

# 95

## No. 18 Institute of the Ministry of Electronic Industry v. Qinghuangdao Futian Power Source Corporation

*Citation: The Supreme People's Court's Civil Judgment No. Zhizhongzi 1/1997*

*Date of judgment: August 19, 1997*

### **Procedural history**

The No. 18 Institute of the Ministry of Electronic Industry (the Institute) sued, in the Tianjin Higher People's Court, Sun Xichen, Shao Guirong, Lu Wendong, the Qinghuangdao Futian Power Source Corporation (Futian), the Funing County Switch Plant (FSP), Funing County Funing Township Economic Administration Committee (FEAC) for infringement of its trade secret. In the first-instance judgment, Sun Xichen, Futian, the FSP, and FEAC were found to have infringed the trade secret. Futian, FSP and FEAC appealed to the Supreme People's Court.

### **Issue**

Liability for infringement by luring others to disclose trade secret

### **Facts**

The technologies for making nickel-cadmium battery and nickel-hydrogen battery were developed by the Institute, and the Institute had transferred them to many domestic enterprises. In May 1994, the Institute concluded the technology transfer contracts with some other entities, in which it was agreed that the fees for the software of the technology and provision of the related services were RMB 3 million yuan. Said two technologies were protected under the Provisional Provisions Concerning Work on Confidentiality formulated by the Institute. From 1977 to 1994 when he worked for the Institute, Sun Xichen served as the group leader of the nickel-cadmium battery project and the nickel-hydrogen battery project in different period, and signed the relevant confidentiality a-

greements prepared by the Institute.

In May 1993, people from the FSP and FEAC went to the Institute to negotiate on the matter of transfer of the technologies for making the two types of batteries. The three parties failed to reach an agreement as the matter of royalties stood in the way.

In August 1993, Sun Xichen concluded an agreement with the FSP and FEAC to set up the Futian Power Source Corporation. Sun Xichen invested in the form of technologies and was given his share of the Corporation. He was responsible for providing the technological process for making the battery products and for developing new products. It was also agreed that the FSP and FEAC gave Sun Xichen RMB 200,000 yuan as the rick-prevention capital, and paid RMB 100,000 yuan to buy a residence for him.

In 1994, Futian was incorporated, and Sun Xichen served as technical director, and participated in writing the profile of the corporation and the specification of the battery products. Further, in March 1995, he went to work for Futian as Chief Engineer, responsible for the work on technologies for making the batteries.

The first-instance court invited the Beijing General Institute of Non-Ferrous Metal to test the nickel-cadmium battery and nickel-hydrogen battery made by Futian and the batteries of the same types made by the Institute. The latter concluded that as the tests showed, all the nickel-cadmium battery and nickel-hydrogen battery were identical or substantially identical in all aspects, except the positive framework of the nickel-cadmium battery.

The first-instance court held that the technologies for making the nickel-cadmium battery and nickel-hydrogen battery were technical secrets protected under the law. With Sun Xichen's teaching them the technologies, Futian had used said technologies. The FSP and FEAC, when they clearly knew that they were the Institute's technical secrets, concluded the agreement with Sun Xichen, luring, with material temptation, the latter to have disclosed the Institute's technical secrets, and obtaining and using the same through Futian. Futian, FSP, FEAC and Sun Xichen were all at fault, and inflicted damage to the Institute, so should bear the corresponding legal liabilities. The

court ruled that the four defendants were jointly and severally liable for paying the Institute RMB 900,000 yuan in compensation of its financial damages.

### **Rule of law**

Article 10 of the Unfair Competition Law *A business operator shall not use any of the following means to infringe trade secrets:*

- (1) obtaining a rightholder's trade secrets by stealing, luring, intimidation or any other unfair means;*
- (2) disclosing, using or allowing another person to use the trade secrets obtained from the rightholder by the means mentioned in the preceding paragraph; or*
- (3) violating the agreement or the rightholder's requirement for keeping trade secrets confidential, disclosing, using or allowing another person to use the trade secret at one's disposal. Obtaining, using or disclosing another person's trade secret by a third party who clearly knows or should know that the case falls under the unlawful acts mentioned in the preceding paragraph shall be deemed to be an infringement of the trade secret.*

*The 'Trade secrets' mentioned in this Article refers to any technological information or business operation information which is unknown to the public, capable of bringing economic benefits to the rightholder, and practically applicable and about which the rightholder has adopted secret-keeping measures.*

### **Reasoning**

After unsuccessful negotiation with the Institute on the transfer of the technologies in suit, the FSP and FEAC lured, by means of offering risk-prevention capital, house and share, Sun Xichen to have concluded, in private, an agreement on setting up Futian, and obtained the Institute's technical secrets from Sun Xichen. This was an act of unfair competition by luring another person to disclose trade secrets. Sun Xichen, when clearly knowing that the technologies at his disposal were the Institute's technical secrets, had acted in violation of the law provisions by disclosing said technologies to Futian for it to use without authorization, and his act constituted an infringement of the Institute's technical secrets. Futian, when clearly knowing that Sun Xichen had no right to invest in said technical secrets in suit for share, obtained and used, by unfair means, the technolo-

gies by accepting his investment of the type for the purpose to make and market the nickel-cadmium battery and nickel-hydrogen battery, thus having inflicted financial injury to the Institute. Accordingly, FSP, FEAC, Fatian and Sun Xichen had the intention to jointly commit the infringement, and had jointly performed the infringing acts.

***Holding***

The FSP and FEAC had obtained, by means of luring with material temptation, the Institute's technical secrets, which was an act of unfair competition by luring another person to disclosed trade secrets. They and the direct infringers Sun Xichen and Futian had jointly committed the infringement.