SPC Guiding Case No. 220: Jiaxing Zhong [X] Chemical Co., Ltd. and Shanghai Xin [X] New Technology Co., Ltd. v. Wang [X] Group Co., Ltd., Ningbo Wang [X] Technology Co., Ltd., et al. (Trade Secret Infringement Dispute)

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Keywords

Civil / infringement of trade secrets / use of all trade secrets / intentional infringement of trade secrets / amount of damages

Holding

1. Where the right holder adduces evidence proving that the alleged infringer illegally obtained the complete product process flow, complete sets of production equipment materials and other trade secrets and has actually produced identical products, the people's court may find that the alleged infringer used all of the trade secrets, unless the alleged infringer adduces contrary evidence sufficient to rebut this.

2. Where the alleged infringer constitutes intentional infringement of trade secrets, the people's court may calculate the amount of damages on the basis of the alleged infringer's sales profit from the relevant products; where the sales profit is difficult to determine, the amount of damages may be calculated on the basis of the relevant products' sales price and sales profit margin of the right holder multiplied by the sales volume of the relevant products of the alleged infringer.

Basic Facts

Jiaxing Zhong [X] Chemical Co., Ltd. ("Jiaxing Zhong [X] Chemical") is a major global manufacturer of vanillin, with relatively strong technical advantages. Shanghai Xin [X] New Technology Co., Ltd. ("Shanghai Xin [X]") was established on November 5, 1999, with a business scope of technical services, technical consulting, technical development and technical transfer in the biological and chemical fields, and the research and development of new products. Beginning in 2002, Jiaxing Zhong [X] Chemical and Shanghai Xin [X] jointly developed a new process for preparing vanillin by the glyoxylic acid method, including reaction processes such as condensation, neutralization, oxidation and decarboxylation, and also including the recycling processes of guaiacol, toluene, copper oxide and ethanol. The trade secrets claimed by Jiaxing Zhong [X] Chemical and Shanghai Xin [X] included six secret points, and the carriers of the above trade secrets were 287 equipment drawings (including main drawings and component drawings) involving 58 pieces of non-standard equipment, and 25 process piping and instrumentation diagrams (third edition). The Technical Development Contract, Technical Transfer Contract and Special Contract on Long-Term Enterprise Cooperation signed between Jiaxing Zhong [X] Chemical and Shanghai Xin [X] all contained confidentiality clauses.

Fu [X]gen had worked at Jiaxing Zhong [X] Chemical since 1991, and from 2008 served as deputy director of the vanillin workshop, mainly responsible for the repair and maintenance of vanillin production equipment. Beginning in 2003, Jiaxing Zhong [X] Chemical successively formulated documents such as document control procedures, record control procedures, food safety, quality and environment management manuals, and equipment/facility management procedures. Jiaxing Zhong [X] Chemical trained its employees on its internal management provisions, and Fu [X]gen participated in management system training, environmental

management system training, publicity and education training, and standard-implementation training in 2007. On March 25, 2010, Jiaxing Zhong [X] Chemical formulated the Security and Confidentiality System for Archives and Information Management. Beginning in April 2010, Jiaxing Zhong [X] Chemical successively signed confidentiality agreements with its employees, stipulating the scope of trade secrets and the employees' confidentiality obligations. Fu [X]gen refused to sign the confidentiality agreement on the grounds of intending to resign.

Wang [X] Group Co., Ltd. ("Wang [X] Group") was established on June 8, 1995, with a business scope of research, development and production of the food additive potassium sorbate, and the manufacture and sale of chemical products (except hazardous chemicals), with Wang [X]jun as supervisor. Ningbo Wang [X] Technology Co., Ltd. ("Wang [X] Technology") was established on October 21, 2009, jointly funded by Wang [X]jun and Wang [X] Group, with Wang [X]jun as legal representative. Ningbo Wang [X] Flavor and Fragrance Co., Ltd. was established on November 20, 2015, funded by Wang [X] Technology through in-kind contribution of RMB 80 million, with a business scope of research, development and production of practical flavors and fragrances (food additives), its main product being vanillin, and Wang [X]jun as legal representative. In 2017, the enterprise name of Ningbo Wang [X] Flavor and Fragrance Co., Ltd. was changed to [X]fushi Wang [X] Flavor (Ningbo) Co., Ltd. ("[X]fushi Wang [X]").

Around the Spring Festival of 2010, Feng [X]yi, Fu [X]gen and Fei [X]liang began discussing and seeking transaction opportunities for vanillin production technology. On April 12 of the same year, the three persons went to Wang [X] Group to discuss vanillin production technology cooperation with Wang [X]jun, and signed a Vanillin Technology Cooperation Agreement with Jiaxing Zhi [X] Engineering Technology Consulting Co., Ltd. ("Jiaxing Zhi [X]") as Party A and the vanillin branch plant of Wang [X] Group as Party B. On the same day, Wang [X] Group issued a bank draft of RMB 1 million to Jiaxing Zhi [X], and Feng [X]yi, after endorsement transfer, cashed a check of RMB 1 million, from which he paid Fu [X]gen RMB 400,000 and Fei [X]liang RMB 240,000. Subsequently, Fu [X]gen gave Feng [X]yi a USB drive containing technical materials such as 200 vanillin production equipment drawings, 14 process piping and instrumentation diagrams, and a main equipment list, which Feng [X]yi passed on to Wang [X]jun. On April 15 of the same year, Fu [X]gen submitted his resignation to Jiaxing Zhong [X] Chemical, and in May of the same year Fu [X]gen left Jiaxing Zhong [X] Chemical and immediately joined the vanillin workshop of Wang [X] Technology together with Feng [X]yi and Fei [X]liang. On March 15, 2011, the Ningbo Environmental Protection Bureau of Zhejiang Province approved the environmental impact report for Wang [X] Technology's project of producing vanillin and other products, approving an annual vanillin output of 5,000 tons. In June of the same year, Wang [X] Technology began producing vanillin. [X]fushi Wang [X] had, since its establishment, continuously used the vanillin production equipment contributed by Wang [X] Technology as equity to produce vanillin.

In 2018, Jiaxing Zhong [X] Chemical and Shanghai Xin [X] sued in the Zhejiang Provincial High People's Court, contending that Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X], Fu [X]gen and Wang [X]jun infringed their vanillin trade secrets.

Judgment

On April 24, 2020, the Zhejiang Provincial High People's Court rendered Civil Judgment (2018) Zhe Min Chu No. 25: (1) Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X] and Fu [X]gen shall immediately cease the acts infringing the trade secrets in issue, that is, cease obtaining, disclosing, using, or allowing others to use the trade secrets recorded in the equipment drawings and process piping and instrumentation diagrams in issue by improper means; the cessation shall continue until the trade secrets in issue have become known to the public. (2) Within ten days from the effective date of this judgment, Wang [X] Group, Wang [X] Technology and Fu [X]gen shall jointly and severally compensate Jiaxing Zhong [X] Chemical and Shanghai Xin [X] economic losses of RMB 3 million and reasonable rights-protection expenses of RMB 500,000, totaling RMB 3.5 million; [X]fushi Wang [X] shall bear joint and several compensation liability for 7% thereof, namely RMB 245,000. (3) The remaining claims of Jiaxing Zhong [X] Chemical and Shanghai Xin [X] were

dismissed. Except for Wang [X]jun, all parties in this case were dissatisfied with the first-instance judgment and appealed to the Supreme People's Court.

On February 19, 2021, the Supreme People's Court rendered Civil Judgment (2020) Zui Gao Fa Zhi Min Zhong No. 1667: (1) the Civil Judgment (2018) Zhe Min Chu No. 25 of the Zhejiang Provincial High People's Court was revoked. (2) Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X], Fu [X]gen and Wang [X]jun shall immediately cease the acts infringing the trade secrets of Jiaxing Zhong [X] Chemical and Shanghai Xin [X], that is, cease obtaining, disclosing, using, or allowing others to use the trade secrets recorded in the equipment drawings and process piping and instrumentation diagrams in issue by improper means, and the cessation shall continue until the trade secrets in issue have become known to the public. (3) Within ten days from the effective date of this judgment, Wang [X] Group, Wang [X] Technology, Fu [X]gen and Wang [X]jun shall jointly and severally compensate Jiaxing Zhong [X] Chemical and Shanghai Xin [X] economic losses of RMB 155,829,455.20 and reasonable rights-protection expenses of RMB 3,492,216, totaling RMB 159,321,671.20, and [X]fushi Wang [X] shall bear joint and several compensation liability for 7% thereof, namely RMB 11,152,516.98. (4) The remaining claims of Jiaxing Zhong [X] Chemical and Shanghai Xin [X] were dismissed. (5) The appeals of Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X] and Fu [X]gen were dismissed. After the second-instance judgment was pronounced, Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X], Fu [X]gen and Wang [X]jun were dissatisfied and applied to the Supreme People's Court for retrial.

On October 19, 2021, the Supreme People's Court rendered Civil Ruling (2021) Zui Gao Fa Min Shen No. 3890, dismissing the retrial applications of Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X], Fu [X]gen and Wang [X]jun.

Reasoning

The Supreme People's Court held that Wang [X] Group and the other alleged infringers had already actually manufactured vanillin products, so they necessarily possessed the complete process flow for manufacturing vanillin products and the corresponding apparatus and equipment. The trade secrets claimed by Jiaxing Zhong [X] Chemical and Shanghai Xin [X] included six secret points, involving 287 equipment drawings of 58 pieces of non-standard equipment and 25 process piping and instrumentation diagrams. The carriers of the alleged infringing technical information were the 200 equipment drawings and 14 process flow diagrams obtained by Wang [X] Group and the other alleged infringers. Upon comparison, 184 of the equipment drawings were identical to the equipment drawings in the trade secrets in issue in terms of structural form, dimensions, design parameters and manufacturing requirements, and the equipment names and numbers, drawing numbers and drafting entities were also identical, involving 40 pieces of non-standard equipment; 14 process flow diagrams were identical to Jiaxing Zhong [X] Chemical's process piping and instrumentation diagrams in terms of equipment positions and connection relationships, material and medium connection relationships, control content and parameters, and some of the drawings' drawing names, project names and design entities were also identical. At the same time, although the detoluene condenser equipment drawing provided by Wang [X] Technology to Zhejiang Hang [X] Container Co., Ltd. ("Hang [X] Company") and the oxidation unit oxidation process flow diagram attached to Wang [X] Technology's environmental impact report were not included in the drawings submitted by Feng [X]yi, they all fell within the scope of the trade secrets in issue. Given that Wang [X] Technology had already used them in equipment processing and environmental assessment declaration, it could be determined that Wang [X] Technology had obtained these two drawings. In this case, the carriers of the trade secrets in issue were 287 equipment drawings and 25 process piping and instrumentation diagrams, and Wang [X] Group and the other alleged infringers illegally obtained 185 of the equipment drawings and 15 of the process flow diagrams. Considering that Wang [X] Group and the other alleged infringers could, after obtaining the drawings of the trade secrets in issue, entirely make some targeted modifications, although 4 items had slight differences from the corresponding technical information in the trade secrets in issue, based on the specific infringement circumstances of this

case, it could be entirely found that these differences were caused by evasive or adaptive modifications made by Wang [X] Group and the other alleged infringers after obtaining the trade secrets in issue, and therefore it could be found that these 4 items still used the trade secrets in issue. On this basis, it could be further found that Wang [X] Group and the other alleged infringers actually used all of the 185 equipment drawings and 15 process flow diagrams they had obtained. The specific reasons were: First, vanillin production equipment and process flow are usually complementary, and the production process and related apparatus are relatively clear and fixed; Wang [X] Group and the other alleged infringers had already actually built a vanillin project production line and carried out large-scale production, so they necessarily possessed the complete process flow for manufacturing vanillin products and the corresponding apparatus and equipment. Second, Wang [X] Group and the other alleged infringers refused to provide effective evidence proving that they had researched, developed and tested the complete process flow and corresponding apparatus and equipment for vanillin products, and they launched the vanillin project production line and actually put it into production within a very short time; Wang [X] Technology's vanillin production line took only about one year from startup to mass production. In comparison, Jiaxing Zhong [X] Chemical's trade secrets in issue took at least more than four years from research and development to the completion of the production line. Third, Wang [X] Group and the other alleged infringers did not submit effective evidence proving that they had conducted small-scale and pilot tests on the alleged infringing technical solutions and related equipment, and they had illegally obtained the technical drawings in issue; at the same time, Wang [X] Technology's environmental impact report and its process of purchasing equipment from Hang [X] Company had both used the illegally obtained equipment drawings and process flow diagrams. Comprehensively considering the characteristics of trade secret cases and the actual circumstances of this case, and in light of the fact that Wang [X] Group and the other alleged infringers failed to submit effective contrary evidence, it could be found that Wang [X] Group and the other alleged infringers used all of the trade secrets they had illegally obtained. Fourth, although Wang [X] Group and Wang [X] Technology's vanillin production process flow and corresponding apparatus and equipment differed slightly from the trade secrets in issue in individual places, they did not submit evidence proving that such differences were based on their own technical research and development or technical achievements obtained through other legitimate means. At the same time, the existing evidence showed that Wang [X] Group and the other alleged infringers began building the factory to produce vanillin products only after obtaining the trade secrets in issue, that is, they could entirely have made evasive or adaptive modifications to certain production processes or individual accessory devices by reference to the trade secrets in issue after obtaining them. Such modifications were themselves one of the ways of actually using the trade secrets in issue. In sum, it was found that the trade secrets in issue illegally obtained by Wang [X] Group and the other alleged infringers from Jiaxing Zhong [X] Chemical, namely the 185 equipment drawings and 15 process flow diagrams, had all been actually used.

Fu [X]gen had long worked at Jiaxing Zhong [X] Chemical and was responsible for the repair of equipment in the vanillin workshop, and could access the trade secrets in issue. On April 12, 2010, Feng [X]yi, Fu [X]gen and two other persons went to Wang [X] Group to discuss vanillin production technology cooperation with Wang [X]jun, and quickly reached the Vanillin Technology Cooperation Agreement, providing that Feng [X]yi, Fu [X]gen and others would invest in the vanillin branch plant of Wang [X] Group with the new vanillin process technology. Fu [X]gen received consideration of RMB 400,000 under the agreement, and subsequently passed the USB drive containing the trade secrets in issue to Wang [X]jun through Feng [X]yi. Fu [X]gen joined Wang [X] Technology immediately after resigning from Jiaxing Zhong [X] Chemical and was responsible for the construction of the vanillin production line; Wang [X] Technology completed the construction of the vanillin production line in a very short time and carried out industrialized production, fully using the equipment drawings and process flow diagrams of Jiaxing Zhong [X] Chemical and Shanghai Xin [X]. The above facts were sufficient to prove that Fu [X]gen carried out the acts of obtaining and disclosing the trade secrets in issue to Wang [X] Group and Wang [X] Technology and allowing them to use the trade secrets in issue. Wang [X] Group and Wang [X] Technology were both enterprises engaged in the production

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and sale of vanillin, in direct competition with Jiaxing Zhong [X] Chemical, and should have known that Fu [X]gen, as an employee of Jiaxing Zhong [X] Chemical, did not enjoy lawful rights in the company's vanillin production equipment drawings and process flow diagrams. However, Wang [X] Group still directly obtained Jiaxing Zhong [X] Chemical's trade secrets in issue by signing the Vanillin Technology Cooperation Agreement and paying remuneration to Fu [X]gen, Feng [X]yi and others, and disclosed them to Wang [X] Technology for use. Wang [X] Technology employed Fu [X]gen and used the illegally obtained trade secrets for production, and later disclosed the trade secrets in issue to [X]fushi Wang [X] through equipment contribution and allowed [X]fushi Wang [X] to continue using them; all of the above acts infringed the trade secrets of Jiaxing Zhong [X] Chemical and Shanghai Xin [X]. [X]fushi Wang [X] had, since its establishment, continuously used the vanillin production line contributed by Wang [X] Technology as technical investment, constituting infringement of the trade secrets in issue.

Wang [X] Group and the other alleged infringers illegally obtained and continuously and massively used the trade secrets in issue, which were of relatively high commercial value, by despicable means with infringing malice, and their conduct impacted the global vanillin market; in addition, Wang [X] Group and the other alleged infringers had circumstances such as obstruction of evidence and dishonest litigation, and Wang [X] Group, Wang [X] Technology, [X]fushi Wang [X] and Fu [X]gen refused to comply with the effective conduct-preservation ruling of the original court. Based on the above facts, the court decided in accordance with the law to calculate the amount of damages for infringement in this case based on sales profit. Because Wang [X] Group, Wang [X] Technology and [X]fushi Wang [X] refused to submit account books and materials related to the infringing acts in this case, the court was unable to directly calculate sales profit based on their actual sales data. Considering that Jiaxing Zhong [X] Chemical's sales price and sales profit margin of vanillin products could serve as a reference for determining the relevant sales price and sales profit margin of Wang [X] Group, Wang [X] Technology and [X]fushi Wang [X], in order to severely punish malicious infringement of trade secrets and fully protect the legitimate interests of the right holders of trade secrets, the people's court decided to calculate the amount of damages in this case based on Jiaxing Zhong [X] Chemical's sales profit margin of vanillin products during the period from 2011 to 2017, that is, by multiplying the output of vanillin produced and sold by Wang [X] Group, Wang [X] Technology and [X]fushi Wang [X] during the period from 2011 to 2017 by Jiaxing Zhong [X] Chemical's sales price and sales profit margin of vanillin products.

Relevant Legal Provisions

1. Article 1168 of the Civil Code of the People's Republic of China (this case applied Article 8 of the Tort Liability Law of the People's Republic of China, effective July 1, 2010).

2. Articles 9 and 17 of the Anti-Unfair Competition Law of the People's Republic of China (2019 Amendment) (this case applied Articles 9 and 17 of the Anti-Unfair Competition Law of the People's Republic of China, 2017 Revision).

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