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Zhang Peiyao v. Suzhou Nanxin Cement Co., Ltd.

Citation: The Supreme People's Court's Civil Judgment No. Zhizhongzi 3/2000

Date of judgment: November 6, 2000

Procedural history

Zhang Peiyao, Hui Deyue and the Dusting Equipment Plant (DEP) in Funing County, Jiangsu Province sued the Suzhou Nanxin Cement Co., Ltd. (Nanxin) in the Jiangsu Province Higher People's Court for infringement of trade secret, claiming damages for the injury. It was found in the first-instance Judgment that Nanxin did not infringe Zhang Peiyao and Hui Deyue's trade secret. Zhang Peiyao appealed to the Supreme People's Court.

Issue

Was there a trade secret involved in the case?

Facts

Nanxin bought a dusting apparatus (the apparatus) from the DEP under an agreement therebetween, and installed it. A dispute later arose between them because the apparatus could not reach the dust cleaning standard under the contract. They resorted to arbitration. It was decided in the arbitration award that the agreement was terminated, the DEP should dismantle the apparatus itself, and Nanxin reimbursed the DEP RMB 30,000 Yuan for its losses. The DEP did not dismantle the apparatus in time as required in the arbitration award. Nanxin dismantled the apparatus itself. It dismantled some parts, and kept them in its plant.

In addition, Zhang Peiyao and Hui Deyue filed applications with the Chinese Patent Office for

patents for utility model and invention. Zhang Peiyao and the DEP concluded a technology transfer contract, in which it was agreed that Zhang Peiyao was to transfer the technology of the dusting apparatus to the DEP; the DEP was obliged to keep confidential all the drawings and technical secrets provided by Zhang Peiyao; and Zhang Peiyao owned the technology, and the DEP only had the right to use the same. The DEP reported the technology of “vertical furnace wet type dusting apparatus” to the Science and Technology Bureau of Funing County, which has approved the technical project. Soon after, the DEP made the investment and commenced the R&D to make the apparatus.

Zhang Peiyao, Hui Deyue and the DEP sued Nanxin on the grounds that Nanxin dismantled itself the apparatus provided by the DEP, and thus revealed the trade secret therein, and resulted in the destruction and loss of the apparatus.

The court of first instance held that:

(1) the technology in suit was one transferred by Zhang Peiyao to the DEP for it to use, and it was owned by Zhang Peiyao, but the part of the technology covered by the patent was jointly owned by Zhang Peiyao and Hui Deyue; hence Zhang Peiyao and Hui Deyue were entitled to claim their right in the trade secret;

(2) the DEP did not take any measures to keep it secret when concluding the agreement with Nanxin, and the trade secrets as claimed by Zhang Peiyao and Hui Deyue, such as the technical information of the material, geometrical dimension, and order of arrangement of the internal components of the apparatus, which could be made known simply by dismantlement and measurement. Were impossible to be the trade secret unknown to the public.

Zhang Peiyao argued in his appeal that:

(1) There was the trade secret claimed. It was specified in the agreement the DEP concluded with Nanxin that the dusting apparatus was a patented product. This was one of the measures he had taken to keep it secret. All the “the material, geometrical size and order of arrangement of the internal components” of the apparatus were technical information, and constituted the technical secret; and

(2) Nanxin had infringed the appellant’s trade secret for the following reasons: firstly, Nanxin had

dismantled the apparatus by unfair means, resulting in many parts and components stolen, and thus rendering his technical secret and equipment devoid of novelty and confronting the related application for a patent for invention with the risk of impossible grant thereof; and secondly, Nanxin had never been asked to take care of the apparatus; Nanxin had infringed the trade secret in the dusting apparatus, and its liability thereof was not one for “failure to take an appropriate care of them” as held in the first-instance judgment.

Rule of Law

Article 10 of Unfair Competition Law *A business operator shall not resort to these means to infringe trade secrets... (3) disclosing, using or allowing others to use trade secrets that he has obtained by breaking an agreement or disregarding the requirement of the owners of the rights to keep the trade secrets. Where a third party obtains, uses or discloses the trade secrets of others when it or he has or should have full knowledge of the illegal acts mentioned in the preceding paragraph, it or he shall be deemed to have infringed the trade secrets of others. The trade secrets mentioned in this Article refer to technical information and business operational information which is unknown to the public, and capable of bringing economic benefits, and which the rightholder has taken measures to keep them secret.*

Reasoning

Taking measures to keep some information secret is the necessary requirement for securing the legal protection thereof as trade secret. In the present case, Nanxin obtained the apparatus by concluding the agreement with the DEP. It had lawfully possessed and used the apparatus containing the technical information claimed by Zhang Peiyao. The Zhang and Nanxin were not contractually or otherwise directly related. Therefore, whether he had taken the measures to keep the relevant technical information secret should be determined by finding out whether there was any stipulation about confidentiality obligation made in the agreement between the DEP and Nanxin and whether other such measures had been taken in execution of the contract. As its content showed, this agreement neither indicated that the apparatus contained technical secret, nor set forth any other confidentiality obligation clause. The DEP did not appropriately indicate whether the apparatus provided to the appellee contained the technical secret, and the measures to keep it secret as claimed by Zhang Peiyao did not enable an average business operator to get to know that the prod-

uct it possessed and used contained any technical secret. Besides, the DEP and Zhang did not adopt any other appropriate measures before the dispute of this case arose to keep the related technical information from being made known or disclosed by Nanxin. As far as Nanxin was concerned, there existed no due confidentiality measures in this case. Therefore, Zhang Peiyuan was not in a position to claim that the relevant technical information should be protected as trade secret, and his appeal was not tenable.

Holding

Taking measures to keep the relevant information secret was the necessary requirement for it to be legally protected as a trade secret. There existed no such reasonable measures in this case; therefore, the relevant technical information did not constitute a trade secret susceptible to the protection under the law.