

Five years after its entry into force, on 2 May 2026, China's Ministry of Commerce (MOFCOM) for the first time invoked the Measures for Blocking the Improper Extraterritorial Application of Foreign Laws and Measures (Blocking Measures) to issue a blocking order (Blocking Order), prohibiting the implementation of US sanctions that were imposed by the US Department of the Treasury's Office of Foreign Assets Controls (OFAC) on five Chinese companies for their alleged involvement in Iranian oil transactions.

Details of the Blocking Measures were discussed in our firm's previous [article](#).

OFAC has recently imposed successive sanctions on a number of Chinese companies under Executive Order 13902 and Executive Order 13846, designating them as specially designated nationals (SDNs) on the grounds that they, as "teapot refineries," purchased large quantities of Iranian oil. Unlike prior rounds of similar sanctions, many of the Chinese companies targeted this time are large petrochemical enterprises and key players in the industry. These sanctions form part of the US' "maximum pressure" campaign against Iran in the current wartime context.¹

The issuance of the Blocking Order marks China's first formal countermeasure against US OFAC sanctions. It also cannot be ruled out that the move serves as negotiating leverage ahead of an anticipated meeting between the leaders of the two countries.

Sanctions Targeted by the Blocking Order

The sanctions prohibited by the Blocking Order are the measures taken by the US pursuant to executive orders 13902 and 13846, under which OFAC designated the following companies to the SDN List (Blocked OFAC Sanctions):

- Hengli Petrochemical (Dalian) Refining & Chemical Co., Ltd.
- Shandong Shouguang Luqing Petrochemical Co., Ltd.
- Shandong Jincheng Petrochemical Group Co., Ltd.
- Hebei Xinhai Chemical Group Co., Ltd.
- Shandong Shengxing Chemical Co., Ltd.

Content of the Blocking Order

The Blocking Order provides that the above-mentioned OFAC sanctions shall not be recognised, implemented or complied with. The order does not provide further details or specific implementation measures. Accordingly, how the order is to be implemented in practice will need to be explored through enforcement and compliance experience.

Who Is Required To Comply With the Blocking Order

The MOFCOM announcement does not expressly specify the entities required to comply with the Blocking Order. However, based on the Blocking Measures, it is understood that the order applies to Chinese citizens, legal persons and other organisations, including Chinese nationals and legal persons or other organisations registered in China (including Chinese subsidiaries of foreign entities), but excluding foreign citizens within China.

For example, a Chinese subsidiary of a US company is required to comply with the Blocking Order, whereas a US national serving as an executive of that subsidiary is not.

Availability of Exemptions

Pursuant to Article 8 of the Blocking Measures, Chinese citizens, legal persons or other organisations may apply to MOFCOM for an exemption from compliance with the Blocking Order by providing justifications. MOFCOM shall decide whether to grant approval within 30 days of acceptance of the application, or promptly in urgent circumstances.

Consequences of Noncompliance

Failure to comply with the Blocking Order may result in the following consequences:

- Where Chinese citizens or organisations fail to comply, MOFCOM may issue a warning, order rectification within a specified period, and impose fines depending on the severity of the circumstances.
- Where any person (including foreign individuals and enterprises) implements the Blocked OFAC Sanctions and thereby causes losses to Chinese citizens or organisations, the affected Chinese citizens or organisations may initiate litigation seeking damages.

¹ OFAC recently issued an alert to warn financial institutions about the sanctions risks of dealing with independent/"teapot" oil refineries in China, primarily in Shandong Province; see OFAC Alert, "[Sanctions Risk of Dealing with Teapot Oil Refineries](#)", 28 April 2026.

In other words, for Chinese citizens and organisations, noncompliance with the Blocking Order exposes them to both administrative penalties and litigation risk. Foreign persons not directly subject to the Blocking Order may still face litigation risk if they implement the Blocked OFAC Sanctions. A precedent was set last year in which a Swiss company was sued by a Chinese company for suspending a payment due to US sanctions against the Chinese company.²

At the same time, the US position has hardened. Just yesterday, at a press conference, US Secretary of State Marco Rubio confirmed that any entity complying with the Blocking Order, foreign financial institutions expressly included, would face secondary sanctions exposure and potential loss of access to the US financial system, with Treasury designated as the lead enforcement agency.³

Takeaways

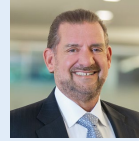
- China is increasingly demonstrating a willingness to adopt countermeasures in response to sanctions and restrictive measures involving China, as further illustrated by MOFCOM's decision of 24 April 2026 placing seven EU defence and aerospace entities (e.g. FN Herstal, FN Browning, and HENSOLDT) on the unreliable entity list in response to the inclusion of Chinese companies in the EU's 20th sanctions package.⁴
- Companies need to more carefully design OFAC sanctions compliance policies and avoid overcompliance, especially those with Chinese subsidiaries. For example, many multinational companies simply block all transactions with SDN-listed entities worldwide, even where OFAC rules do not require such broad restrictions. For companies transacting with the five Chinese enterprises protected by the Blocking Order, transactions should be carefully reviewed, particularly their nature and currency, to determine whether they are in fact restricted by OFAC and whether any other legal, compliance or reputational concerns would prevent the company from moving forward with a transaction.
- Where a company is genuinely placed in a dilemma (i.e. where compliance with the Blocking Order would violate OFAC sanctions, or vice versa), the company may consider applying for an exemption from MOFCOM or applying to OFAC for a licence.

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² Nanjing Maritime Court, "[Nanjing Maritime Court Trial Report on Foreign and Hong Kong, Macao, Taiwan-related Cases \(2020-2025\)](#)", 29 September 2025 (N.B. identifying the case as the "national first civil tort case concerning the Anti-Foreign Sanctions Law"); vid. Supreme People's Court of the People's Republic of China, "[Key Takeaways from SPC 2024 Work Report](#)", 27 March 2025; cf. South China Morning Post, "[Is This Maritime Court Case a Model of China's Anti-sanctions Law in Action?](#)", 27 February 2026.

³ US Secretary of State Marco Rubio, US Embassy & Consulates in China, "[Remarks to the Press](#)", 6 May 2026

⁴ Reuters, "[China Condemns EU's Inclusion of Chinese Entities in Sanctions Package Against Russia](#)", 25 April 2026.