# SPC Guiding Case No. 219: Guangzhou Tian [X] Advanced Materials Co., Ltd. and Jiujiang Tian [X] Advanced Materials Co., Ltd. v. Anhui Niu [X] Fine Chemicals Co., Ltd., et al. (Trade Secret Infringement Dispute)

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## Keywords

Civil / infringement of trade secrets / infringing intellectual property as a business / punitive damages / amount of damages

## Holding

1. When determining whether an act infringing intellectual property rights constitutes serious circumstances and whether punitive damages should be applied, comprehensive consideration may be given to factors such as whether the alleged infringer has infringed intellectual property rights as its business, whether it has been subjected to criminal or administrative penalties, whether it constitutes repeated infringement, whether there is obstruction of evidence during litigation, and the losses caused by the infringing act or the amount of profits from the infringement, the scale of the infringement, and the duration of the infringement.

2. Where the actor knew that its conduct constituted infringement, has actually carried out the infringing act, and the infringement constitutes its main business, this may be found to constitute infringing intellectual property as a business. Where a party has infringed intellectual property as its business and carried out infringement on a large scale over a long period, the punitive damages multiplier may be applied at a high level or even at the maximum level to determine the amount of damages in accordance with the law.

## Basic Facts

On June 6, 2000, Guangzhou Tian [X] Advanced Materials Co., Ltd. ("Guangzhou Tian [X]") was registered and established. On October 30, 2007, Jiujiang Tian [X] Advanced Materials Co., Ltd. ("Jiujiang Tian [X]") was registered and established, whose sole shareholder was Guangzhou Tian [X]. To prove the existence of a licensing relationship between the two for carbomer technology, the two Tian [X] companies submitted two authorization letters. The first authorization letter, issued on September 30, 2008, recorded: the carbomer product production technology and intellectual property independently developed by Guangzhou Tian [X] were hereby granted to Jiujiang Tian [X] for royalty-free use, for a term of ten years, from October 1, 2008 to September 30, 2018. During the authorization period, Jiujiang Tian [X] had the right to use the technology, and its rights included but were not limited to: using the technology to produce, manufacture and sell products, using the technology to improve its current industrial processes, and making subsequent improvements to the technical achievements to form new technical achievements. Without the written consent and confirmation of both parties, Guangzhou Tian [X] and Jiujiang Tian [X] shall not grant the technology to any other entity or individual for use. After the expiration of the authorization period, the granted right of use would revert to Guangzhou Tian [X]. The second authorization letter, issued on September 15, 2018, had an authorization term from October 1, 2018 to September 30, 2028, with the same authorization content as the first authorization letter. The product in issue in this case was carbomer, also known as Carbomer, with the Chinese aliases polyacrylic acid and carboxyvinyl copolymer; neutralized carbomer is an excellent gel matrix, widely used in lotions, creams and gels.

On August 29, 2011, Anhui Niu [X] Fine Chemicals Co., Ltd. (“Anhui Niu [X]”) was registered and established, with Liu [X] as the legal representative at the time of establishment and a capital contribution ratio of 70%; the legal representative was later changed to Wu [X]cheng.

Hua [X] joined Guangzhou Tian [X] on March 30, 2004, and left on November 8, 2013. From December 30, 2007 until his departure, Hua [X] successively signed the Labor Contract and documents such as the Commercial Confidentiality and Non-Compete Agreement, the Employee Handbook and the Special Training Agreement with Guangzhou Tian [X], stipulating the confidentiality obligations and non-compete aspects of trade secrets. Zhu [X]liang and Hu [X]chun had worked at Guangzhou Tian [X], and during their employment both signed the Labor Contract, the Commercial Confidentiality and Non-Compete Agreement, the Commercial and Technical Confidentiality Agreement and the like with Guangzhou Tian [X]. During the period from 2012 to 2013, Hua [X], using his position as the person in charge of carbomer product research and development, obtained the reactor and dryer equipment drawings of the carbomer production process technology from Li [X], the production workshop director of Jiujiang Tian [X], under the pretext of writing a paper, and also, in violation of Guangzhou Tian [X]’s management system, repeatedly copied the materials of the carbomer production project process equipment from his office computer at Guangzhou Tian [X] to external storage media. After Hua [X] illegally obtained the production process materials from the carbomer production technology of the two Tian [X] companies, he successively sent the original carbomer production process drawings and documents of the two Tian [X] companies to Liu [X], Zhu [X]liang, Hu [X]chun and others by USB drive copying or email, and Hua [X], Liu [X], Zhu [X]liang and Hu [X]chun discussed the use of the original drawings of the two Tian [X] companies’ carbomer production process technology. In this process, Hu [X]chun and Zhu [X]liang both raised the question of whether it would infringe the relevant rights of Jiujiang Tian [X], and Hua [X] requested Hu [X]chun to design Anhui Niu [X]’s production process based on the original drawings of the two Tian [X] companies’ carbomer production process technology, and instructed Hu [X]chun not to make the design exactly the same as that of the two Tian [X] companies. Hu [X]chun then modified Guangzhou Tian [X]’s carbomer process design drawings according to Hua [X]’s requirements, and finally entrusted the Hefei Branch of a Shandong engineering design company to make the design, entrusted a Jiangsu machinery company to manufacture the reactors, ordered crushing machinery equipment identical to that of the two Tian [X] companies from a Shanghai powder machinery manufacturing company that had a cooperative relationship with the two Tian [X] companies, and then entrusted a Jiangsu Wuxi mixing equipment company to design the general assembly drawing based on the technical solution of the Jiangsu machinery company, and to produce the mixers according to the general assembly drawing.

No later than 2014, Anhui Niu [X] used the carbomer production process and equipment technology illegally obtained by Hua [X] from the two Tian [X] companies to produce carbomer products and sold them to domestic and foreign companies, with sales covering more than 20 countries and regions. The production of carbomer products was the main business of Anhui Niu [X], and there was no evidence proving that it also produced other products. In January 2018, Liu [X], the former legal representative of Anhui Niu [X], and others were held criminally liable for the crime of infringing trade secrets; after the relevant criminal judgment had found that Hua [X], Liu [X] and others had carried out acts infringing the right holder’s trade secrets, Anhui Niu [X] still did not cease the infringement. According to the relevant evidence, from 2014 until August 2019, Anhui Niu [X] continuously sold carbomer products.

In 2017, Guangzhou Tian [X] and Jiujiang Tian [X] sued Anhui Niu [X], Hua [X], Liu [X], Hu [X]chun, Zhu [X]liang and others on the ground that they infringed their carbomer trade secrets, requesting an order that the defendants cease the infringement, compensate for losses, and apologize.

## Judgment

On July 19, 2019, the Guangzhou Intellectual Property Court rendered Civil Judgment (2017) Yue 73 Min Chu No. 2163: (1) Hua [X], Liu [X], Hu [X]chun, Zhu [X]liang and Anhui Niu [X] shall immediately cease

infringing the trade secrets in issue of Guangzhou Tian [X] and Jiujiang Tian [X] from the effective date of this judgment, and destroy the process materials recording the trade secrets in issue. (2) Within ten days from the effective date of this judgment, Anhui Niu [X] shall compensate Guangzhou Tian [X] and Jiujiang Tian [X] economic losses of RMB 30 million and reasonable expenses of RMB 400,000, and Hua [X], Liu [X], Hu [X]chun and Zhu [X]liang shall bear joint and several liability for the above compensation within the scope of RMB 5 million, RMB 5 million, RMB 1 million and RMB 1 million respectively. (3) The remaining claims of Guangzhou Tian [X] and Jiujiang Tian [X] were dismissed. After the first-instance judgment was pronounced, Guangzhou Tian [X], Jiujiang Tian [X], Anhui Niu [X], Hua [X] and Liu [X] appealed to the Supreme People's Court.

On November 24, 2020, the Supreme People's Court rendered Civil Judgment (2019) Zui Gao Fa Zhi Min Zhong No. 562: (1) items 1 and 3 of Civil Judgment (2017) Yue 73 Min Chu No. 2163 of the Guangzhou Intellectual Property Court were affirmed. (2) Item 2 of Civil Judgment (2017) Yue 73 Min Chu No. 2163 of the Guangzhou Intellectual Property Court was modified to: within ten days from the effective date of this judgment, Anhui Niu [X] shall compensate Guangzhou Tian [X] and Jiujiang Tian [X] economic losses of RMB 30 million and reasonable expenses of RMB 400,000, and Hua [X], Liu [X], Hu [X]chun and Zhu [X]liang shall bear joint and several liability for the above compensation within the scope of RMB 5 million, RMB 30 million, RMB 1 million and RMB 1 million respectively. (3) The remaining appeals of Guangzhou Tian [X] and Jiujiang Tian [X] were dismissed. (4) The appeals of Hua [X], Liu [X] and Anhui Niu [X] were dismissed. After the second-instance judgment was pronounced, Anhui Niu [X], Hua [X] and Liu [X] filed retrial applications with the Supreme People's Court.

On October 12, 2021, the Supreme People's Court rendered Civil Ruling (2021) Zui Gao Fa Min Shen No. 4025, dismissing the retrial applications of Hua [X], Liu [X] and Anhui Niu [X].

## Reasoning

The Supreme People's Court held that Article 17, paragraph 3, of the Anti-Unfair Competition Law of the People's Republic of China ("the Anti-Unfair Competition Law") provides that the amount of compensation for a business operator harmed by an act of unfair competition shall be determined according to the actual losses suffered as a result of the infringement; where the actual losses are difficult to calculate, the amount shall be determined according to the profits obtained by the infringer from the infringement. Where a business operator maliciously commits an act infringing trade secrets and the circumstances are serious, the amount of compensation may be determined at between one and five times the amount determined by the above method. The amount of compensation shall also include the reasonable expenses paid by the business operator to stop the infringing act.

In this case, the actual losses of the two Tian [X] companies could not be ascertained, so the infringing profits of Anhui Niu [X] were calculated based on the partial sales situation that had been ascertained. The process, flow and part of the equipment of the carbomer products produced by Anhui Niu [X] infringed the trade secrets in issue of the two Tian [X] companies, but its carbomer formula was not found to infringe the trade secrets of the two Tian [X] companies. When determining the infringing profits, the original court did not consider the role of the trade secrets in issue in carbomer production, and did not fully consider the role of other production factors other than the technical information of the trade secrets in issue in the production process of carbomer products; it multiplied Anhui Niu [X]'s self-admitted sales of more than RMB 37 million by the fine chemical industry gross profit margin of 32.26%, arriving at a partial infringing profit of nearly RMB 12 million that could be ascertained for Anhui Niu [X]. Now, comprehensively considering the role played by the infringed trade secrets in issue in the production process of carbomer products, the degree of contribution of the trade secrets in issue was determined at 50% as appropriate, so the infringing profit of Anhui Niu [X] was correspondingly reduced and rounded to RMB 6 million. As for the choice of profit margin, since Anhui Niu [X] failed to provide original accounting vouchers, account books and profit statements as required by the court, and failed to adduce evidence proving the profit margin of its carbomer products, it



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should bear the adverse legal consequences of failing to produce evidence, so the fine chemical industry gross profit margin published in Guangzhou Tian [X]'s annual report was used to determine its product profit margin.

Although Anhui Niu [X] submitted evidence such as its business license at the second-instance stage to support that its business scope was not limited to the production of carbomer products, the business scope recorded in the business license was the choice made by Anhui Niu [X] when applying for registration and establishment, and its actual business scope could be either larger or smaller than that recorded in the business license. Moreover, according to the ascertained facts, Anhui Niu [X] did not produce any product other than carbomer products, and Anhui Niu [X] also failed to further adduce evidence proving that it produced products other than carbomer products. In this case, the alleged infringing act of Hua [X] disclosing trade secrets occurred during the period from 2012 to 2013, and Anhui Niu [X] used the carbomer production process and equipment technology illegally obtained by Hua [X] from the two Tian [X] companies to produce carbomer products and sold them domestically and abroad. In addition, Anhui Niu [X] expressly stated that all of the carbomer products it produced were produced by the same equipment. In determining whether an actor infringed intellectual property as a business, a judgment may be made from both the subjective and objective aspects. From the objective aspect, the actor has actually carried out the infringing act, and it is the main business of its company and constitutes the main source of profit; from the subjective aspect, the actor, including the company's actual controllers and management, knowingly carried out the act despite knowing that it constituted infringement. The conduct of Anhui Niu [X], Liu [X] and others in this case fell within this category.

Article 17, paragraph 3, of the Anti-Unfair Competition Law provides for the conditions for imposing punitive damages and the multiplier range of punitive damages. It can be seen that where a business operator has maliciously infringed another's trade secrets and the circumstances are serious, the right holder may request that the infringer bear punitive damages at a corresponding multiple of the compensation amount. Therefore, in this case, whether punitive damages should be applied should be determined on the basis of whether Anhui Niu [X] had malicious infringement and whether the circumstances were serious. According to the facts ascertained in this case, since its establishment, Anhui Niu [X] had taken the production of carbomer products as its business; although it contended that it also produced other products, it did not submit evidence to support this, and the carbomer products it produced, although with different names, were all processed by the same set of equipment. In addition, after its former legal representative, Liu [X], was held criminally liable for the crime of infringing trade secrets and was found to have carried out acts infringing the right holder's trade secrets, Anhui Niu [X] still did not cease production, and its sales covered more than 20 countries and regions; at the same time, at the original trial stage of this case, it refused without justifiable reason to provide the relevant accounting books and original vouchers, constituting obstruction of evidence. This fully demonstrates the depth of its subjective intent to infringe and the seriousness of the circumstances of infringement. Given that the alleged infringing act in this case spanned the period before and after April 23, 2019, when the Anti-Unfair Competition Law was amended and took effect, Anhui Niu [X]'s refusal to provide financial account books and other materials constituted obstruction of evidence, and the ascertained infringing profits were determined based on the sales amount self-admitted by Anhui Niu [X], being only part of its infringing profits; the infringer did not submit evidence proving its specific profits before and after the amendment of the law in this case, making it impossible to calculate in segments with April 23, 2019 as the boundary; the existing evidence showed that Anhui Niu [X] did not cease the infringing act after the first-instance judgment, and its conduct was continuous, with a huge scale of infringement and a long duration. In view of this, it was objectively difficult to calculate the compensation amount in segments based on the evidence in the case. The original intent of the Anti-Unfair Competition Law in establishing the punitive damages system is to strengthen legal deterrence, combat malicious and serious infringing acts, deter and discourage future or potential infringers, and effectively protect innovation activities; long-term malicious infringement activities should be dealt with severely. Therefore, in this case, the amount of

damages could be determined at a high level based on the ascertained infringing profits of Anhui Niu [X].

## Relevant Legal Provisions

Article 17, paragraph 3, of the Anti-Unfair Competition Law of the People's Republic of China (amended April 23, 2019).

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