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Navigating China’s Blocking Regime in a Cross-Border Sanctions Conflict

China’s first use of its blocking regime—which restricts parties in China from complying with certain foreign sanctions and creates potential exposure for those that do—transforms a growing cross-border risk into a live conflict-of-laws challenge. As companies face competing Chinese and Western sanctions regimes, they should proactively manage legal exposure and make defensible cross-border decisions before regulatory or commercial disputes escalate.

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China’s legal framework for countering foreign sanctions has now moved from background risk to active deployment. Earlier this year, China’s Ministry of Commerce issued its first formal prohibition order under the 2021 blocking rules, barring recognition, enforcement, or compliance with certain U.S. sanctions imposed on five Chinese oil refiners. This marks the first time China has formally used these rules to block specific foreign sanctions measures, transforming what had been a growing structural risk into a live conflict-of-laws regime.

As we noted in our earlier client alert on China’s new supply chain regime, multinational companies were already facing increasing exposure to overlapping Chinese, U.S., UK, and EU legal frameworks that could create “legal collisions” around sanctions, diligence, and sourcing decisions. This latest development confirms that the collision is no longer theoretical. China has now used its countermeasures architecture not merely to signal opposition to foreign restrictions, but actually to prohibit compliance with them.

The immediate trigger was the U.S. designation of five Chinese refiners for alleged involvement in Iranian oil transactions. In response, China prohibited parties that are subject to Chinese jurisdiction from recognizing or complying with those sanctions. The order sits within a broader trend: China in May also invoked another anti-extraterritorial mechanism against an EU foreign subsidy investigation, underscoring that the country is now willing to operationalize these tools beyond rhetoric.

For companies operating across China and Western markets, the result is increasingly stark. Complying with U.S. sanctions or similar foreign measures may create exposure under Chinese law; declining to comply may trigger U.S. penalties, including restrictions tied to the U.S. financial system. The more integrated the company’s cross-border operations, financing, counterparties, and internal decision-making structures, the harder it becomes to contain the resulting risk.

This development is especially significant because uncertainty around public enforcement does not eliminate risk. China's blocking framework creates potential administrative exposure, but it also allows Chinese parties to pursue claims where they suffer loss as a result of another party's compliance with blocked foreign measures. That creates a path for private disputes to become a practical enforcement mechanism even where regulators act selectively. As seen in other blocking-statute contexts, the real pressure point may be commercial litigation, contractual fallout, and intra-group conflict—not just state investigations and penalties.

Against that backdrop, companies facing exposure across competing legal regimes should consider several steps now.

- **Anchor your governing regime.** In a live conflict-of-laws environment, companies cannot assume they will be able to satisfy all relevant legal regimes at once. They should instead determine, at the business-line and entity level, which legal regime will govern particular categories of decisions—especially where U.S. sanctions exposure, dollar-clearing dependencies, Chinese market access, or onshore operations create materially different risk profiles. A defensible cross-border posture starts with a deliberate legal framework for deciding which obligations take priority where direct conflict is unavoidable.
- **Control the dispute before it controls you.** Because private claims may become one of the most immediate ways these conflicts are operationalized, companies should not treat disputes as a downstream consequence of compliance decisions. Contracting structures, governing law provisions, dispute forums, counterparty allocation, and internal approval processes should be reviewed with the expectation that a sanctions-related decision could later be challenged by a counterparty, affiliate, or injured commercial stakeholder. In this environment, the companies best positioned will be those that structure for dispute containment before a conflict crystallizes.
- **Fix accountability at the entity level.** Operational separation alone is unlikely to be enough where regulators or litigants seek to attribute a sanctions-sensitive decision to a broader enterprise. Companies should therefore clarify which entities are responsible for sensitive transactions, which decision-makers are acting under which legal mandates, and how those decisions are documented and contained. In cross-border controversies, the key question is often not only what decision was made, but whose decision it legally was. Clear allocation of authority can help reduce the risk that a single sanctions response becomes a group-wide liability event.
- **Use regulatory ambiguity to shape outcomes.** China's blocking framework is intentionally broad, leaving authorities significant discretion in how measures are applied and enforced. Companies should approach this ambiguity not solely as a source of uncertainty but as an opportunity to engage early, test interpretive boundaries, and influence how rules are applied in practice—particularly in high-stakes or repeat-exposure scenarios where outcomes may depend as much on positioning as on black-letter law.

China's first blocking order confirms that its anti-foreign sanctions regime is no longer simply part of a broader geopolitical backdrop. It is now an operative legal system capable of placing multinational companies in direct conflict with foreign sanctions expectations. For companies with exposure to China, the challenge is no longer just how to monitor a shifting risk landscape, but how to take and defend legally exposed positions across jurisdictions before those positions harden into regulatory, commercial, or litigation disputes.

About Kobre & Kim

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- Provides offensive and defensive cross-border litigation and crisis management strategies in and out of court.
- Our onshore and offshore lawyers – including an integrated group of U.S. litigators, offshore lawyers qualified in key jurisdictions, Hong Kong solicitors, and English barristers and solicitors – help clients identify vulnerable assets and mitigate reputational harm caused by investigations.
- Takes a multidimensional approach to UHNWI-focused dispute investigations to resolve business disputes and regulatory investigations, trace and recover misappropriated funds, and defend against asset attacks.
- Has deep experience with global foreign policy, national security, and economic controls; regularly interfaces with regulatory agencies that impose these controls.