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China's first court decision rejecting compliance with foreign sanctions as a defence to breach of contract

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On 24 June 2026, the Supreme People's Court of China (Supreme Court) published six representative maritime cases of 2025,[1] including a shipping contract dispute between a Hong Kong shipper and a Singaporean carrier. In that case, the Shanghai Maritime Court ruled in favour of the plaintiff based on China's Anti-Foreign Sanctions Law (AFSL), marking the first application of the AFSL in a judicial decision since its enactment in 2021. This case further affirmed that compliance with foreign sanctions cannot serve as a defence for refusing to perform contractual obligations.

A model or representative case published by the Supreme Court, although it does not have binding precedential effect in the same manner as decisions in common law jurisdictions, is highly influential in judicial practice and is generally followed by lower courts across China. Accordingly, this case provides important guidance on how Chinese courts are likely to interpret and apply the law in future cases.

The facts

In this case, a Hong Kong company (plaintiff) engaged a Singapore shipping company (defendant) to transport electronic products valued at RMB4.99 million from Shanghai to Panama. After receiving and loading the cargo, the defendant refused to issue a bill of lading and further refused to deliver the goods upon the cargo's arrival at the destination, on the basis that the plaintiff had been placed on a foreign sanctions list.

Subsequently, the plaintiff obtained a maritime injunction from the Shanghai Maritime Court, compelling the defendant to issue the bill of lading. Following the injunction order, the defendant issued the bill of lading but returned the cargo to Shanghai while the injunction proceedings were pending.

The plaintiff then commenced legal proceedings against the defendant and its Chinese affiliate, claiming losses of goods, relevant charges and interest accruing thereon for breach of contract.[2]

The court's ruling

The Shanghai Maritime Court held that the defendant, as the carrier, materially breached the contract as it refused to perform its obligations thereunder. The court further held that the defendant's reliance on foreign sanctions as a justification for nonperformance was legally untenable because it contravened Article 12 of the AFSL.

In reaching its decision, the court reasoned that:

- Under Article 4 of the Law of the People's Republic of China on the Application of Laws to Foreign-Related Civil Relations, Chinese overriding mandatory provisions apply to foreign-related civil relationships notwithstanding the parties' choice of law or contractual arrangements.
- Article 12 of the AFSL expressly prohibits any organisation or individual from implementing, or assisting in the implementation of, discriminatory restrictive measures imposed by foreign countries against Chinese citizens or organisations.

1 Supreme People's Court of the People's Republic of China, "The Supreme People's Court Publishes the 2025 National Typical Maritime Cases", 24 June 2026.

2 The published case does not disclose the identity of the parties, details of the "foreign sanctions", the Singapore company's defense or its shipping contract arrangement with the Hong Kong company.

- Article 12 constitutes an overriding mandatory provision of Chinese law and therefore applies regardless of any contractual provisions or sanctions-related arrangements between the parties.

Accordingly, the Shanghai Maritime Court ruled in favour of the Hong Kong company and ordered the defendants to compensate the plaintiff for the full value of the goods – RMB4.99 million – together with interest. The judgment became final after no appeal was filed.

The Supreme Court's remarks

In its commentary, the Supreme Court described the case as a landmark application of AFSL, confirming for the first time through a judicial decision that compliance with foreign unilateral sanctions cannot serve as a defence for refusing to perform contractual obligations owed to Chinese parties. The Supreme Court emphasised that the ruling strengthens legal protection for Chinese companies engaged in cross-border business by limiting the extraterritorial impact of foreign discriminatory sanctions and providing greater certainty for international commerce.

Key takeaways

- **Increased AFSL-related litigation is likely** – While this case marks the first reported decision based on the AFSL, it is not the first case in which the statute has been invoked. In another maritime dispute reported in 2025 that was ultimately settled, the Nanjing Maritime Court cited the AFSL and exerted pressure on the defendant to make payment.[3] Although the AFSL was enacted in 2021, enforcement efforts have largely focused on placing foreign entities on China's countersanctions lists, while Article 12 has rarely been applied in litigation. This decision, together with the Nanjing Maritime Court case, recent blocking measures targeting foreign sanctions[4] and other newly introduced regulatory tools,[5] signals that Chinese authorities are increasingly encouraging companies to use the AFSL as an affirmative litigation tool to protect their interests. As a result, more AFSL-based claims and defences are likely to emerge in the coming years.
- **Sanctions clauses may not be enforceable in China** – The case confirms the mandatory nature of Article 12 of the AFSL and suggests that Chinese courts may apply the provision regardless of contractual sanctions-related termination or nonperformance clauses. Such clauses have traditionally been regarded by multinational companies as a contractual "safe harbour" for complying with foreign sanctions regimes. Following this decision, however, a party may no longer be able to rely on a foreign sanctions clause as a valid defence for nonperformance or termination where doing so would amount to implementing or assisting in the implementation of foreign sanctions against a Chinese counterparty.
- **"Overcompliance" with foreign sanctions carries increasing litigation risk** – Although the Supreme Court's publication did not disclose the parties' identities or the specific foreign sanctions involved, publicly available information suggests that the plaintiff may have been a company included on the US Bureau of Industry and Security (BIS) Entity List and the Section 1260H List. If so, neither designation would necessarily prohibit a Singapore-based carrier from conducting shipping business with the plaintiff. The defendant may therefore have been engaging in "over-compliance" with foreign sanctions – a phenomenon that is not uncommon in practice. Chinese courts typically assess whether parties have acted in good faith and exhausted all reasonable means to perform their contractual obligations. In this context, overcompliance with foreign sanctions may increasingly be viewed as an unjustified refusal to perform, or even as discriminatory treatment of Chinese counterparties, thereby exposing companies to liability under the AFSL.

3 Breaking Long-Arm Jurisdiction and Escorting Enterprises! The Top Case Among the Top Ten: The First Tort Lawsuit Against Foreign Sanctions. In this case, the Swiss defendant refused to make payment to a Chinese company on the basis that the Chinese company was placed on a foreign sanction list.

4 See our earlier publications: China Issues Its First Blocking Order and China's first prohibition order targets the EU Foreign Subsidies Regulation.

5 See our earlier publications: China's New Supply Chain Security Regime and China's New Supply Chain Security Regime

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