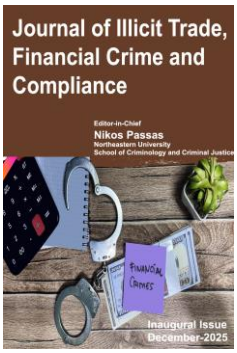
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China's Extraterritorial Laws and Sanctions Net: What Must Corporate Compliance Professionals Know?

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ABSTRACT

Western regulators have offered no legal waivers or regulatory safe harbors to international firms and nations navigating the escalating friction between Western trade controls and sanction regimes versus Chinese blocking laws and its court-enforced countersanctions. Consequently, multinational corporations integrated into Chinese supply chains—particularly within critical minerals, semiconductor components, and quantum computing R&D—find themselves trapped in a compliance catch-22.

The legal anatomy of the multi-layered regulatory architecture operationalized by Beijing via Decrees 834, 835, 837, and 839 in April and May 2026 systematically penalizes adherence to Western unilateral and autonomous sanctions or to international strategic trade restrictions, if they infringe against the Chinese government's national and economic security prerogatives. This paper examines, based on current and historical observations, whether irreconcilable differences between great powers' coercive policies and practices can be resolved or whether China's actions against what it calls "long arm jurisdictions" will prevail and exacerbate corporate compliance costs.

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1. Introduction

What, if any, workaround exists for potential victims of the great-power struggles? Victims are companies and dozens of countries who have literally banked on and with China and its state-owned enterprises. These deals usually are related to third nations' infrastructure development, building and exploiting mineral and oil production capacities, or supplying electronics components and other potential dual-use technologies.

The most vulnerable parties are international public and private sector actors who are currently engaged with Chinese entities and state-owned enterprises that are subject to US, EU or other international sanctions. At any given time, between 1,500 and 2,000 US designations [1] are in force with 400 to 500 mostly parallel listings by the European Union [2], Canada, Australia, Japan and others. The justification for these unilateral designations is China's perpetual veto threats against UNSC sanctions decisions especially when Chinese interests are at stake. Where serious international peace and security issues are at stake. many UN member states see no alternatives by to invoke their autonomous sanctions against offending Chinese parties. They explain their unilateral approach with the significant threat these Chinese targets present to international peace and security.

2. The Role of China in the UNSC

After its October 1971 accession to the UNSC, China had maintained for more than three decades a low-key presence, making few demands on decisions and resolutions, until around 2005 when it started to assert its strategic preferences with increasing vehemence. China has now permeated every aspect of Security Council activities and decisions by bending every UNSC situation to fit its strategic objectives, and wherever possible synchronizing with Russia and other member states.

2.1. Veto or Abstention

Over the past 20 years it has strategically cast its veto 15 times and abstained from voting 17 times to shield and prevent the imposition of sanctions measures or protect from their enforcement. Beneficiaries are nations and actors with which China has formed formal partnerships it labels anywhere between "comprehensive/cooperative" to "comprehensive/strategic cooperative".

The Sino-Russian duopoly, supported by Libya, South Africa and Vietnam gained worldwide attention in 2008 when the two countries opposed with their dual veto the adoption of draft resolution S/2008/447, that would have imposed an arms embargo against the human-rights-defying Robert Mugabe regime of Zimbabwe. Arguing that Zimbabwe's political crisis and heavy human rights violations was a domestic affair that should not be interfered with, China backed the regime of its important diamond-supplier, and buyer of Chinese arms manufacturers. Often perceived by its critics as hypocritical, China's veto-backed foreign policy against the "non-interference in internal affairs" of other countries, no matter how much they violate international and human rights laws would take a dramatic turn for the worse as the civil conflict in Syria escalated during the Arab Spring. It cast its veto, always in parallel with Russia, to 10 draft resolutions.

Because Russia invokes its veto far more frequently [3], China can afford to cast its vote in a very strategic manner, typically to publicly support one of the following three objectives:

- Blocking foreign intervention against friendly states such as Syria or Sudan.
- Opposing the unilateral imposition of international sanctions.
- Shielding its close geopolitical allies.

In most other cases where China disagrees with many in the international community, it prefers to abstain from voting. This version of Chinese opposition is more subtle as it still signals agreement with Russia but preserves its self-prescribed role as champion of multilateralism.

2.2. Pocket Veto

Wielding the threat of its veto during negotiations in closed-door and off-the-record UNSC Sanctions Committees meetings has proven to be an effective intervention and disruption of decisions or consultations on draft resolutions. The effects of the Sino-Russian veto threats are reported to have achieved the blocking of UN sanctions resolutions against:

- Myanmar's military dictatorship and its violations of human rights.
- Several escalations of sanctions measures against North Korea's Weapons of Mass Destruction program.
- The Sudanese government for its actions in Darfur.

2.3. Blocking Decisions of UN Sanctions Committees

Because much of China's so-called private sector activities - which in reality is conducted by state-owned enterprises or private companies dependent on state funding – it tends to react more strongly to the slightest notion of improprieties or accusations of sanction violations. It routinely blocks any discussion or deliberations, benefiting from at least two factors that permit it to pursue its self-interests in anonymity.

- The first factor is that sanctions decisions are adopted by the 15 member states of the UNSC's sanctions committees based on the unanimous outcome of a vote. For that reason, there is virtually no chance for any party to be subjected to UN sanctions without China's consent.
- The second factor is the hidden obstruction of the information flow that leads to sanctions decisions, the reporting of the UN's sanctions monitoring experts – often referred to as Panels of Experts. These reports are publicly released and to protect their independent point of view, are not to be tinkered with by the UN Secretariat or any member state. That is why they have preserved their value as often the only reliable and relatively objective account about those most responsible for conflicts and atrocities, their arms and dual use technology suppliers, and the effectiveness of UN sanctions against them. Chinese arms manufacturers and its arms dealers, including sellers of dual use items are very frequently described in these reports. As the only "eyes and ears of the Security Council" in conflict regions the reporting of these experts can be consequential – and so is China's relentless drive to curtail experts' inquiries and reporting. Pre-emptive self-censorship by the experts is a widely observed self-preservation strategy [4].

3. Backlash against Backlash

3.1. International Sanctioning of Chinese Entities

China's aggressive censorship of the UNSC sanctions and conflict resolution efforts has left the United States, the European Union and others with no choice but to designate culpable Chinese actors with their autonomous sanction mechanisms. Consequently, hundreds of Chinese entities are now designated for asset freezes and other measures which cuts them off from any U.S. Dollar denominated transactions and business.

The following table illustrates how US/EU designations of Chinese targets have escalated over the past 20 years:

Time Period	Primary U.S. Policies and Scale of Designations	EU Policies and Scale of Designations	Primary Drivers and Policy Focus
2004–2016	~15–20 total designations on the OFAC SDN* List; low dozens added to the BIS Entity List**.	Near zero unilateral designations; primarily multilateral UN-mandated counterproliferation.	Counter-narcotics, Iran/North Korea illicit trade.
2017–2020	216 SDN additions; 259 BIS Entity List additions (including Huawei, ZTE, and SMIC).	Zero unilateral commercial sanctions; initial preparations for human rights framework.	Tech decoupling, Military-Civil Fusion (MCF), Hong Kong, Xinjiang.
2021–2024	432+ SDN additions; 412+ BIS Entity List additions (peaked with 276 SDNs and 263 Entity additions in 2024 alone).	~20–30+ designations; first coordinated Xinjiang sanctions (2021) and Russia-evasion listings (2023–2024).	Russia-Ukraine war supply chains, advanced semiconductors, AI, biometrics.

Time Period	Primary U.S. Policies and Scale of Designations	EU Policies and Scale of Designations	Primary Drivers and Policy Focus
Cumulative Designations	Cumulative U.S. designated entities exceed 1,000+ on the OFAC and BIS lists, and 950+ Chinese SDNs.	Growing secondary package inclusions targeting Chinese intermediaries aiding Russia's military-industrial base.	Dual-use microelectronics, machine tools, and global sanctions circumvention.

OFAC SDN* = The U.S. Government's official sanctions list, which is administered by the Office of Foreign Assets Control (U.S. Department of the Treasury) as the Specially Designated Nationals list.
BIS Entity List** = Bureau of Industry and Security (BIS) Entity List is the U.S. government's official strategic trade control, or export control blacklist.

The policies that inform these sanctions decisions and strategic trade control restrictions reflect the evolving nature and diversity of threats to international peace and security. Twenty years ago, the dominant drivers were Chinese arms manufacturers supplying dual use and military goods to parties at war mostly in Africa. According to more recent policy statements, U.S. Presidential Executive Orders or EU decisions, the heavy supply to Russia's military forces in Ukraine of Chinese-made or China trans-shipped electronics and semiconductors now serve as justifications for sanctions and trade restrictions.

3.2. Lawfare in Strategic Geopolitics

Additional geopolitical tensions have been rising also because of restrictions China has placed on processed minerals, especially critical minerals such as rare earth minerals. Such supply chain constraints impact especially Western and Japanese industrial production. The research and development of advanced technologies, such as quantum computing components and microprocessors are hampered, specifically the development of, among others, advanced radio-frequency components of semiconductors that depend on Gallium, sub-5nm logic chips that require Germanium, Lanthanum and Yttrium, or high-numerical aperture extreme ultraviolet lithographic system that depend on microscopic quantities of minerals such as Cerium, Erbium, Holmium, and others.

Inevitably, these politically motivated supply chain constraints have translated into one of the most virulent strategic challenges. Among other political devices, the imposition of sanctions and strategic trade control responses rank very high for both the international community and China. Increasingly, the preferred intervention to coerce sovereign, corporate or individual actors to submit to an order prescribed by the sanction issuer -- without the use of kinetic force -- is aggressive legal warfare, or "lawfare".

3.3. The new Great Wall of China

China is now asserting its political, economic and legal interests against entities, individuals or governments that:

I. Undermine its broad national security interests and economic need to generate foreign reserve income.

II. Disrupt its far-flung checkbook diplomacy fueling the expansion of Chinese companies and their international trade.

III. Prevent its companies, many of which are State-owned Enterprises (SoE), from carrying out their operations in third countries, especially in critical mineral and other raw material extractions.

IV. Comply with US, EU, UK and other non-Chinese sanctions.

These laws authorize unilateral asset seizures, travel bans, and civil penalties against anybody acting in a manner that is perceived by Beijing to be detrimental to these prerogatives, especially for those aligning with international sanctions against Chinese entities. Gone are the days when China practiced leniency for those complying with non-Chinese regimes.

Cases that have been brought to Chinese courts have already clarified that these new regulations are cutting deep not only into established international due diligence practices but also building their legal claims on compliance obligations mandated by U.S., EU, and other regulators. The mere gathering of supply chain information, including the beneficial ownership determination required under OFAC's 50 percent rule, is now deemed illegal intelligence gathering and can trigger severe repercussions by Chinese courts if the authorities or the courts

perceive the compliance effort to be a threat to China's economic and national security. These rules apply to compliance with non-Chinese sanctions and trade restrictions, regardless of where in the world they take place, as long as they affect the long and complex list of newly defined Chinese interests.

It is self-evident that existing international sanctions regimes against Chinese entities remain in force and require compliance. Neither the US government, nor the EU have announced any adjustments or safe harbor provisions for those potentially affected by the new Chinese countersanctions or blocking statutes – creating a global enforcement trap.

4. China's Extraterritorial and Blocking Statutes

Box 1: What does the Chinese government identify as "strategic" and "key sectors?"

The interpretation of what constitutes a strategic industry or a key sector has been greatly expanded with the adoption of these blocking laws, countersanction and regulations to now cover these technologies:

- Lithium-Battery Manufacturing
- Artificial Intelligence
- Biotechnology
- Advanced aerospace guidance systems and related technologies
- Rare-Earth mining, refining, and processing
- Nuclear power, oil refining, and alternative clean energy infrastructures and technologies
- High-speed transit networks and communications hardware.
- Industrial manufacturing, supply chain origin tracing and carbon footprints
- Textiles and automotive components that could be subject to external ESG audits, forced-labor and other themes that could lead de-risking
- Military and dual-use equipment manufacturing, software with military or dual use applications
- Raw industrial data and related databases or data products.

Building on the following foundational laws and regulations that have defined national security and foreign relations prerogatives, the new implementing regulations provide extraterritorial teeth to:

1. National Security Law [5] (2015) as the overarching umbrella with which government authorities are mandated to protect China's core interests, with the following provisions having special implications for China's extraterritorial legal approach:

Article 25 declares cyberspace where data processing, transfers and storage involving Chinese interests are taking place, or where Chinese hard/software anywhere in the world are processing data is subject to Chinese law.

Article 32 extends China's jurisdiction beyond its territory, regardless of whether its national security interests are associated with other nations' territories, outer space, seabed or polar regions.

Article 33 explicitly requires Chinese government agencies to protect national security and rights and legitimate interests of overseas Chinese citizens, organizations, companies and institutions.

In addition, the related 2020 Hong Kong National Security Law also asserts extraterritorial criminal jurisdiction over non-citizens worldwide (Article 38).

2. The Law on Foreign Relations of China [6] regulates China's international activities, but the following paragraphs affirm and amplify its extraterritorial legal aspirations:

Article 32 provides for the safeguarding of its sovereignty, national security and development interests and for the protection of the lawful rights and interests of Chinese citizens and organizations, implicitly anywhere in the world as the next paragraphs demonstrate.

Article 33 authorizes restrictive measures against acts that endanger the sovereignty, national security and development interests of China, if Chinese authorities consider acts by a third-country government to violate its

rights under international law or fundamental norms governing international relations. For these purposes, the government is also tasked to adopt administrative regulations, departmental rules, institutions and mechanisms, and take other measures that can enable it to adopt and enforce these counter measures.

Article 37 specifically stipulates that China will protect its national security, and will build the capacity to protect the safety, security, and legitimate rights and interests of Chinese citizens and organizations to safeguard China's overseas interests against any threat or infringement.

3. Unreliable Entity List [7] was adopted in accordance with provisions of the Foreign Trade and National Security Laws as the "working mechanism" to implement and enforce:

Article 2 that authorizes the government to establish the Unreliable Entity List System, and to designate foreign entities that:

I. Endanger national sovereignty, security or development interests of China;

II. Violate normal market transaction principles and cause serious damage to the legitimate rights and interests of a Chinese enterprise, organization, or individual.

Article 6 The working mechanism is authorized to investigate a foreign entity.

Article 7 According to the results of the investigation, the working mechanism can decide whether to include the investigated foreign entity in the Unreliable Entity List, based on:

I. The degree of danger to national sovereignty, security or development interests of China;

II. The degree of damage to the legitimate rights and interests of enterprises, other organizations, or individuals of China;

III. The compliance with internationally accepted economic and trade rules;

IV. Other unspecified factors.

Article 9 Inclusion in the Unreliable Entity List will be followed up with a public alert about the risks of conducting transactions with the designated company, organization, or individual.

Article 10 authorizes the working mechanism to impose the following restrictions or prohibitions:

I. Against engaging in China-related import or export activities;

II. Investments in China;

III. Entry into China of relevant personnel;

IV. Work permit, status of stay or residence in China;

V. Fining an amount corresponding to the severity of the circumstances;

VI. Unspecified other measures.

1. Anti-Foreign Sanctions Law [8,9] is the statutory cornerstone that mandates the State Council and government departments to impose and enforce countersanctions and to establish a Countermeasure or Anti-Sanctions List:

Article 4 authorizes the State Council to establish a Countermeasure or Anti-Sanctions List, and to designate individuals or organizations that directly or indirectly participate in the formulation, decision-making, or implementation of discriminatory restrictive measures.

Article 5 In addition to individuals and organizations included in the countermeasures list the following parties can also be designated for this list:

I. Spouses and immediate family members of individuals;

II. Senior managers or actual controllers of organizations;

III. Organizations in which individuals included in the countermeasures list serve as senior managers;

IV. Organizations controlled by or participating with individuals and organizations included in the countermeasures list.

Article 6 Defines the following sanctions measures that can be imposed on those designated under the list:

I. Visas and entry denial, cancellation of existing visas, and deportations;

II. Freeze of all assets located within the Chinese jurisdictions;

III. Prohibition and blocking of designated organizations and individuals within the Chinese jurisdictions to prevent economic transactions or cooperations;

IV. Other unspecified measures.

Article 12 prohibits organizations or individuals from implementing or assisting in the implementation of discriminatory restrictive measures taken by foreign states against Chinese citizens or organizations and makes them subject to Chinese civil proceedings, judgments, and compensation [10].

Article 13 explicitly allows for additional measures and actions to be taken that are not prescribed with this Law, if Chinese interests are violated.

5. Implementing Regulations

This legal armory is now deployed with refined regulations and enforced with uncompromising rigor by Chinese courts. The consequences result in the dual-compliance trap. The reasons will become obvious when reviewing the following four Decrees that regulate the application of the previously discussed laws:

State Council Decree No. 834 with title “Provisions on the Security of Industrial and Supply Chains” elevates the management and protection of industrial and supply chains to a national security matter. The purpose is to mandate Chinese authorities to monitor, identify and investigate security risks caused by Chinese entities that engage in unapproved in-country data collections for compliance with foreign laws, frameworks and sanctions, or attempt to “de-risk” their exposure to foreign sanctions at the expense of Chinese interests. The decree is targeting what it refers to as “interruptions of normal transactions with Chinese parties” and “damaging threats to Chinese supply chain security”. The nature of the supposed interruption or threats is not specified beyond perceived threats to the very broad Chinese government interpretation of sovereignty and national security interests (see section below). Rather than exempting compliance with international sanctions or strategic trade control, the regulation leverages such efforts as a “catch-all” provision that can be punished by the Chinese judiciary. Based on accumulating case law, China’s judges interpret for example ownership screening as discriminatory and therefore illegal.

State Council Decree No. 835 [11] was adopted simultaneously with Decree 834. While 834 describes internal security risks and mandates Ministry of Commerce (MOFCOM) security investigations, 835 is countering what Chinese authorities consider “illegal extraterritorial extensions of foreign jurisdictions” and instructs the Ministry of Justice to apply existing Chinese legal recourse that includes blocking orders, designations for the Unreliable Entity and Countersanctions Lists, and civil lawsuits. Chinese companies, including those operating in third countries to extract and refine critical minerals or those manufacturing electronic components, semiconductors or quantum computing hardware can sue foreign entities that because of their compliance choices cause damages to them.

Box 2: Litigations under China's Anti-Foreign Sanctions Law

Even before Decree 834 and 835 had been adopted, a Swiss buyer had cited U.S. Office of Foreign Assets Control (OFAC) sanctions to justify its compliance decision to withhold an $11.86 million payment to a Chinese counterparty. The sanctioned Chinese entity sued in a Nanjing Maritime Court, claiming that the compliance was illegal under Chinese law. The court agreed and found that compliance with a foreign sanction regime as impermissible defense, forcing the Swiss entity to seek an exemption license from OFAC to pay the court RMB 99,743,000 or USD 13.8 million to settle the dispute. Months later, Order 834 was adopted.

State Council Order No. 837 amplifies both Decree 834 and 835. While 835 provides the basis for China's blocking statute, 837 extends the reach of these regulations to wherever Chinese investors or companies are operating. If a foreign private or public sector partner elects to comply with international sanctions or trade controls to the detriment of Chinese interests, 837 authorizes China's State Council to execute countermeasures, adjust country-specific investment policies, and restrict the import/export of specific goods or trading services in response.

If the provenance of capital, and assets or technology and related intellectual property is Chinese, or as Article 13 specifically stipulates, if strategic technologies or critical minerals are transferred without Chinese authorities' approval, the full punitive weight described in Decree 837 can be applied. Foreign companies can be held liable through their Chinese subsidiaries, and foreign governments can be subject to divestitures and other adjustments of bilateral agreements.

Article 23 enables the imposition of trade sanctions against third countries that impose trade-related investment barriers or other obstacles to Chinese investment and operation.

State Council Decree No. 839 [12] This regulation implements the Mineral Resources Law of the People's Republic of China. While Decree 834 regulates the monitoring of domestic supply chains, 835 the imposition of penalties against foreign compliance to detriment of Chinese interests, and 837 the leveraging of extraterritorial legal and political measures where Chinese assets and IP are concerned, Decree 839 weaponizes China's international critical mineral industry.

The Decree seeks to control raw materials on which advanced electronics and defense depend, by imposing an obligation to obtain Chinese state approval prior to their processing and use. The approval is contingent, among other things, on whether the use of the minerals is counter to Chinese economic and national security interests. Obviously, any military or dual-use application is not permitted.

Article 5 stipulates the establishment of a catalogue of strategic mineral resources by the State Council's natural resources department.

Article 7 aligns the development and utilization of overseas mineral resources with national interests. It determines that the development and utilization of overseas mineral resources shall be subject to the management and supervision of relevant Chinese departments and diplomatic missions abroad. No mention of the interests and laws of the host country that has granted extraction rights to Chinese mining companies.

Article 74 references China's "Negative List" of entities that are completely barred from obtaining or using critical mineral exports, regardless of where in the world Chinese companies extract and process them for trade. Contraventions of this rule are punishable with sanctions, assets freezes and other punishments.

6. Historic context of great-power sanctions confrontations

To shield against China's extraterritorial overreach the private sector and countries over which China has significant political or economic leverage, should look for historic precedents of great power sanctions conflicts resulting in a "Catch-22" compliance trap. The history of these types of conflict dates back to the Cold War when US and European interests were at cross purposes.

1) The Cold War Siberian Pipeline Dispute (1981–1982)

The Original Sanctions: In response to the declaration of martial law by the government of Poland which at the time was a Soviet satellite, U.S. President Ronald Reagan embargoed the delivery of exploration equipment for oil and gas destined to the Soviet Union. His primary goal was to block the construction of the Siberian-Euro Gas Pipeline. Effectively, he targeted European companies, including subsidiaries of U.S. entities whose correct compliance stance depended on being granted a U.S. export license for energy extraction and transportation technologies.

The Countersanctions: Unhappy about the loss of their pipeline and future energy benefits, the government of the UK adopted the Protection of Trading Interests Act of 1980 and ordered its companies to continue their contractual obligations by delivering turbines to the Soviet Union. Other European governments also mandated their companies to adhere to their obligations with Soviet counterparts, with France taking the extra step of requisitioning France-based facilities of U.S. subsidiaries to force their collaboration with the pipeline project.

The Outcome: While the affected companies theoretically could have been bankrupted with the enforcement of a threatened U.S. asset freeze and their US affiliate criminally prosecuted, it never escalated that far. In exchange for an agreement to implement broader and stricter US-EU strategic export controls, the U.S. lifted the pipeline sanctions in late 1982.

2) The Transatlantic Clash Over Cuba (1996–Present)

The Original Sanctions: In 1996, the United States Congress passed the Helms-Burton Act regarding Cuba, and the D'Amato Act regarding Iran and Libya. Title III of the Cuba law allowed lawsuits against foreign companies and Title IV mandated a ban on U.S. entry visas for anybody in a controlling position of companies that have benefited or still benefit from assets confiscated by the Cuban government. The Iran and Libya Sanctions Act (ILSA) required the U.S. President to impose at least two sanctions measures, consisting for example, of a denial of U.S. Export-Import Bank financing, U.S. government procurement contracts, or U.S. bank loans exceeding a specified US Dollar amount.

The Countersanctions: Because the three sanctions regimes dramatically impacted interests of European and Canadian companies, countersanctions were adopted with EU Council Regulation 2271/96 [13], Canada's Foreign Extraterritorial Measures Act, and Mexican laws. These laws prohibited their companies from complying with Helms-Burton and the D'Amato Act, rejecting their enforcement in their courts, and offering "claw back" damages suffered by U.S. plaintiffs.

The Outcome: The sanctions against Libya were terminated by President George W. Bush in September 2004, following Libya's renunciation of weapons of mass destruction program, and settlement of Lockerbie bombing claims. The applications of Title III of the Cuba restrictions were suspended by President Clinton and his successors for 23 years, until the Trump administration in May 2019 resumed enforcement efforts. The enforcement of Iran sanctions was suspended too until Congress passed the Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) of 2010, dramatically expanding the scope of the original sanction regime and its enforcement.

Except for the Libya sanctions, US enforcement of the Cuba and Iran restrictions, with steep financial penalties and prosecutions, has left European companies with no recourse under the European blocking statute.

The reason is that the claw-back provision under Article 6 of Council Regulation (EC) No 2271/96 applies only to extraterritorial measures under the Helms-Burton Act and the Iran Sanctions Act [14]. To circumvent this EU blocking provision, the U.S. government leveraged other laws, such as the Trading with the Enemy Act of 1917, or the International Emergency Economic Powers Act of 1977 to impose economic sanctions against and freeze assets of offending foreign companies.

Surprising effects: While no European company was ever able to obtain under the claw-back provision financial compensation for penalties paid to the U.S. Government, Iranian and Cuban entities successfully sued for such

compensation in European courts. Most famously, the Hamburg branch of Iranian state-owned Bank Melli sued Deutsche Telekom's subsidiary for terminating its telecom contracts after the U.S. reimposed Iran sanctions in 2018. The Court of Justice of the European Union decided that Telekom could not cancel the contract with the Iranian Bank simply to comply with U.S. sanctions [15]

3) Reimposition of U.S. sanctions against Iran following its JCPOA withdrawal (2018 - present)

The Original Sanctions: After withdrawing from the Joint Comprehensive Plan of Action (JCPOA) that was adopted with UN Resolution 2231 (2015) and that had regulated a 10-year disbanding of Iran's nuclear program against incremental sanctions relief, the United States government imposed new sanctions against Iran. While they targeted mostly Iranian entities and individuals that were also still designated under Resolution 2231, the US had made it clear that it would pursue vigorously any non-US target if found to continue to do business with Iran. Effectively, that threat was designed to scuttle the implementation of the JCPOA by the remaining signatories.

The Countersanctions: In defense of the JCPOA, the European Commission expanded the existing EU Blocking Statute under Council Regulation (EC) No 2271/96 with Commission Delegated Regulation (EU) 2018/1100 in May 2018 [16]. It prohibited EU entities and persons from complying with US instruments that were identified as Iran Sanctions Act of 1996, the Iran Freedom and Counter-Proliferation Act of 2012, and the Iran Threat Reduction and Syria Human Rights Act of 2012. While theoretically, the EU countermeasures should have given comfort to EU entities, the enforcement of the Blocking Statute was left to individual EU member states.

The Outcome: The resulting inconsistencies in the application of the EU law - with some countries imposing criminal or heavy administrative fines, while others adopted no enforcement mechanisms -- forced most EU entities to comply with the U.S. sanctions. An additional factor was that the Instrument in Support of Trade Exchanges (INSTEX), the special-purpose vehicle created to facilitate Iran trade outside the U.S. Dollar hegemony, failed to gain the necessary trust among private sector actors. Effectively, the US sanctions prevailed.

Realizing that its countermeasures were ineffective, the EU is now implementing a broad, multi-stage economic answer with the Anti-Coercion Instrument (ACI), also frequently referred to as the EU's "trade bazooka" with Regulation (EU) 2023/2675 that entered into force on December 27, 2023 [17]. Once a diplomatic resolution appears to be futile, the ACI can be deployed against a non-EU sanctions issuer across the entire EU market, with the following measures:

- Raising customs duties or imposing import/export quotas.
- Restricting trade in services (including financial and digital services).
- Excluding foreign companies from lucrative EU public procurement tenders.
- Limiting foreign direct investment (FDI).
- Suspending intellectual property (IP) rights protections.

Despite significant frictions resulting from the US imposition of tariffs against steel, aluminum and other goods, the threat of punitive U.S. duties over the Greenland question, or China's trade imbalances with Europe and its evolving countersanctions and blocking laws, the EU has hesitated to impose symmetrical ACI measures.

7. Conclusions and Recommendations

China's countersanctions and blocking laws under Decrees 834, 835, 837, and 839 have adapted and substantially enhanced the EU Blocking Statute. Its blocking and countersanction provisions are ready-made for intimidating lawfare as evident with its strident extraterritorial application and swift court decisions.

For potential targets of China's laws, regardless of whether they are companies or governments, the important lessons of the historic examples are that great powers never concede or back down. The US Treasury Department's Office of Foreign Assets Control that issues and enforces sanctions, has never accepted that an entity was legally forced by a local government to break U.S. law as a defense against violations of its sanctions. Given the deep

fissures between China and the West, led on one side by the US government, and an evolving separate leadership track by the European Union, it is not likely that diplomacy will prevail and a global solution will emerge.

Hence, the private sector, and governments vulnerable to Chinese coercion, will be left with no choice but to absorb the added compliance cost. The practical solution over the medium and long-term for many corporations with widespread international activities will be a quiet restructuring, and ring-fencing of assets. Isolating corporate activities and their assets will have to be based on careful analysis of the extraterritorial reach of the U.S. or Chinese jurisdiction and political power. Effectively, some companies will have to split and create Sinosphere entities that functionally must be separate from their Western outfits.

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[7] Ministry of Commerce of the People's Republic of China; The Unreliable Entity List; approved by the State Council and implemented by MOFCOM Order No. 4 of September 19, 2020 (https://english.mofcom.gov.cn/Policies/GeneralPolicies/art/2020/art_1889a24134054b5b841134c3fba44654.html)

[8] Law of the People's Republic of China on Countering Foreign Sanctions (Anti-Foreign Sanctions Law), adopted by the Standing Committee of the National People's Congress on 10 June 2021 and effective the same day, Arts. 4–6 (Countermeasure List and permissible countermeasures). English translation: China Law Translate, https://www.chinalawtranslate.com/en/counteringforeignsanctions/ .

[9] Law Anti-Foreign Sanctions Law of the People's Republic of China; Adopted at the 29th Meeting of the Standing Committee of the 13th National People's Congress on June 10, 2021; (https://exportcontrol.mofcom.gov.cn/article/zcfg/gnzcfg/flfg/202111/232.html)

[10] Anti-Foreign Sanctions Law (2021), Art. 12: organizations and individuals may not implement or assist in implementing discriminatory restrictive measures adopted by foreign states against Chinese citizens or organizations; where they do so and infringe the rights of Chinese citizens or organizations, the latter may sue in the people's courts for cessation of the infringement and damages. See https://www.chinalawtranslate.com/en/counteringforeignsanctions/ .

[11] People's Republic of China; "Regulations of the People's Republic of China on Combating Undue Extraterritorial Jurisdiction by Foreign Countries"; adopted at the 82nd Executive Meeting of the State Council on March 27, 2026, (https://www.gov.cn/zhengce/content/202604/content_7065398.htm)

[12] People's Republic of China; Regulations for the Implementation of the Mineral Resources Law of the People's Republic of China, amended and adopted at the 85th Executive Meeting of the State Council on May 9, 2026 (https://www.mee.gov.cn/zcwj/gwywj/202605/t20260521_1154890.shtml)

[13] Council Regulation (EC) No 2271/96 of 22 November 1996 protecting against the effects of the extra-territorial application of legislation adopted by a third country, and actions based thereon or resulting therefrom, OJ L 309, 29.11.1996, pp. 1–6 (the "EU Blocking Statute"), https://eur-lex.europa.eu/eli/reg/1996/2271/oj .

[14] The Annex to Regulation (EC) No 2271/96 lists, for the United States, among other instruments the Cuban Liberty and Democratic Solidarity Act of 1996 (Helms-Burton) and the Iran Sanctions Act of 1996; see the consolidated text at https://eur-lex.europa.eu/eli/reg/1996/2271/2018-08-07/eng .

[15] Case C-124/20, Bank Melli Iran v Telekom Deutschland GmbH, Judgment of the Court (Grand Chamber) of 21 December 2021, ECLI:EU:C:2021:1035. The Court held that the prohibition in Art. 5 of Regulation 2271/96 applies even absent an order by U.S. authorities and does not preclude termination of contracts without stating reasons, but that national courts may annul a termination made to comply with the listed U.S. laws, provided annulment does not have disproportionate effects for the person concerned. See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:62020CJ0124 .

[16] Commission Delegated Regulation (EU) 2018/1100 of 6 June 2018 amending the Annex to Council Regulation (EC) No 2271/96, OJ L 199 I, 7.8.2018, p. 1; it entered into force on 7 August 2018. See European Commission, "Extraterritoriality (Blocking statute)," https://finance.ec.europa.eu/eu-and-world/open-strategic-autonomy/extraterritoriality-blocking-statute_en .

[17] Regulation (EU) 2023/2675 of the European Parliament and of the Council of 22 November 2023 on the protection of the Union and its Member States from economic coercion by third countries, OJ L, 7.12.2023; in force since 27 December 2023. See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302675 and https://policy.trade.ec.europa.eu/enforcement-and-protection/protecting-against-coercion_en .