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Kunshan Isotope Chemical Engineering Co., Ltd. et al. v. Shanghai Chemical Engineering Research Institute et al.

Citation: The Shanghai Higher People's Court's Civil Judgment No. Hugaominsan(zhi)zhongzi 40/2005

Date of judgment: June 27, 2005

Procedural history

The Shanghai Chemical Engineering Research Institute (CERI) sued Chen Weiyuan, Cheng Shangxiong, Qiang Jiankang, the Kunshan Isotope Chemical Engineering Co., Ltd. (Isotope) and the Jiangsu Huihong International Group Local Products Import and Export Suzhou Co., Ltd. (Huihong) for infringement of its trade secret. In the first-instance judgment, Chen Weiyuan et al. were found infringing the trade secret. Isotope and Huihong appealed to the Shanghai Higher People's Court.

Issue

The legality of the entrustment of an expert appraisal organization and acceptance of the expert appraisal conclusion

Facts

In 1961, the CERI launched a R&D project to produce the 15N labeled compound with the NO-HNO₃ chemical exchange method. In 1989, it set up a 15N workshop and commenced the production. In 1999, it started to export the 15N labeled compound. In 2001, its 15N technology was listed among the Top 100 high and new technical achievement transformation projects in Shanghai.

The CERI had been the only ^{15}N labeled compound producer in China until Isotope started to produce the same product.

Chen Weiyuan, Cheng Shangxiong and Qiang Jiankang, former key technicians working for the CERI, mastered the ^{15}N technology when they worked there. When Isotope was set up in July 2001, with the arrangement by Cheng Shangxiong, Chen, Qiang and himself resigned from the CERI, and went to work for Isotope in charge of production and R&D of the ^{15}N products there.

In the final trial of a separate criminal lawsuit closed previously, Chen Weiyuan, Cheng Shangxiong, Qiang Jiankang and Isotope were found to have committed the crime of trade secret infringement. In the case, the local public security bureau, which had investigated the case, invited the Shanghai Science and Technology Commission (SSTC) to make the technical appraisal, in which, the SSTC held that the CERI's ^{15}N technology included five major categories of technology information unknown to the public, and the ^{15}N technology and ^{15}N production equipment, used by the CERI and Isotope respectively, were substantially identical. With the use of the known technical materials Isotope presented to the court, it was impossible to work out the ^{15}N technology and its production equipment as currently used by Isotope. The first-instance court accepted the evidence.

During the court hearing of the case, Isotope presented two technical documents (a Test Report and the Industrial Design) and the conclusion made on the basis of the two documents by the Center for IP Affairs under the Ministry of Science and Technology to prove that the ^{15}N technology was a known technology. The first-instance court did not accept the evidence since the Test Report was not an original document, and the Industrial Design was in electronic form, and both were presented by Isotope itself to the appraiser.

The first-instance court held, in view of the facts in the case, that the CERI's ^{15}N technology had met the requirements as trade secret, it was a trade secret of the CERI, and should be protected under the law. The court decided that the five defendants' acts constituted infringement of the trade secret.

Isotope and Huihong appealed, arguing that the expert opinions were sharply divided as to whether the 15N technology and its production equipment were trade secrets; the SSTC was not qualified for making the technical appraisal, and the technical appraisal it had made was contrary to the relevant law provisions.

Rule of law

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

(1) obtaining a rightholder's trade secret by stealing, luring, intimidation or any other unfair means:

(2) disclosing, using or allowing another party to use the trade secret obtained from the rightholder by the means mentioned in the preceding paragraph; or

(3) violating an agreement or the rightholder's requirement for keeping a trade secret confidential, disclosing, using or allowing another party to use the trade secret at his disposal.

Article 10, paragraph three *The trade secrets' mentioned in this Article refers to any technological information or business operation information that is unknown to the public, capable for bringing economic benefits to the rightholder, practically applicable, and which the rightholder has taken measures to keep it secret.*

Reasoning

Regarding the question Isotope raised on the two different expert appraisal conclusions in this case, the second-instance court held that, inviting the SSTC to make the technical appraisal was not contrary to the relevant law provisions; the SSTC was qualified for making the technical appraisals, and the procedure and mode of appraisals were not undue. Besides, it also conformed to the law for the first-instance court to have reviewed and confirmed the relevant evidence and accepted the appraisal conclusions. The consultation report made by the Center for IP Affairs under the Ministry of Science and Technology failed to confirm the relatedness of the two technical documents proving that the 15N technology was a known technology to the technology and production equipment Isotope had actually used, nor deny the SSTC's appraisal conclusion. Furthermore, Isotope had failed to prove the authenticity of the two key documents, the Test Report and the In-

dustrial Design, with adequate evidence. For all these reasons, it was not contrary to law for the conclusion made by the in the Center for IP Affairs under the Ministry of Science and Technology on the basis of the two documents not to be accepted as evidence in the case.

Holding

In the judicial practice, the Chinese courts may invite a authoritative specialized organization to arrange their experts for making appraisal if needed.