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Navigating the Impact of Potential UK Secondary Sanctions on Chinese Companies

The UK continues to use sanctions as an aggressive political strategy to attack adversarial governments and their perceived allies. While Russian entities have borne the focus of these efforts in recent years, the potential use of secondary sanctions—targeting those with connections to sanctioned countries or individuals—could be on the horizon. Below, our team explores effective steps to mitigate potential risks.

The UK continues to use sanctions as an aggressive political strategy to attack adversarial governments and their perceived allies. While Russian entities have borne the focus of these efforts in recent years, the potential use of secondary sanctions—targeting those with connections to sanctioned countries or individuals—could be on the horizon. This development may significantly impact Chinese businesses and citizens engaged in trade or holding interests in the UK.

There were recent calls for the UK House of Lords to consider preventing non-sanctioned entities from transacting in pound sterling with sanctioned Russian companies. Such a move would represent a major geopolitical shift in the UK's relations with China and introduce legal changes that could bring its sanctions policy closer to the U.S. model. In the U.S., secondary sanctions restrict transactions involving U.S. dollars or U.S.-connected financial systems for non-U.S. individuals doing business with sanctioned entities. If the UK were to adopt similar measures, Chinese companies operating internationally could face restrictions when dealing with UK financial institutions using the pound sterling.

Based on this evolving debate, Chinese companies with links to the UK should consider certain steps to mitigate potential risks:

1. **Perform a Sanctions Stress Test.** Companies or individuals with ties to a government with interests adverse to the US, UK, or EU (or that have suppliers with those ties) may be at risk of designation as those governments seek to ratchet up international pressure. Those at risk should proactively identify where a potential sanctions designation might come from, including by understanding the agencies, legislators, or other officials that have a hand in the designation process. As sanctions are a political tool, the usual due process protections are often watered-down, and the powers to designate are broad.

2. **Closely monitor media coverage and online conversation:** Governments will often rely on information published by the media as a basis for a person or company's designation. This increases the risk of the sanctions designation process being unduly influenced by partisan actors motivated to spread disinformation about a competitor to increase the risks of sanctions. It is critical to closely monitor media coverage and online conversation for any articles or posts highlighting the business, its partners, or its suppliers, as governments could ultimately use them as a justification to open an investigation, take enforcement action, or even impose sanctions. Those at risk can proactively take steps to correct the factual record publicly and engage with the appropriate authorities.
3. **Compile Evidence to Establish the Independence of Key Entities.** Be prepared to respond to and dismantle any allegations or disinformation. At-risk entities, individuals, and their advisors can proactively prepare a factual narrative explaining that certain business entities or activities are not connected to individuals or entities otherwise targeted or designated by governments.
4. **Be Strategic and Think Ahead.** Consider de-risking and diversifying operations, which will help reduce reliance on markets vulnerable to sanctions and ensure greater resilience in the face of potential restrictions and litigation risks. It is also important to closely watch ongoing discussions in the UK, as these could directly or indirectly affect Chinese companies operating internationally.

The risk of secondary sanctions underscores a significant issue with far-reaching implications for businesses with international ties. Given these developments' complexity and potential impact, it is crucial to remain vigilant about how possible changes could impact Chinese businesses and their strategic interests.

About Kobre & Kim

Kobre & Kim is a global law firm focusing on cross-border disputes and investigations, often involving fraud and misconduct.

To preserve the assets, liberty, and reputation of ultra-high-net-worth individuals with global business interests, our team:

- Provides offensive and defensive cross-border litigation and crisis management strategies in court and out-of-court;
- Brings together roughly a dozen former U.S. and UK government lawyers across Asia, EMEA, and the U.S., including former prosecutors from the U.S. Department of Justice (DOJ) and UK Serious Fraud Office (SFO);
- Has deep experience with global foreign policy, national security and economic controls and regularly interfaces with regulatory agencies that impose these controls.
- Takes a multidimensional approach to UHNWI-focused disputes investigations to resolve business disputes and regulatory investigations, trace and recover misappropriated funds, defend against asset attacks, and acquire and strategically deploy information to provide UHNWIs with a commercial advantage in their disputes and investigations.