



I think my landlord is sanctioned – can I safely withhold rent? - Update

Stephen Jourdan KC and Cecily Crampin look at the recent Supreme Court decision in [Celestial Aviation](#) on section 44 of the Sanctions and Anti-Money Laundering Act 2018.

Introduction

On 25 March 2026, the Supreme Court gave judgment in *UniCredit Bank v Constitution Aircraft Leasing; UniCredit Bank v Celestial Aviation* [2026] UKSC 10.

The first instance decision was discussed in the note [here](#) and the Court of Appeal's decision in the note [here](#).

Those notes discussed the following scenario: your client is the tenant of a commercial unit. The landlord is an overseas entity. A person, whom your client understands to be one of the directors of the landlord, is designated as subject to an asset freeze under the Russia (Sanctions) (EU Exit) Regulations 2019 (“the Regulations”), made under the Sanctions and Anti-Money Laundering Act 2018 (“SAML A”). Your client believes that the landlord company is controlled by this sanctioned director. If that was the case, paying the rent would be a breach of Regulation 12 and a criminal offence. The landlord refuses to provide any evidence about its control, and insists that, if your client does not pay rent immediately into a Russian bank account, then it will sue. Your client refuses to pay, and the landlord then issues proceedings. In the course of the proceedings, it provides evidence that the director resigned from the directorship prior to the rent falling due. On receipt of this evidence, your client duly pays the rent. They are then faced with a claim for a considerable amount of interest on that rent, as well as the landlord's costs, which can be claimed under a covenant in the lease to “pay all costs of enforcing any breach of the Tenant's covenants on a full indemnity basis”. Does your client have to pay?

This turns on the effect of s.44 of SAML A:

- 44 *Protection for acts done for purposes of compliance*
- (1) *This section applies to an act done in the reasonable belief that the act is in compliance with—*
 - (a) *regulations under section 1, or*
 - (b) *directions given by virtue of section 6 or 7.*
 - (2) *A person is not liable to any civil proceedings to which that person would, in the absence of this section, have been liable in respect of the act.*
 - (3) *In this section “act” includes an omission.”*



After the Court of Appeal's decision in *UniCredit* the ambit of s.44 was unclear. The position has, however, been clarified by the decision of the Supreme Court. It now seems clear that the tenant will not be liable for interest and costs in respect of the period when it reasonably refused to pay the rent because it believed it could not do so because of the Regulations.

UniCredit

In brief summary, *UniCredit* concerned letters of credit under which a bank was obliged to make payments in respect of aircraft leased to Russian companies. The Russian companies were sanctioned, and the bank believed this meant it could not pay without an OFSI licence. Eventually a licence was issued, but only after the trial had concluded. The issue was whether the bank was liable to pay interest on the amounts due and the costs of the proceedings. That in turn depended on whether the sanctions regulations had prohibited payment prior to the issue of the licence or, if not, whether the bank had a defence to the claim for payment under s.44.

It was common ground throughout that if and so long as the regulations made it unlawful to make payment, the bank had a defence to the claim for payment.

The High Court decision

Christopher Hancock KC sitting as a High Court Judge, held that:

- the sanctions regulations did not make it unlawful for the bank to pay;
- the bank's belief that they could not pay without a licence was unreasonable so s.44 did not apply.

The Court of Appeal decision

The Court of Appeal held:

- the sanctions regulation did make it unlawful for the bank to pay;
- it was not, therefore, necessary to decide the s.44 issue, but Falk LJ did discuss it and the other members of the Court agreed with her. Falk LJ said that the bank did have a reasonable belief that it could not pay. However, that did not provide a defence under s.44. Falk LJ said that s.44 is only concerned with proceedings seeking relief in respect of the consequences of a failure to comply with an obligation. It is not concerned with proceedings concerned with enforcing the obligation itself: "... *a claim for debt is just that: it seeks payment of the debt. While the inevitable trigger for the claim is that the debtor has not paid, the action is not an action for the non-payment as such (which is the relevant omission for section 44 purposes) and can therefore be said not to be 'in respect of' it. Rather, it seeks recovery of an amount which is owed irrespective of any action or inaction in purported compliance with sanctions.*"



The Supreme Court decision

The Supreme Court held:

- the sanctions regulation did prevent the bank from paying – so agreeing with the Court of Appeal on that point;
- Falk LJ was wrong about s.44. Lord Stephens said: “*Civil proceedings to recover a debt are only brought if the person, in this case the Bank, fails to pay the debt. As the Bank’s liability is “in respect of” its omission to pay upon receipt of a compliant demand under the letters of credit, the protection afforded falls within the language used in section 44(2). Furthermore, a failure to pay a claim for interest or a claim for costs is also an omission “in respect of” the debtor’s failure to pay the debt so as to fall within the language used in in section 44(2). I consider that section 44 would have provided protection to the Bank against an action to recover a debt, an award of interest on the amount of the debt, and an award of associated costs.*”

That does clarify the effect of s.44 and should mean that the tenant can rely on it as a defence to the claim to interest and costs.

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