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# NO&T Japan Legal Update

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■INTELLECTUAL PROPERTY

## Japanese court recognizes copyrightability of industrial design for the first time – the *Tripp Trapp* chair case

### I. A new trend?

On April 14, 2015, the Tokyo Intellectual Property High Court for the first time recognized the copyrightability of industrial design in a case involving the well-known highchair, *Tripp Trapp*. The chair was designed by Peter Opsvik and is produced by Stokke AS. This decision was ground breaking as the Tokyo IP High Court in effect followed the German Supreme Court's so-called 'birthday train' decision of 2013 by no longer requiring higher creative originality in order to protect applied art under copyright. NO&T represented Stokke AS and Peter Opsvik AS in the Tokyo High Court.

### II. Issues

In Japan, the design of 'applied art', i.e., works of art for practical or industrial use such as ornaments, furniture and dyeing patterns, have not been protected under Japanese copyright law unless they had a high level of aesthetic creativity equivalent to that of 'fine art'. This is because Japan's Copyright Act provides that artistic works include works of artistic craftsmanship (Art. 2, para. 2) but a question remained as to whether applied art that falls short of being a work of artistic craftsmanship - such as the design of the *Tripp Trapp* chair - was eligible for copyright protection.

### III. Previous court decisions

Until now, Japanese courts consistently required high esthetic creativity in applied art for applied art to be eligible for copyright protection. The courts denied copyright protection of designs including those for Nychair, Furby®, street lamps, ornamental tracery, knives, design patterns of Japanese Kimono belts and also wall paper. In line with these previous decisions, the court of first instance in the *Tripp Trapp* case denied copyright protection for the design of the *Tripp Trapp* chair on the basis that products for practical use that are industrially mass-produced are eligible for copyright protection only when such products have aesthetic creativity worthy of appreciation, even after separating the utilitarian aspects of the products.

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## IV. Debate among scholars prior to the *Tripp Trapp* case

The prevailing view among scholars prior to the Tokyo IP High Court decision in the *Tripp Trapp* case was that the design of applied art should be primarily protected by the Design Act (which requires the registration of design rights with the Japanese Patent Office) and that the application of both the Design Act and the Copyright Act to applied art not only undermines the Design Act registration system but also may restrain the production and trade of applied art. As such, applied art, unless it has high aesthetic creativity worth of appreciation such as that found in works of artistic craftsmanship, should not be eligible for copyright protection.

## V. The Tokyo IP High Court decision

The Tokyo IP High Court in the *Tripp Trapp* case found that the *Tripp Trapp* chair was copyrightable, holding that the originality of the author is sufficiently expressed to warrant copyright protection. The court no longer required higher aesthetic creativity in applied art for it to be copyrightable and treated applied art just like any other type of copyrightable work in determining copyrightability. The court reasoned, *inter alia*, that:

(i) there is no provision in the Copyright Act that requires higher aesthetic creativity in applied art;

(ii) given that utilitarian aspects may not always be separable from applied art, it is not appropriate to deny copyrightability when utilitarian aspects are not separable from applied art; and

(iii) the application of both the Design Act and the Copyright Act does not undermine the Design Act system as the purposes of the two Acts and requirements for and scope of the protection under the two Acts is different.

The court opined that the scope of the copyright protection of applied art is inevitably limited because the design of applied art is inherently dictated by its utilitarian aspects to some extent and accordingly copyright protection of applied art does not necessarily restrain the trade and production of applied art.

## VI. Takeaway from the *Tripp Trapp* decision and remaining issues

The *Tripp Trapp* High Court position which no longer requires higher aesthetic creativity for copyright protection of applied art is encouraging to manufacturing companies producing and/or selling products with distinct industrial designs in Japan and is also welcome news for industrial designers. However, it is too early to tell to what extent this new approach may have the effect of shutting similar designs out of the market. While the court found the *Tripp Trapp* chair copyrightable, it dismissed Stokke's claim of copyright infringement by narrowly defining the copyrighted design.

Now that not only functionality but also industrial design of products are essential for success in competitive markets, it is encouraging to see industrial design being more appropriately protected under copyright. We hope that moving forward the Japanese courts will also in appropriate circumstances be willing to find copyright infringement of copyrighted industrial design products so that manufacturers and industrial designers have proper recourse.

## Recent Publications

- ***The Olympus effect? Recent changes to whistleblower law regime***
(Globe Business Publishing Ltd, August 2015)
by Akihisa Shiozaki and Peter Coney

- ***Getting the Deal Through - Insurance & Reinsurance 2015 Japan***
(Law Business Research Ltd, July 2015)
by Keitaro Oshimo

- ***Global Arbitration Review - The Asia-Pacific Arbitration Review 2016 Japan***
(Law Business Research Limited, July 2015)
by Yoshimi Ohara

- ***The International Comparative Legal Guide to: Construction & Engineering Law 2015 Japan***
(Global Legal Group Limited, July 2015)
by Naoki Iguchi

- ***Getting the Deal Through - Pensions & Retirement Plans 2015 Japan***
(Law Business Research Ltd, June 2015)
by Yoshikazu Sugino

- ***Asian Conflict of Laws: East and South East Asia***
(Kluwer Law International, June 2015)
by Naoki Iguchi and Naoko Kamimura

- ***Medicinal product regulation and product liability in Japan: overview (2015)***
(Practical Law - A Thomson Reuters Legal Solution, June 2015)
by Kenji Utsumi and Kensuke Suzuki

# Investing in Japanese Renewable Energy Projects

## I. Introduction

On July 16, 2015, the Ministry of Economy, Trade and Industry ("METI") issued the target for Japan's energy mix in 2030. According to the long-term target set forth therein, renewable energy, such as solar and wind power, will account for 22-24% of the entire electricity supply as of 2030 while the share of LNG, coal and nuclear will be 27%, 26% and 20-22%, respectively. Renewable energy is likely to have an important role in the future electricity supply in Japan, and the current growth of the renewable energy investment market is robust. This article summarizes the key points to note when investing in Japanese renewable energy projects.

## II. Recent developments in the Japanese FIT system

### 1. Key aspects of the Japanese FIT system

The Japanese feed-in-tariff (FIT) system was introduced on July 1, 2012. In order for a renewable energy supplier to take advantage of the FIT system, it must apply to METI to receive certification of its renewable energy facility. The FIT system obliges power utilities (such as TEPCO) to purchase electricity that a power supplier has generated by utilizing a METI-certified renewable energy facility from renewable energy sources, including wind, solar, hydro, geothermal and biomass, at a fixed price for a fixed period of time. If requested by a power supplier, a power utility must:

(i) enter into a PPA (Power Purchase Agreement) and purchase all renewable electricity at the applicable purchase price for the duration of the applicable purchase period, and

(ii) grant the power supplier access to the grid connection, subject to certain statutory exemptions.

Under the FIT system, the purchase price and purchase period applicable to each category of renewable energy will be reviewed and revised by METI annually for each fiscal year (i.e., 1 April to 31 March) or, if necessary, semi-annually. The purchase price (excluding consumption tax) applicable to renewable power generation projects in each category of renewable energy for each fiscal year determined by METI so far is as follows:

| | Solar (more than 10kW) | Wind (more than 20kW) | Hydro (1,000 – 30,000 kW) | Geothermal (more than 15,000kw) | Biomass (general wood biomass) |
|---|---|---|---|---|---|
| Fiscal Year 2012 | JPY 40 per kWh | JPY 22 per kWh | JPY 24 per kWh | JPY 26 per kWh | JPY 24 per kWh |
| Fiscal Year 2013 | JPY 36 per kWh | JPY 22 per kWh | JPY 24 per kWh | JPY 26 per kWh | JPY 24 per kWh |
| Fiscal Year 2014 | JPY 32 per kWh | JPY 22 per kWh | JPY 24 per kWh | JPY 26 per kWh | JPY 24 per kWh |
| Fiscal Year 2015 | JPY 29 per kWh (up to June 30) JPY 27 per kWh (after Jul 1) | JPY 22 per kWh | JPY 24 per kWh | JPY 26 per kWh | JPY 24 per kWh |

The purchase price applicable to renewable power generation projects is, in general, determined by the later of (i) the date of facility certification by METI and (ii) the date of a power utility's receipt of an application for grid connection by a power supplier. In principle, once the purchase price applicable to a specific project is determined, it applies continuously throughout the applicable purchase period even if the purchase price determined by METI for fiscal years thereafter has decreased from such purchase price.

Further, such purchase price would continue to apply even if the ownership of the certified facility is transferred to a third party, which then becomes the new supplier. Thus, existing projects that have secured a high purchase price (e.g., mega solar projects with JPY 40per kWh) are very attractive investments, and there are currently a number of transactions to acquire such existing renewable projects. In such transactions, among other things (such as land use rights or permits), due diligence to ensure that such high purchase price has been duly secured is essential.

2. Recent changes to the Japanese FIT system

As widely reported in the Japanese media in 2014, multiple power utilities temporarily suspended their responses to grid connection applications submitted by mega solar energy suppliers. Partly due to such reactions from those power utilities, METI amended the FIT Ordinance and changed its enforcement policy thereof in early 2015. Such change includes an amendment to annual maximum curtailment which does not involve any compensation to a renewable energy power supplier. For example, the amount of such permitted curtailment was amended from thirty (30) days to seven hundred and twenty (720) hours for wind projects and three hundred and sixty (360) hours for mega solar projects so that power utilities would have more flexibility in terms of curtailment. It is important to confirm whether such amended regulations are applicable when an investor seeks to acquire an existing renewable project.

In addition, since the beginning of the FIT system, METI has been gradually clarifying the circumstances where a change of METI certification, which triggers a change of purchase price, is necessary. For example, since mid-February 2015, if a panel supplier or solar panel model is changed from the supplier or model specified in the METI certification, the relevant power supplier is, in general, required to make an application for amendment to its METI certification. In such case, the purchase price applicable to the target project must be changed to the price as of such amendment. Thus, it is also important for a potential investor to investigate whether there are circumstances where such change has been triggered.

## III. Launch of infrastructure fund market

The recent amendment to the Act on Investment Trusts and Investment Corporations (the "Investment Trust Act") in 2014 allows investment corporations to hold infrastructure related facilities (including mega solar facilities) and equity interests in such facilities (collectively, the "Infra Facilities, etc."). Thereafter, in April 2015, the Tokyo Stock Exchange launched a market for infrastructure funds and published the rules regarding such market. With such a new investment system, it has become possible to form REIT-like listed investment funds which directly or indirectly invest in renewable energy projects. However, the amended regulations have recently been implemented and there are a number of unclear issues. Especially, the following tax issue could be crucial for investors.

Under the relevant tax law, if an investment corporation under the Investment Trust Act satisfies certain conditions, it is allowed to deduct (as an expense) the dividends paid to investors when determining its taxable income. Then, the recent amendment to the relevant tax law (legislated along with the above amendment to the Investment Trust Act) requires investment corporations holding the Infra Facilities, etc. to satisfy certain conditions. According to such amendment, in order to establish a tax effective structure, among other things, (i) the percentage of the Infra Facilities, etc. needs to be no more than 50% of the investment corporation's total holdings and (ii) if the percentage of the Infra Facilities, etc. exceeds such 50%, the period the tax effective structure is permitted is only up to 10 years and the only way to manage/operate the infrastructure related facilities is via a lease.

Due to the existence of such constraints, it seems practically difficult to establish listed infrastructure funds with tax effective structures. Thus, those who intend to establish such funds need to pay careful attention to further discussions on this tax aspect.

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Nagashima Ohno & Tsunematsu, having offices in Tokyo, New York, Singapore, Bangkok, Ho Chi Minh City, Hanoi and Shanghai, is widely known as a leading law firm and one of the foremost providers of international and commercial legal services in Japan. The firm represents domestic and foreign companies and organizations involved in every major industry sector and in every legal service area in Japan. The firm has structured and negotiated many of Japan's largest and most significant corporate and finance transactions, and has extensive litigation strength spanning key commercial areas, including intellectual property, labor and taxation. The firm comprises around 350 lawyers capable of providing its clients with practical solutions to meet their business needs.