KCS Group Europe

Beyond the Dragon's Reach: IP protection and combatting Sinosure in China

August 2024

The ongoing friction between foreign and domestic businesses in China is increasingly challenging. Problems surrounding intellectual property (IP) theft have intensified concerns against the backdrop of the West and China's strained geopolitical tensions.

Trying to protect IP in this environment involves traversing extremely complicated legal frameworks. Furthermore, the Chinese state-owned insurance company, Sinosure, has been an antagonistic vehicle that is heightening tensions. Its official purpose is to step in, subsidise and pursue debt claims against foreign firms on behalf of domestic businesses.

However, Sinosure's aggressive actions can cause all manner of financial and operational complications for foreign businesses, including confiscating legally registered trademarks. This unique ability has led some affected foreign businesses to consider whether a more sinister agenda is at play, aimed at taking valuable IP rights for the benefit of the state. These issues demonstrate the need for thorough due diligence and legal knowledge of international trade and practice in China.

The growing threat to IP in China

The deteriorating relationship has caused concerns over the security of foreign businesses' IP in China. Strained international relations has seen IP infringement become increasingly common, forcing businesses to implement firm protection strategies. Methods such as creating a Special Purpose Entity (SPE) and strategic registration of IP under entities not directly implicated in Chinese markets are crucial.

Thorough due diligence practice and legal protective mechanisms such as non-disclosure agreements and leveraging international IP laws also remain critical in guarding assets from unauthorised use or theft.

Understanding Sinosure and its impact on foreign businesses

Sinosure, a China state-owned export and credit insurance corporation, is an important actor in the Chinese business operations field, particularly where foreign entities are concerned.

Officially, Sinosure provides insurance coverage to protect Chinese exporters against non-payment risks from overseas buyers. However, its remit has expanded as it fiercely pursues claims on behalf of Chinese companies for alleged debts owed by foreigners.

Recently, there has been a noticeable change in Sinosure's approach. It not only chases claims related to actual exports but has recently been reviving historic claims, and extending its reach to recover debts that foreign business leaders contest or believe to be unjustified and, in some cases, fraudulent. This aggressive behaviour has put additional pressure on foreign businesses in China, adding financial complication and risk in their trade investment operations.

Such actions reveal a more comprehensive enforcement strategy by China itself, to protect its domestic businesses, usually at the expense of foreign business owners.

Combating IP theft and unjust Sinosure claims

To fight IP theft and the questionable Sinosure claims in China, Western companies have several legal strategies at their disposal. As previously mentioned, forming SPEs to house IP separately from business operations can protect assets from claims. Registering IP like trademarks, patents and copyrights in China, contrary to what you might think, does provide a legal platform from which to oppose infringements under Chinese law.

To challenge Sinosure's debt claims, Western companies must maintain meticulous records and contract documentation in order to dispute unsubstantiated or exaggerated claims. Recourse can be obtained via arbitration specified in contracts or through international courts that have the ability to enforce judgements against Sinosure.

Moreover, in restructuring business operations, foreign businesses can limit direct exposure to Chinese markets, for example, through an intermediary company or in countries with strong legal protection which can reduce the risk of experiencing aggressive claims.

Case studies and practical advice

Case study incidents of business affected by IP theft and Sinosure claims in China illustrate the challenges Western businesses are dealing with. One example saw a European tech firm experience huge losses due to copied technology by a Chinese competitor, which was enabled by weak enforcement of local IP laws.

In another incident, an American exporter faced aggressive Sinosure claims for disputed unpaid invoices, who cited there were significant product quality issues with the received order, hence the refusal to pay. Sinosure pursued the claim regardless.

Legal experts suggest a number of preventative measures and crisis strategies that can assist in traversing these obstacles effectively. To begin with, solid IP registration in China coupled with strict contractual terms can give a firm legal foundation. Businesses must also seek insurance against IP theft and find partnerships with local firms that have a healthy track record of respecting IP rights. In handling Sinosure, it is important to retain detailed transaction records and even have procedures in place to prepare for potential disputes via legal counsel familiar with Chinese trade law - dotting I's and crossing T's from the outset of all trades and transactions.

Conclusion

As the area of international business in China grows ever more complicated, Western businesses are faced with a combined threat of IP theft and the aggressive debt claims from institutions like Sinosure. To combat these issues, Western business owners must use a balance of legal acumen and foresight.

The melting pot of geopolitical tensions and economic policies have seen IP security become a battlefield. It is therefore imperative to initiate multifaceted strategies to protect innovations, and at the same time prepare for disputes over debts. Understanding and preparing to navigate critical issues before they occur, gives businesses the ability to access opportunities more securely in the world's second - arguably first - largest global economy.

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