same page, line 14 to "the Unfair Competition Prevention Act" in line 15 is changed to "out of the Appellant's Alternative Claim for Injunction, ... Article 3 of the Unfair Competition Prevention Act".

5. In the judgment in prior instance, the part from "although the Agreement" on page 12, line 17 to "refused" in line 19 is changed to "the Act of Giving Notification, etc."; the phrase "the allegation" as indicated on the same page, line 21 is changed to "concerning the allegation"; and the phrase "is understood to fall under" as indicated on the same page, line 23 is changed to "is understood to raise a problem solely whether it falls under", respectively.

6. In the judgment in prior instance, the part from "In addition" on page 13, line 6 to the end of line 12 is changed as follows.

"In addition, based on all Evidence, it is not found that there are circumstances where the commission rate of 1.5% that the Appellee presented to the Appellant at the time of re-signing the Agreement is objectively extremely low for the Product, for which two years had elapsed from its release. The fact that the Appellant cannot be recognized as a copyright holder related to the Product remains in the state that has been already found and determined, and therefore, the commission rate cannot be evaluated on the assumption that the Appellant is a copyright holder.

The Appellant made allegations about the commission rates that are indicated in the FY2009 JPO Research and Study Report on Issues of Industrial Property Right Systems.

However, the commission rates as indicated in the report are related to patent rights, trademark rights, copyrights on computer programming, technology and know-how, and therefore, it cannot be said that the commission rates are those under the same circumstances as at the time of re-signing the Agreement. In this regard, the Appellant alleged that if applications for registration had been filed for this Product, its patent right and design right could have been registered. However, it cannot be immediately found as such, and since the applications for registration were not in fact filed, it cannot be said that the commission rate should have been established on the assumption that these registrations were granted. These determinations do not change even if the Appellee was opposed to filing applications for these registrations (although, based on all Evidence, no circumstance is found that the Appellee unlawfully inhibited the Appellant from filing registration applications).

In addition, the Appellant alleged that revision of the commission rate was not scheduled for the re-signing of the Agreement; however, that fact cannot be found. It cannot be said that the Appellant should have been informed of the revision of the commission rate in advance.

Furthermore, the Appellant made allegations about the "Guidelines for Creating an Safe Environment where People can Work on a Freelance Basis (Draft)"; however, as mentioned above, the terms of the Agreement should not have been naturally extended under the same conditions and therefore it cannot be said that the Appellee unilaterally reduced the compensation that was stipulated in the agreement. The transaction conditions for the Agreement were clearly defined by the Memorandum of Understanding. An agreement after renewal of the Agreement was not concluded. Therefore, there is no room to examine delivery of a document to define transaction conditions for that agreement."

7. In the judgment in prior instance, the part from the beginning of line 13 on page 13 to the end of line 17 is changed as follows.

"(3) Based on the above, it cannot be said that the Act of Giving Notification, etc. fall under the abuse of an advantageous position. The remaining allegations of the Appellant do not affect the judgment. Therefore, there are no grounds for the parts of the Appellant's Claim for Compensation based on the abuse of an advantageous position."

8. The following is added as a new line at the end of page 14, line 1 of the judgment in prior instance.

"The Appellant alleged the right of a creator since a trademark is also a creation; however, under the Trademark Act, the creator is not allowed any rights. In addition, the Appellant alleged that the Appellee refused to file a joint application with the Appellant

and that the Appellant cooperated with the product development and has contributed to the sale of the Product after its release; however, it cannot be said that they are circumstances to determine the application for the Trademark Registration as illegal."

9. In the judgment in prior instance, the part from "the fact that the Defendant" as indicated on page 14, line 2 to the end of line 5 is changed to "it cannot be said that the Appellee's Act of Filing an Application, etc. fall under a tort, and there are no grounds in the parts of the Appellant's Claim for Compensation based on said fact".

#### No. 4 Conclusion

Consequently, the judgment in prior instance that dismissed all of the Appellant's claims is reasonable and there are no grounds for this Appeal. Therefore, it is dismissed and the judgment is rendered as indicated in the main text.

Intellectual Property High Court, Second Division

Presiding judge: MORI Yoshiyuki

Judge: NAKAJIMA Tomohiro

Judge: KATSUMATA Kumiko