

The logo consists of the text "K&L GATES" in white, uppercase, sans-serif font, centered within a solid orange square. This square is positioned in the upper left corner of the slide, overlapping a large blue background image that features a bokeh effect of light spots.

K&L GATES

March 21, 2017

K&L Gates Boardroom Conversations: Export and Trade

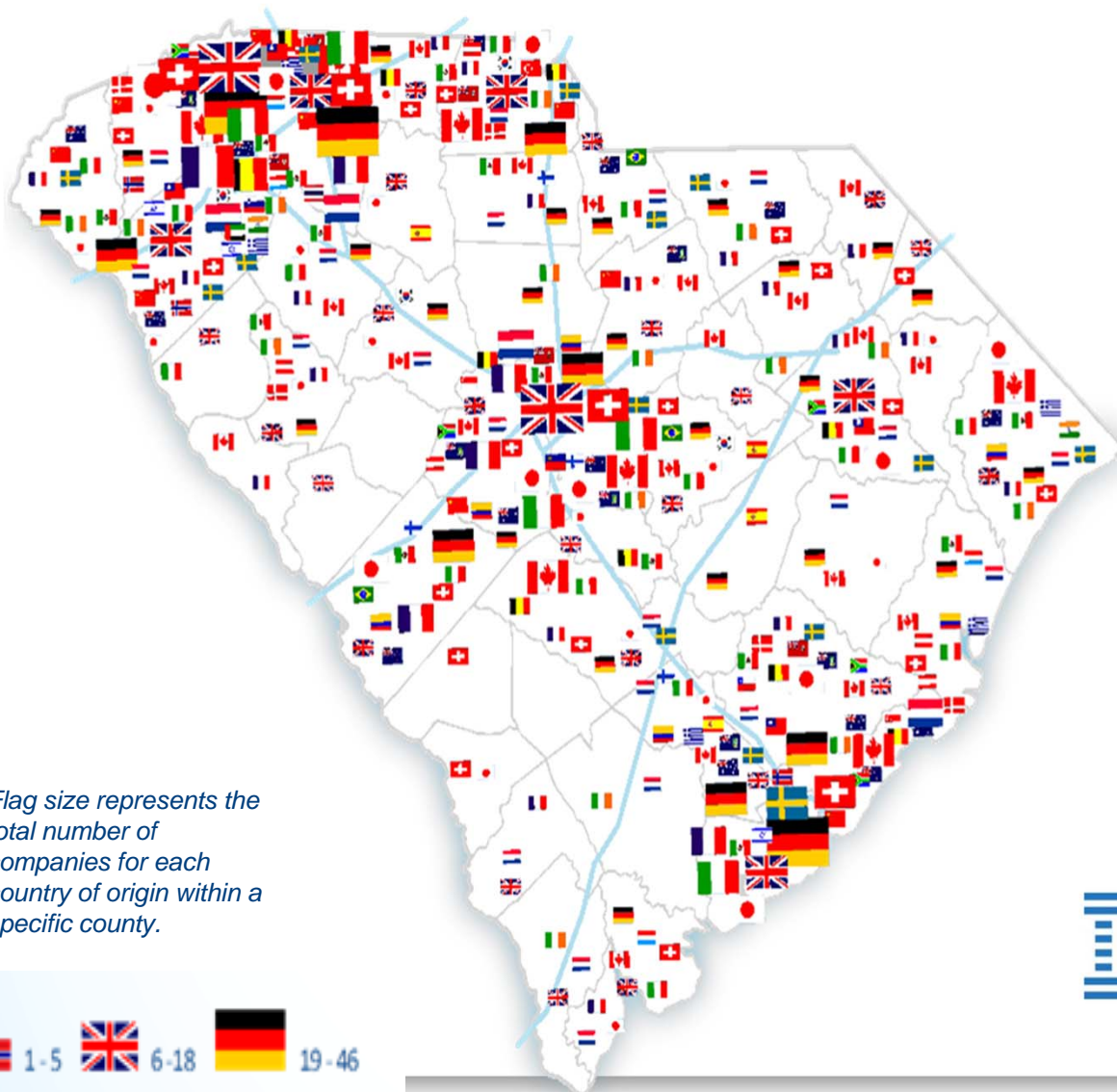
By W. Ford Graham, Julius “Sam” H. Hines,
Stacy J. Ettinger, and Steven F. Hill

The background of the slide is a vibrant blue with a bokeh effect, featuring numerous out-of-focus light spots in various shades of blue and white, creating a shimmering, textured appearance.

ECONOMIC DEVELOPMENT IN SC

By W. Ford Graham

RECENT SOUTH CAROLINA SUCCESS



Flag size represents the total number of companies for each country of origin within a specific county.



#2 For the last five years, South Carolina ranks first or second among states for jobs created by new and expanding international firms.



IBM Global Location Trends
Annual Report, 2012...2016

2016 SC PROJECTS TOP FIVE BY JOBS

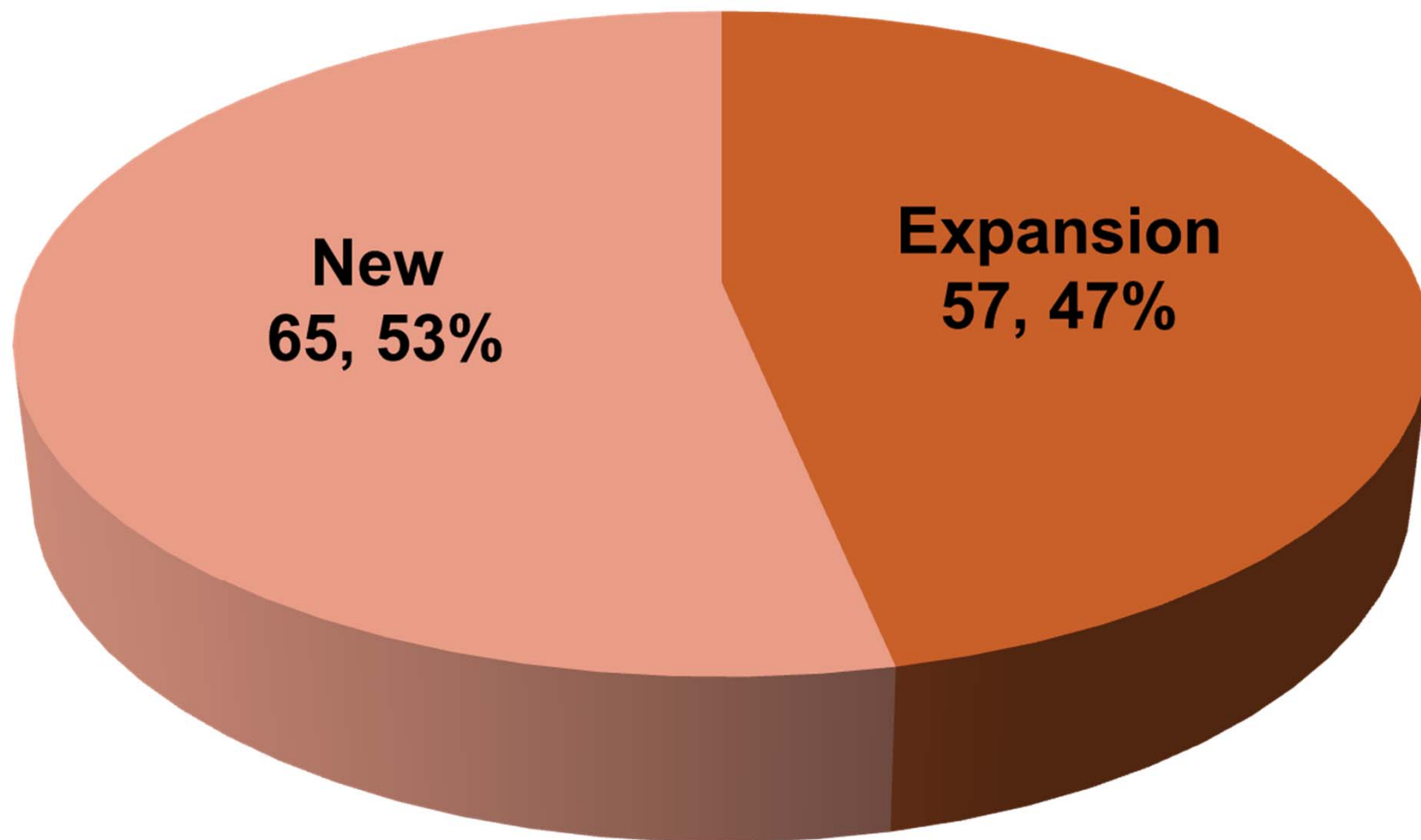
CompuCom Systems, Inc. (SC)*	Lancaster	Tier III	\$41,000,000	1500
Anyone Home, Inc. – Greenville*	Greenville	Tier I	\$1,100,000	570
Comcast Cable Communications Management, LLC*	Charleston	Tier I	\$21,400,000	550
Magna Seating of America, Inc.*	Spartanburg	Tier II	\$29,000,000	480
PL Developments South Carolina* (Piedmont)	Greenville	Tier I	\$45,000,000	450

* All companies are new to South Carolina

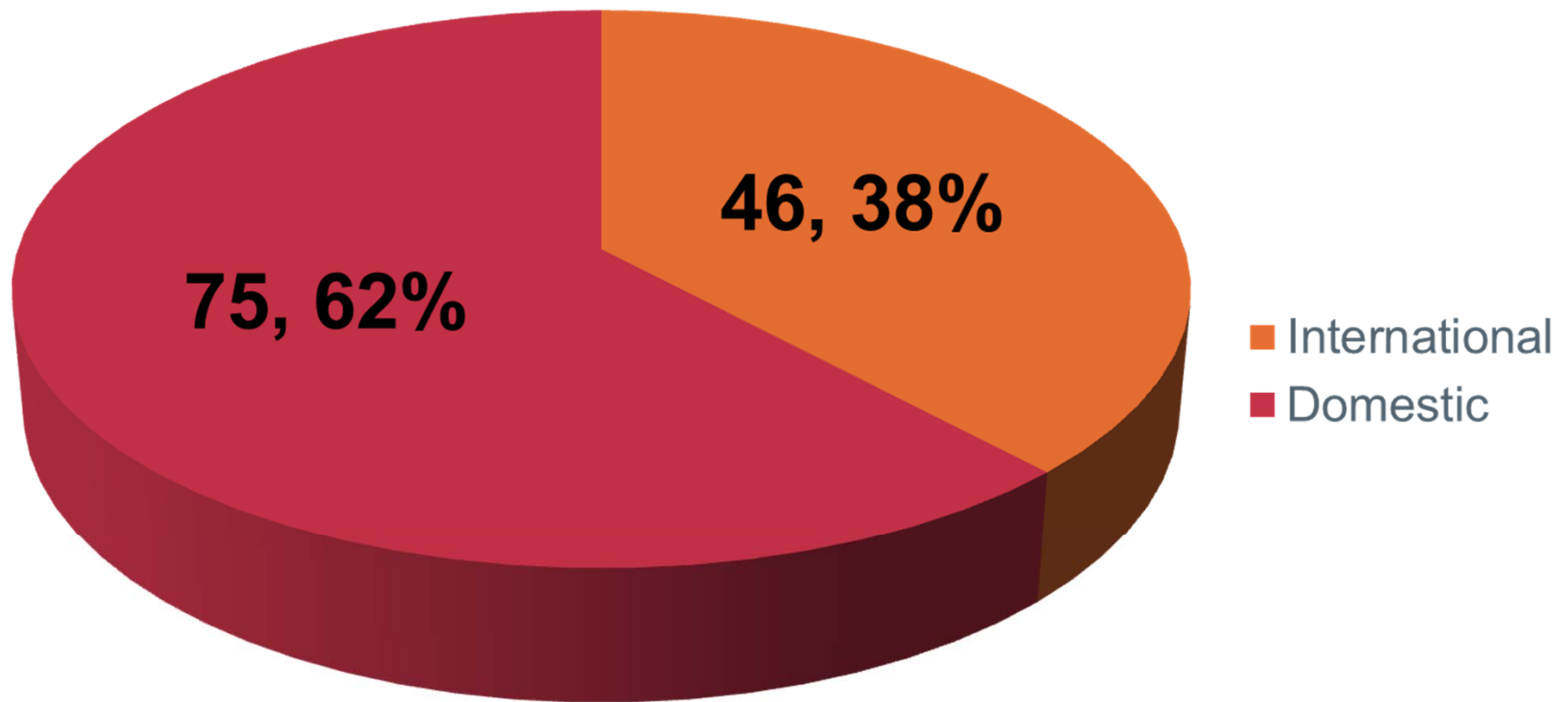
2016 SC PROJECTS TOP FIVE BY INVESTMENT

Toho Tenax America, Inc. (Teijin Ltd.)	New	Greenwood	Tier II	\$600,000,000	220
Jushi USA Fiberglass Co., Ltd.	New	Richland	Tier I	\$300,000,000	400
Michelin North America, Inc. (Spartanburg)	New	Spartanburg	Tier II	\$270,000,000	350
Adger Solar (SC) - Clarendon County	New	Clarendon	Tier IV	\$200,000,000	5
Robert Bosch LLC (SC) - Dorchester	Expansion	Dorchester	Tier I	\$175,000,000	150

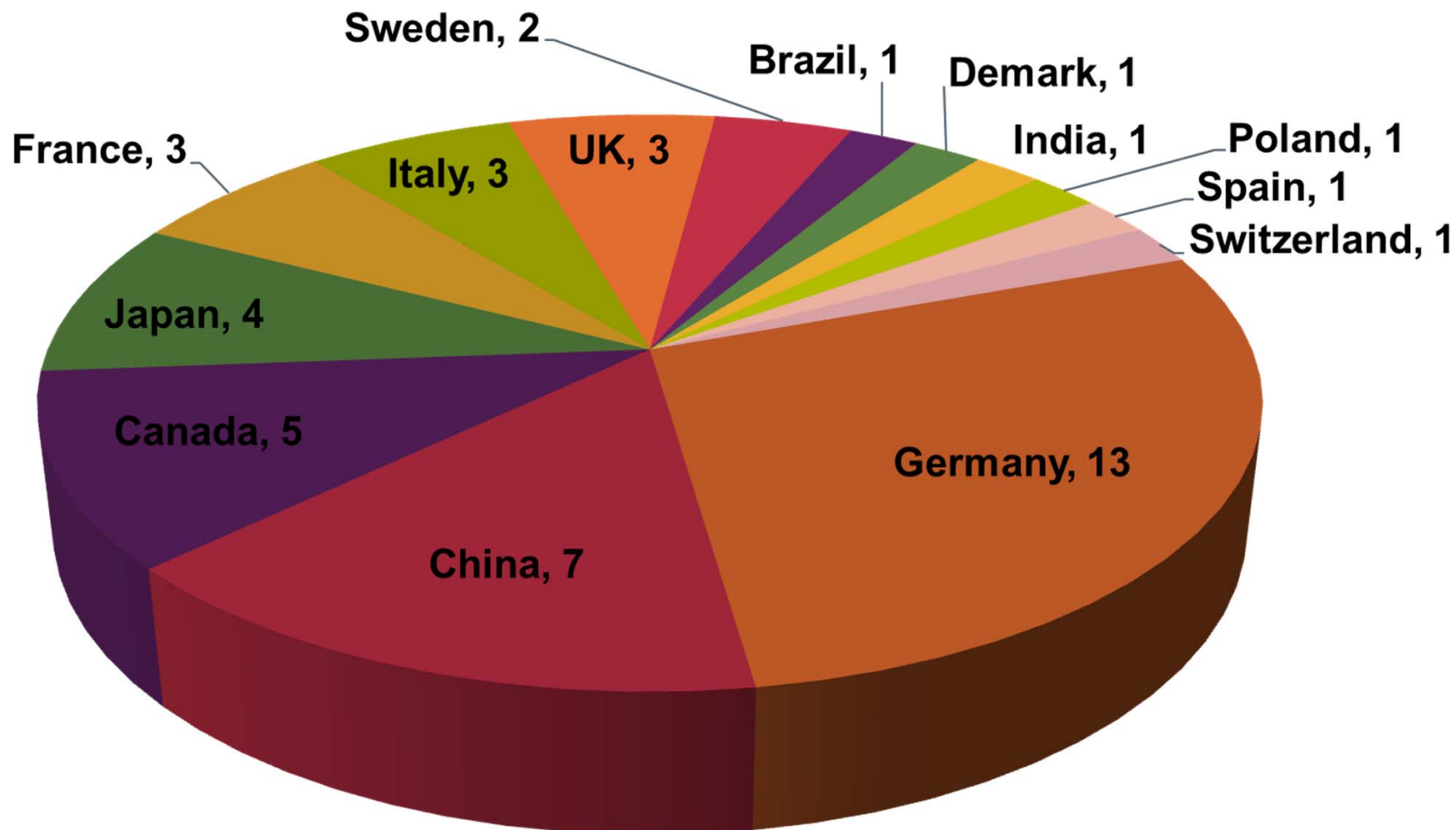
2016 SC PROJECTS – EXPANSIONS VS NEW



2016 SC PROJECTS – FDI VS US BASED



2016 SC FDI PROJECTS BY COUNTRY



2015 US FDI DATA – FASTEST GROWING SOURCES

China Strategy

- 2 missions per year

South Korea Strategy

- 1 mission per year

India Strategy

- 1 mission per year

Rank	Market	2015 Position <i>in USD millions</i>	CAGR <i>2010-15</i>
1	Argentina	\$3,771	38.9%
2	Chile	\$2,475	36.9%
3	China	\$20,765	30.8%
4	Malaysia	\$1,613	20.5%
5	South Korea	\$38,174	17.3%
6	Norway	\$29,600	14.9%
7	United Arab Emirates	\$27,480	14.2%
8	Colombia	\$2,468	14.0%
9	India	\$11,345	13.6%
10	Ireland	\$200,502	12.8%
11	Bermuda	\$27,585	11.7%
12	Brazil	\$23,685	11.7%
13	Hong Kong	\$14,525	11.4%
14	Japan	\$414,007	9.8%
15	Finland	\$13,278	9.8%

SOUTH CAROLINA EXPORTS

\$31.3

billion in export sales

15th

among the 50 states in exports

#1

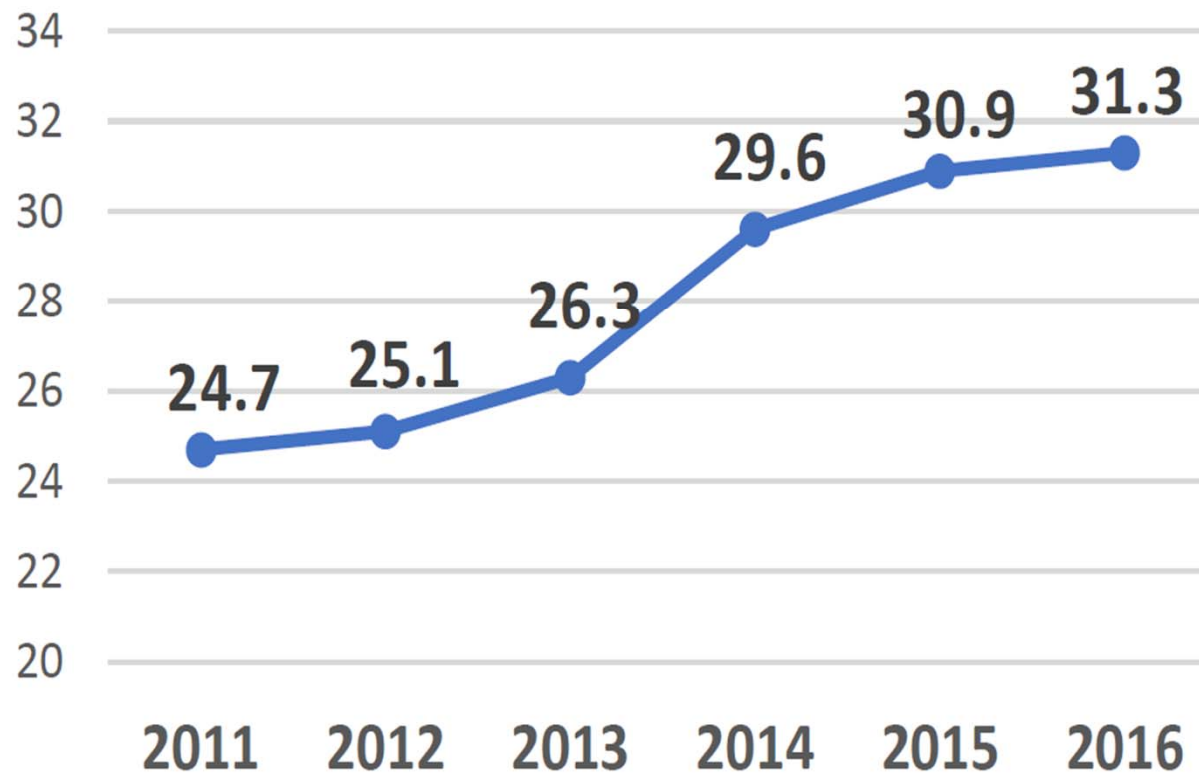
in the export sales of passenger vehicles, tires and roller ball bearings

\$9.2

billion in export sales to TFA markets

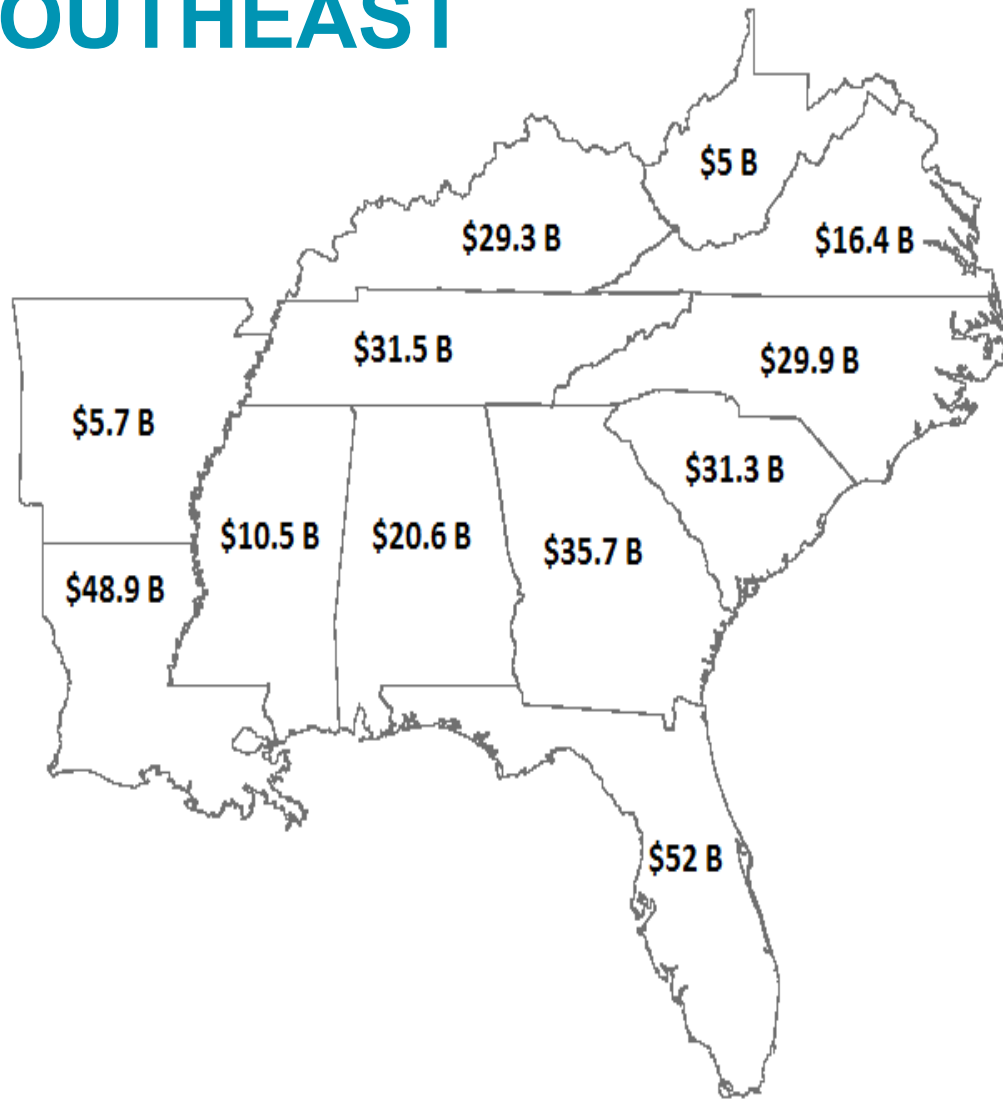
PALMETTO STATE'S EXPORT GROWTH

Total Export Sales (in Billions)



Source: Census

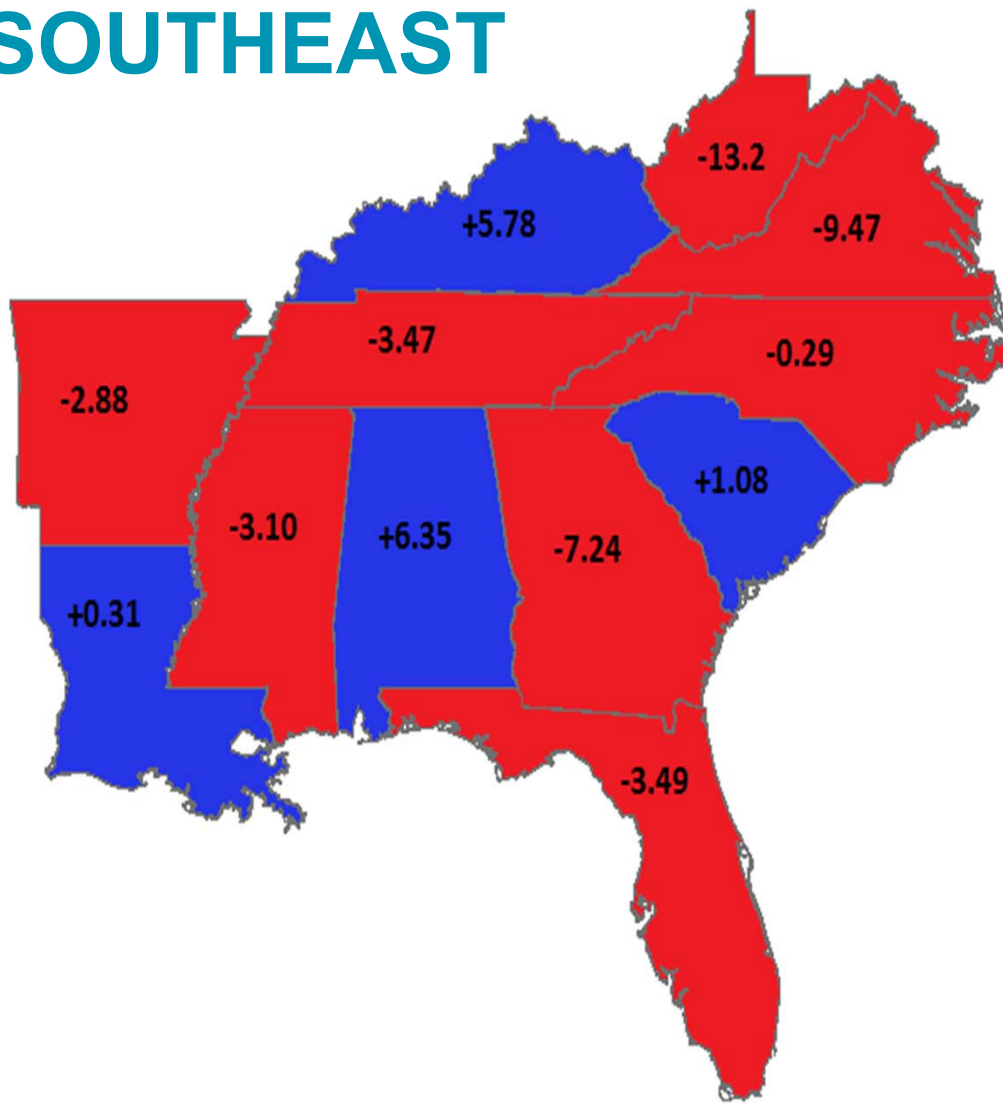
INTERNATIONAL TRADE FROM THE SOUTHEAST



Export Sales Totals from 2016

Source: U.S. Department of Commerce, International Trade Administration, 2016

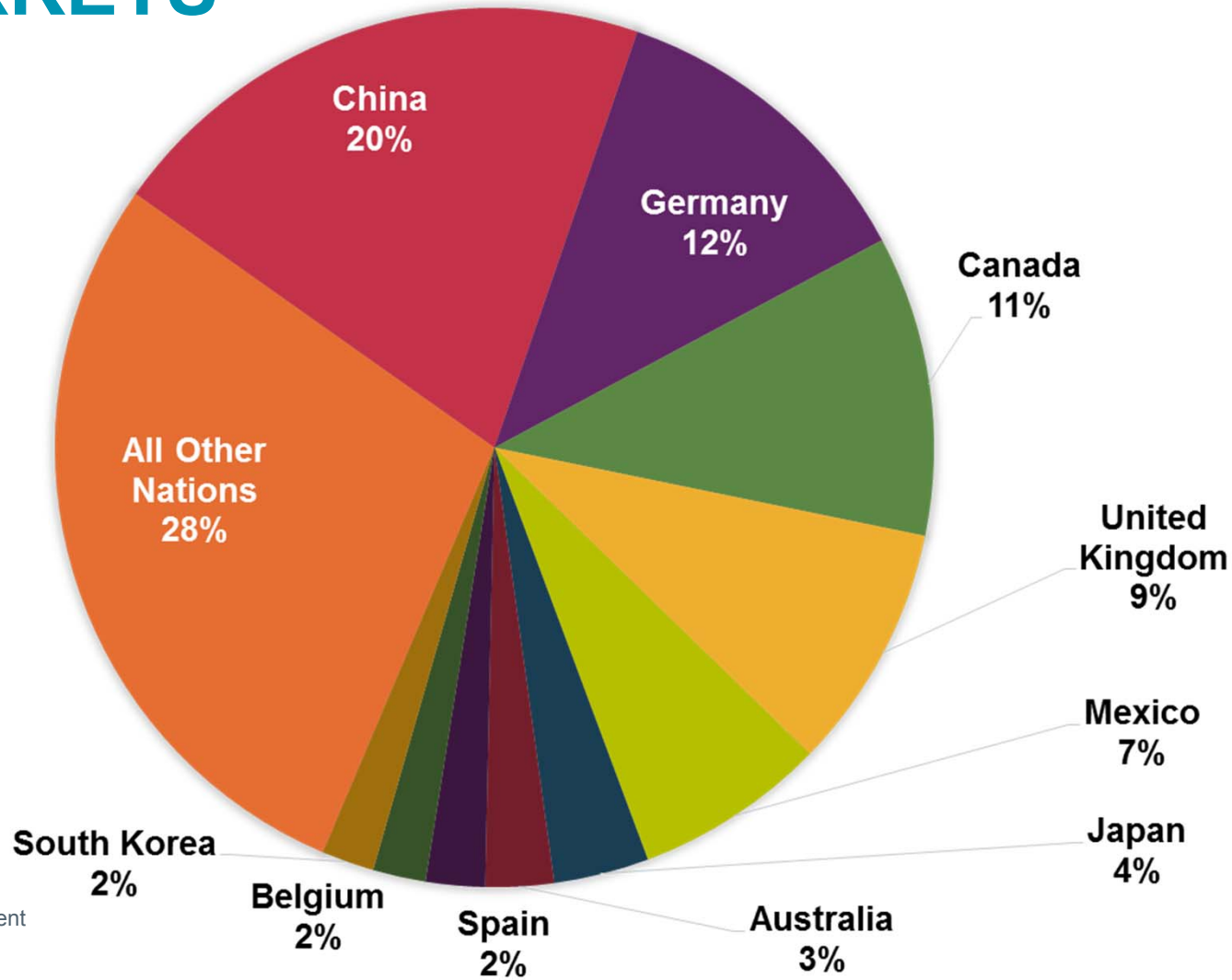
INTERNATIONAL TRADE FROM THE SOUTHEAST



**Percentage Change
in Export Sales
Totals
from 2015-2016**

Source: U.S. Department of Commerce,
International Trade Administration, 2016

SOUTH CAROLINA'S TOP EXPORT MARKETS



Source: U.S. Department of Commerce, International Trade Administration, 2016

TOP 10 PRODUCT CATEGORIES OF S.C. EXPORTS 2016

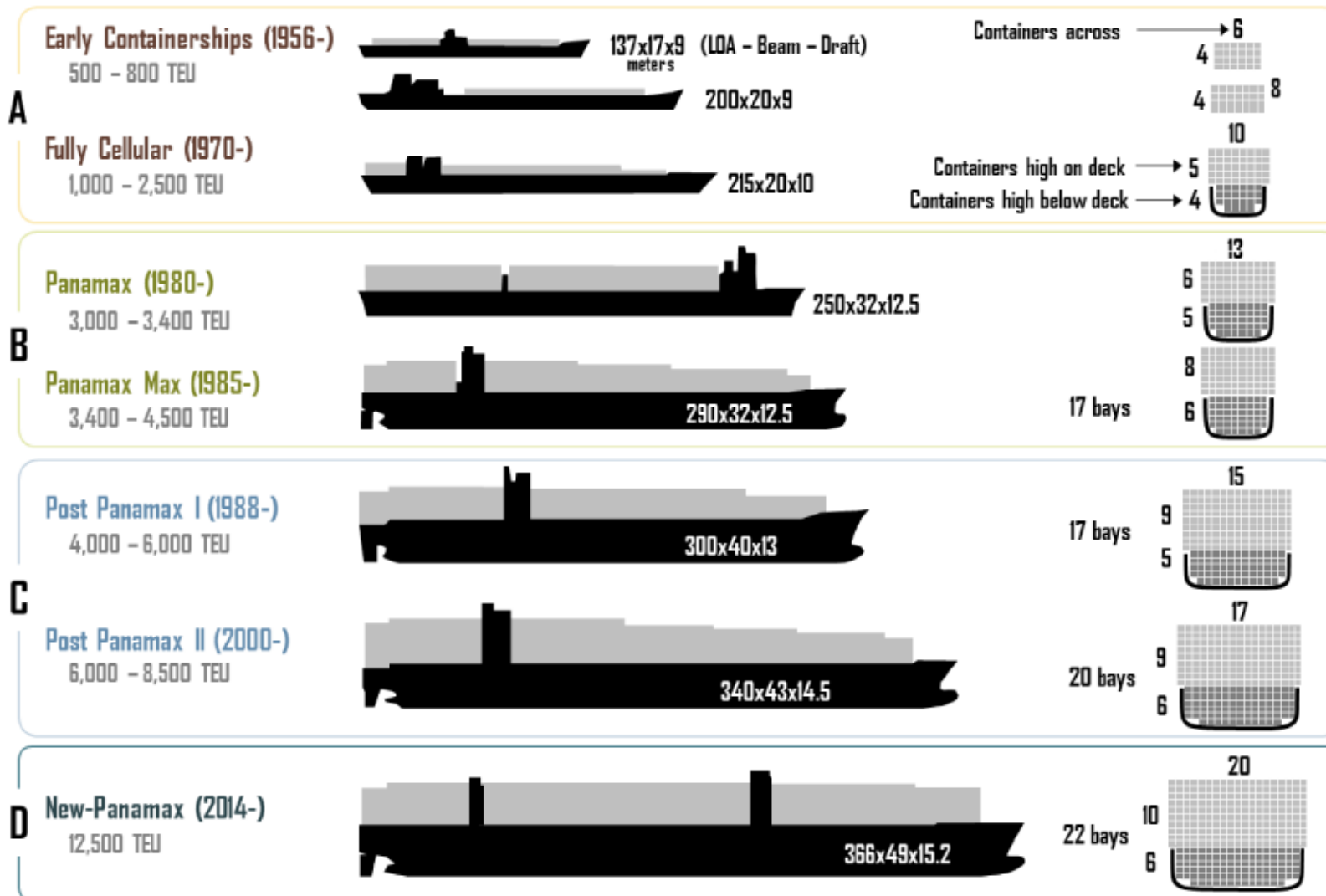
Rank	Products	Change
1	Vehicles	(-.97)
2	Aircraft/Spacecraft	(+46.53)
3	Machinery	(-5.54)
4	Rubber	(-6.42)
5	Electrical Machinery	(-4.92)
6	Plastic	(-13.83)
7	Optical/Medical Instr.	(-3.49)
8	Paper/Paperboard	(-10.30)
9	Woodpulp	(-4.03)
10	Organic Chemicals	(-16.69)



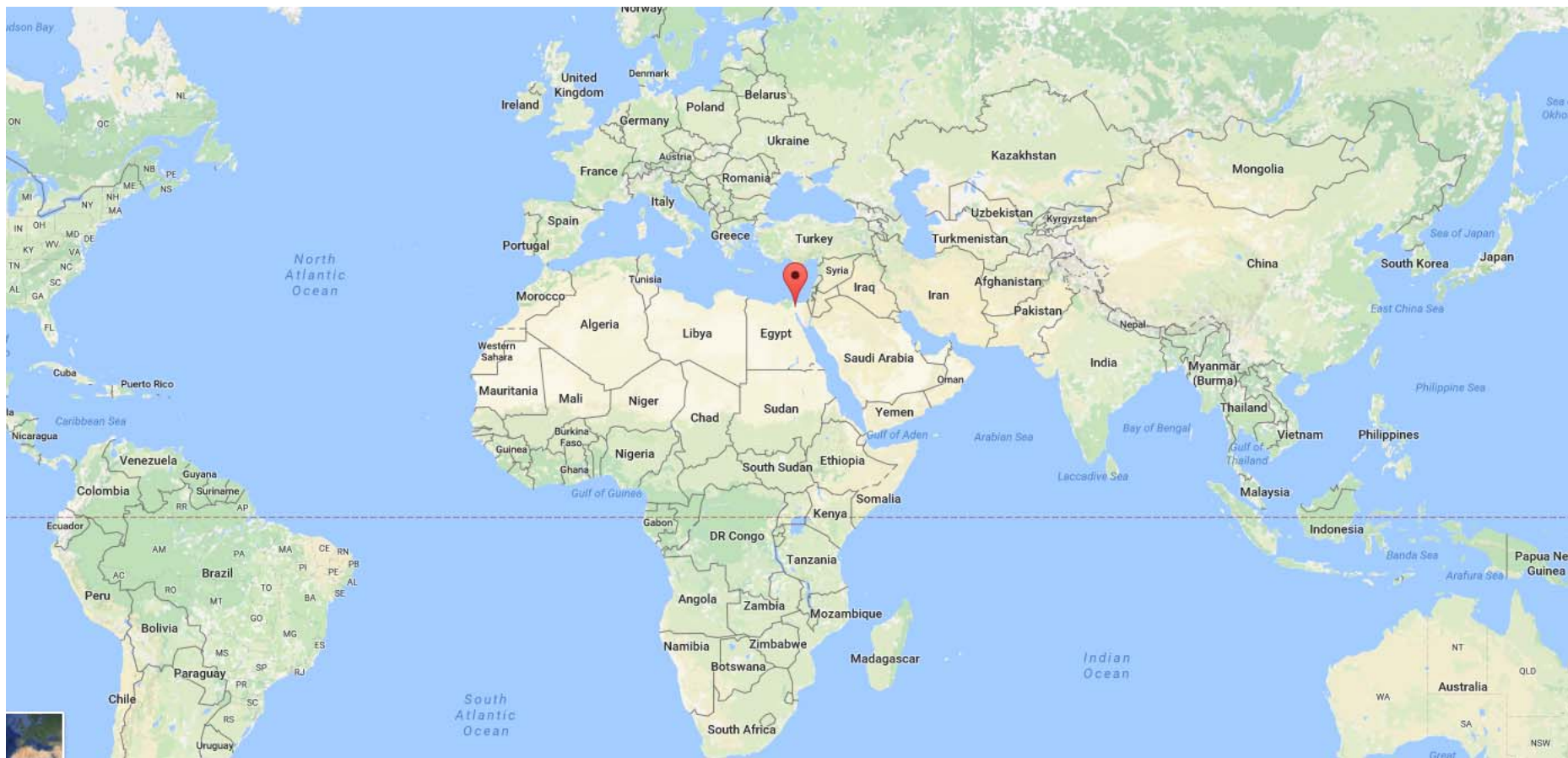
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SC PORTS AND INFRASTRUCTURE

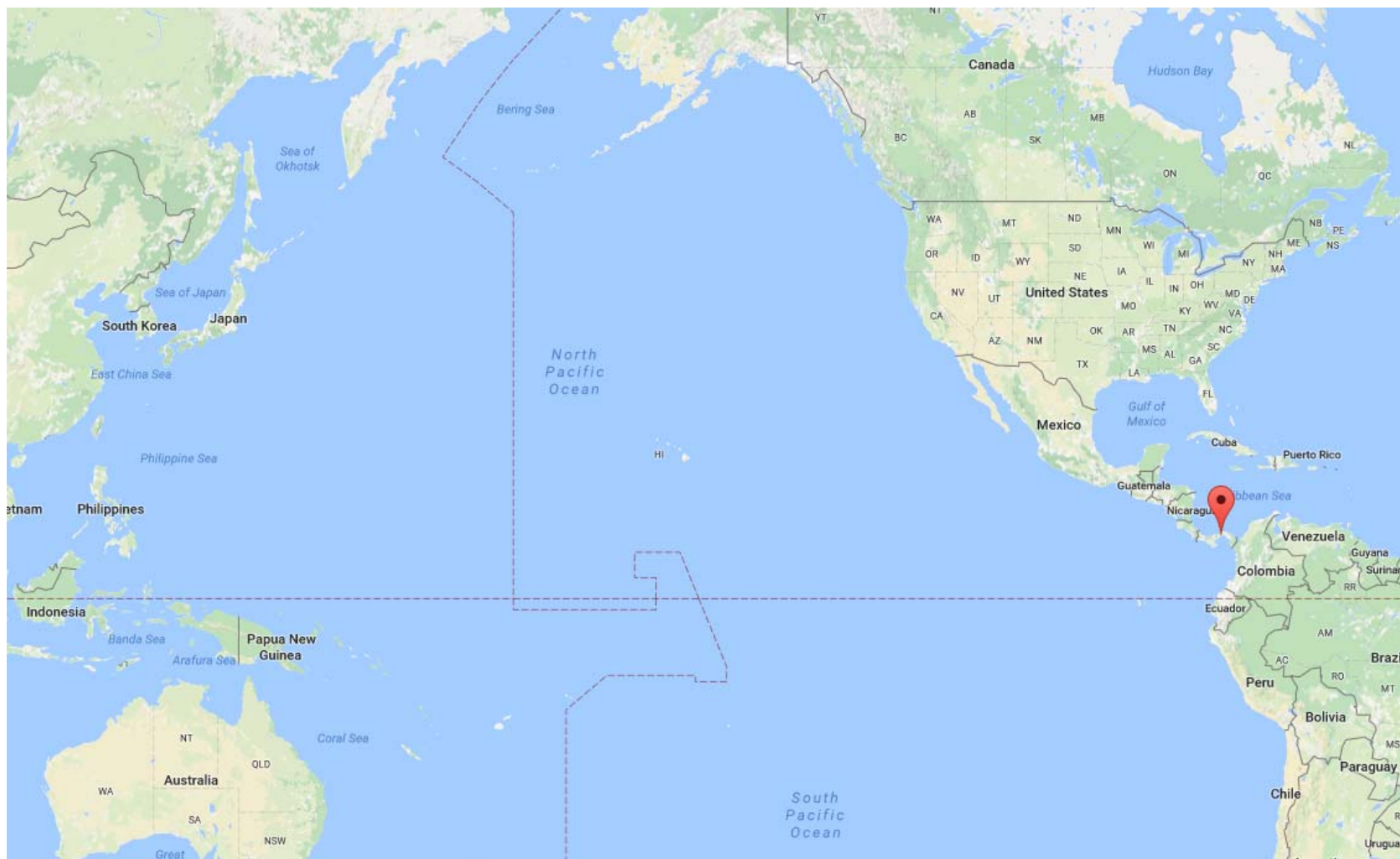
By Julius “Sam” H. Hines



Suez Canal



Panama Canal



PANAMAX LIMITS

- 110' wide
- 1050' long
- 41.2' draft
- 5000 TEU limit

PANAMA CANAL WIDENING

- Groundbreaking: September 2007
- First transit: June 26, 2016

NEO-PANAMAX

- 161' beam
- 1201' length
- 50' draft
- 13,000 TEU limit

Panama Canal ousts Suez as top Asia-US East Coast route

Bruce Barnard, Special Correspondent | Jul 13, 2016 3:03PM EDT

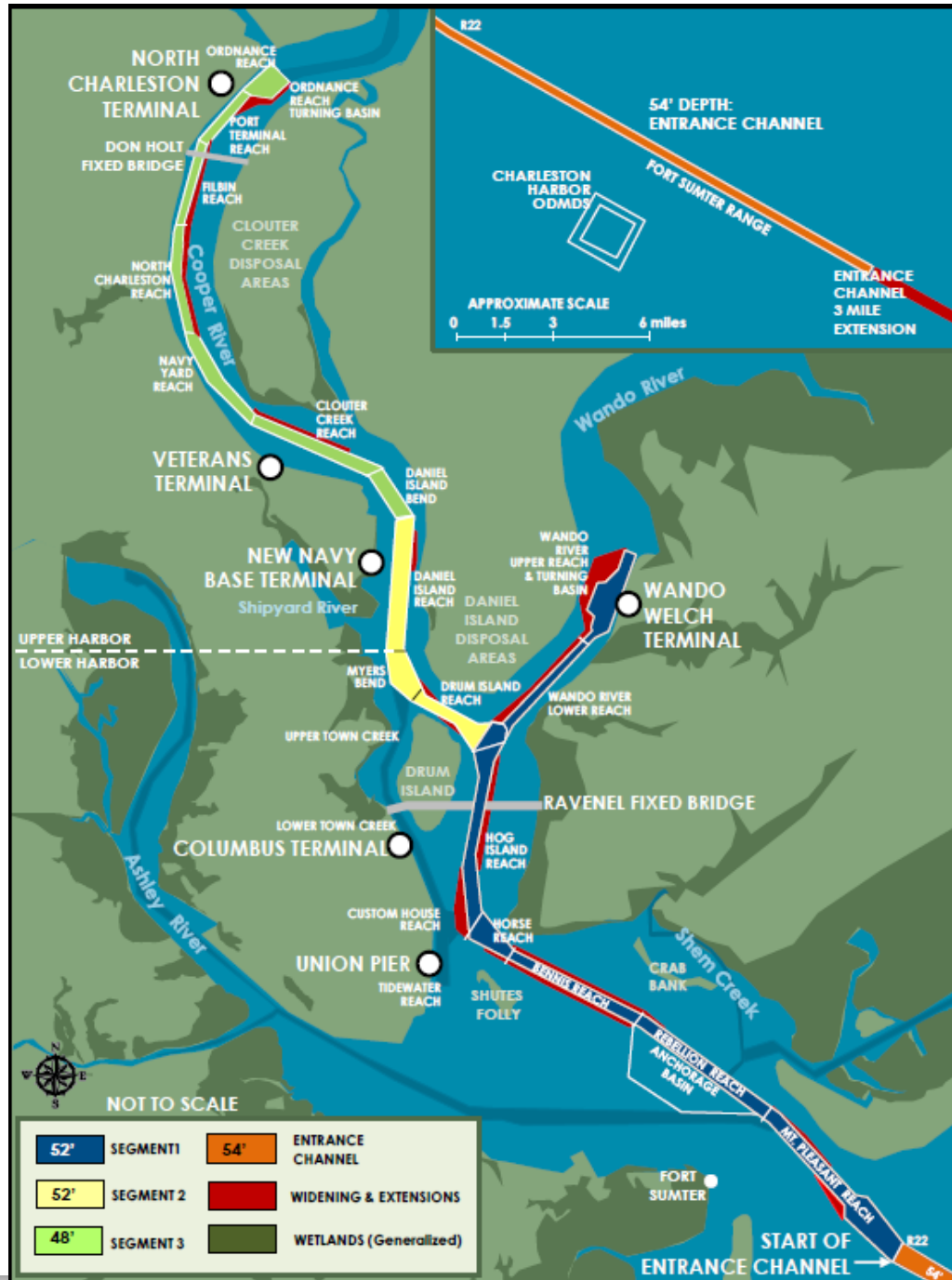
print     



Journal of Commerce, July 13, 2016

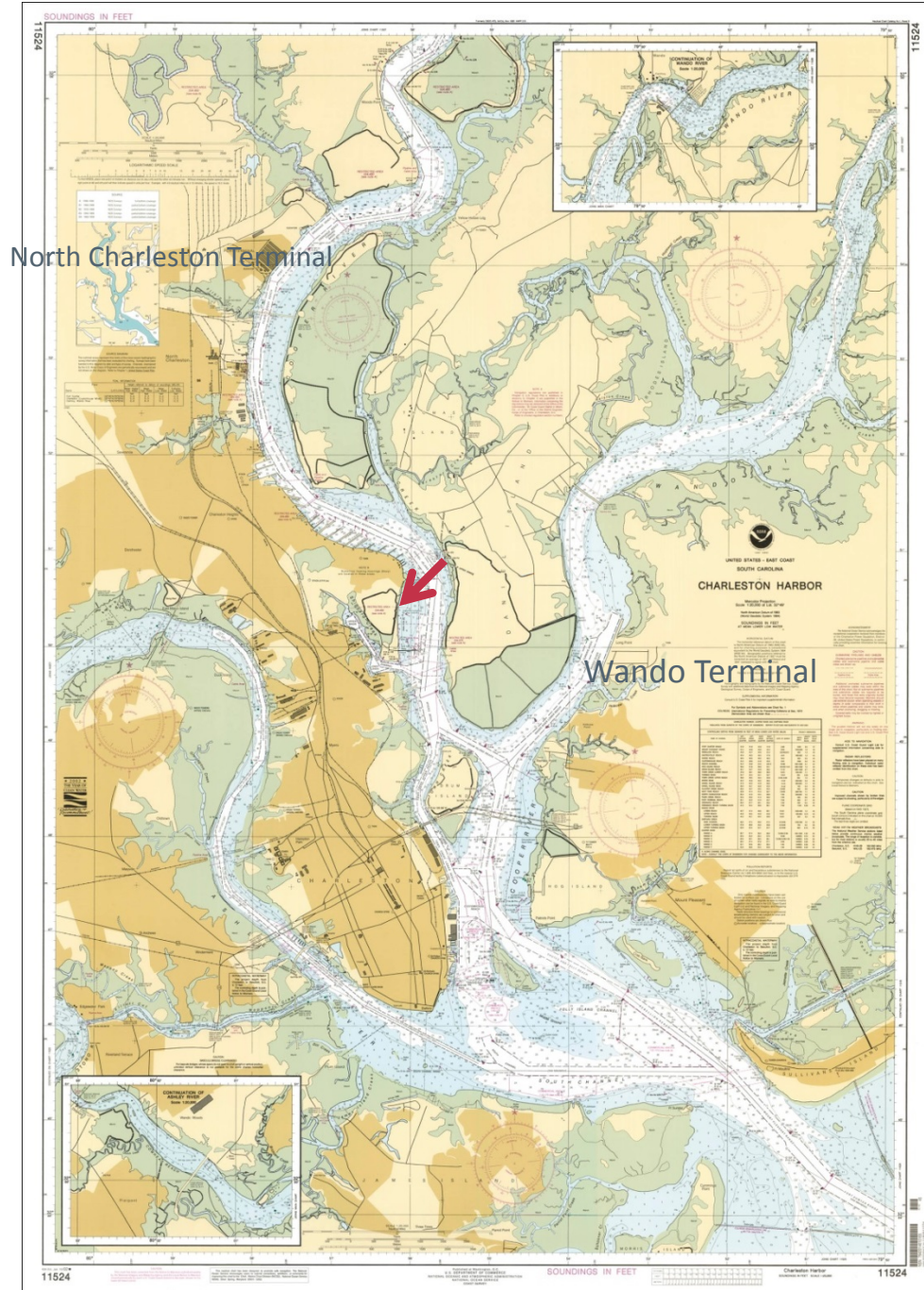
CHARLESTON HARBOR, COOPER RIVER AND SHIPYARD RIVER
TABULATED FROM SURVEYS BY THE CORPS OF ENGINEERS- SURVEYS TO MAR 2011

NAME OF CHANNEL	CONTROLLING DEPTHS FROM SEAWARD IN FEET AT MEAN LOWER LOW WATER (MLLW)				DATE OF SURVEY	PROJECT DIMENSIONS		
	LEFT OUTSIDE QUARTER	LEFT INSIDE QUARTER	RIGHT INSIDE QUARTER	RIGHT OUTSIDE QUARTER		WIDTH (FEET)	LENGTH (MILES)	DEPTH MLLW (FEET)
ENTRANCE CHANNEL	45.2	48.5	48.4	46.1	3-11	1000	17.5	A47
MOUNT PLEASANT RANGE	45.6	49.0	49.5	49.1	12-10	1000-600	1.8	A45
REBELLION REACH	46.6	48.7	49.0	47.4	12-10	600	1.6	45
BENNIS REACH	45.7	48.5	48.3	47.9	12-10	600	1.5	45
HORSE REACH	50.3	50.6	49.6	45.3	12-10	VARIES	0.6	45
CUSTOMHOUSE REACH	35.0	49.0	46.0	47.0	4-10	1385	0.2	45
SOUTH CHANNEL	25.0	25.0	25.0	B25.0	10-96; 11/10	600-1000	3.6	45
HOG ISLAND REACH	47.6	47.6	46.6	B39.6	12-10	800-600	1.6	45
DRUM ISLAND REACH	44.8	49.6	46.7	45.7	9-10	1200-600	0.8	45
TIDEWATER REACH	36.1	34.0	34.2	34.2	12-10	650	0.7	40
TOWN CREEK LOWER REACH	37.0	42.0	44.3	45.0	12-10	450-400	1.1	45
TOWN CREEK LOWER REACH TB	38.5	38.9	38.9	37.4	12-10	300	0.25	35
TOWN CREEK UPPER REACH	40.6	40.1	40.1	39.1	12-10	250	1.0	16
MYERS BEND	49.7	48.7	47.8	41.8	9-10	900-1500	0.5	45
DANIEL ISLAND REACH	44.7	45.5	43.9	37.9	9-10	880	1.4	45
DANIEL ISLAND BEND	49.0	50.4	51.2	49.8	9-10	800-700	0.5	45
CLOUTER CREEK REACH	46.8	48.2	48.1	45.5	9-10	600	1.3	45
NAVY YARD REACH	45.0	48.6	47.7	41.1	9-10	600-700	1.1	45
NORTH CHARLESTON REACH	46.8	49.4	48.0	47.0	9-10	500-600	1.0	45
FILBIN CREEK REACH	45.5	46.7	49.3	48.4	9-10	500	0.9	45
PORT TERMINAL REACH	44.5	46.0	48.8	47.4	9-10	600	0.7	45
ORDNANCE REACH	37.1	36.9	42.2	43.0	9-10	600	0.4	45
ORDNANCE REACH TURNING BASIN	44.8	35.7	35.7	32.8	9-10	800	0.4	45
WANDO RIVER								
LOWER REACH	45.8	47.8	48.0	43.2	9-10	1500-400	1.4	45
UPPER REACH	47.7	43.1	42.7	43.5	9-10	850-600	0.9	45
TURNING BASIN	43.3	48.1	48.1	47.0	9-10	550	0.4	45
SHIPYARD CREEK								
MAIN CHANNEL	26.8	28.2	28.2	24.6	2-11	1200-200	1.1	45-30
LOWER TURNING BASIN	48.6	47.9	47.9	46.0	2-11	VARIES	0.2	45
UPPER TURNING BASIN	14.0	20.7	20.7	19.6	2-07; 5-10; 2-11	VARIES	0.1	30
COOPER RIVER								
RANGE A	39.0	39.7	38.7	37.9	7,8-98; 10-03; 3-10	400-1360	1.2	35
RANGE B	18.6	23.1	35.1	33.5	12-96; 10-03; 3-10	VARIES	0.9	35
RANGE C	20.6	C24.6	38.9	36.5	12-03; 3-10	VARIES	0.9	35
RANGE D	29.8	29.5	29.0	26.4	3-10	VARIES	0.7	35
RANGE E	31.1	36.6	38.0	35.8	3-10	VARIES	0.4	35
RANGE F	25.0	35.3	37.5	34.6	1-95; 3-10	VARIES	0.3	35



CHARLESTON HARBOR DEEPENING 52'

- 2011 USACE determines federal interest
- 2012 SC General Assembly sets aside \$300M for project
- 9/14/2015, Final Approval by ACE
- 12/16/2016, “Water Infrastructure Improvements for the Nation Act” passed
 - \$231M federal funding
- 1/3/2017, USACE finding of no significant impact
- Completion anticipated end of decade



North Charleston Terminal

Wando Terminal

HUGH K. LEATHERMAN SR. TERMINAL

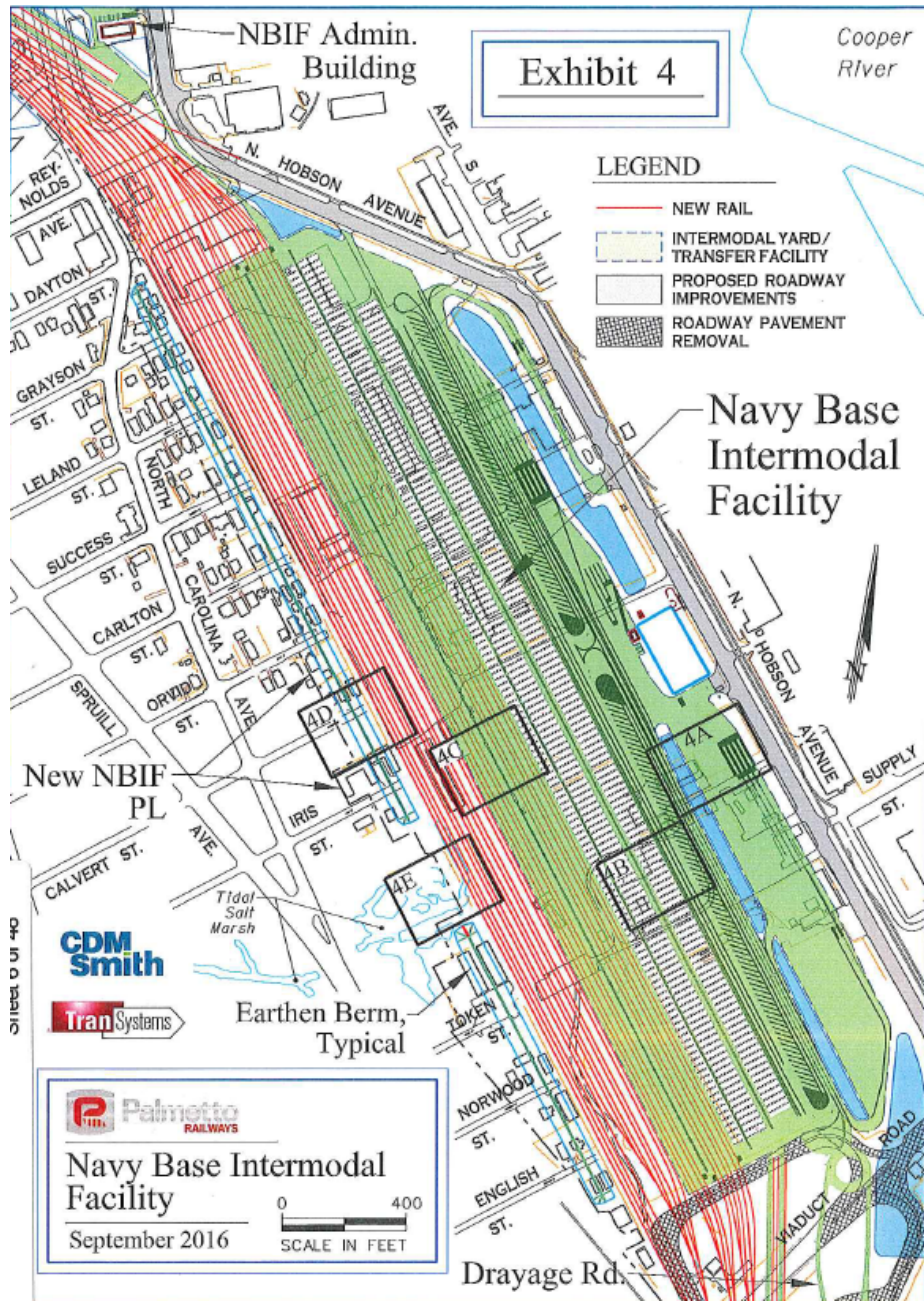
- Permitted 2007
- Construction underway
- First phase operational 2019

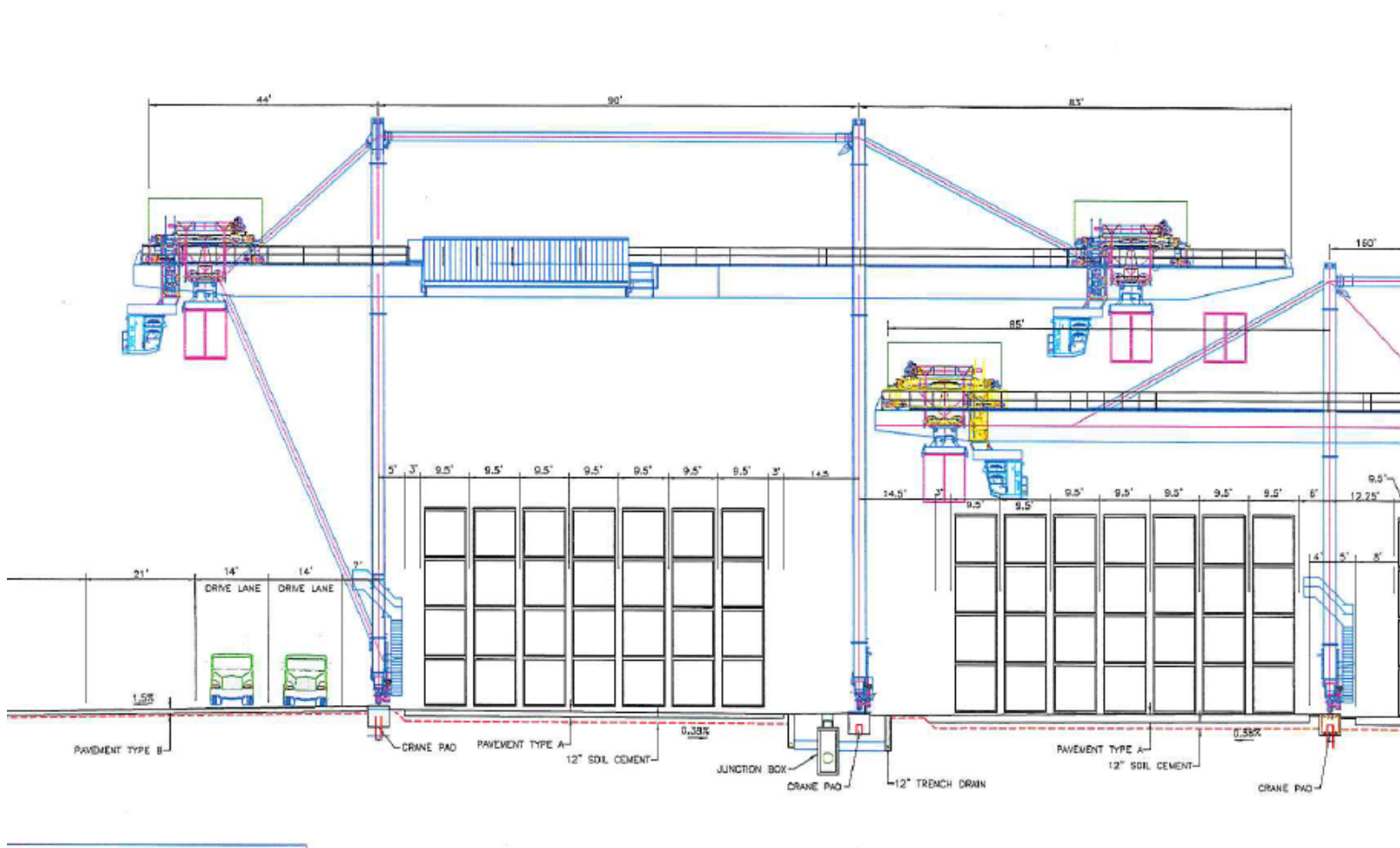


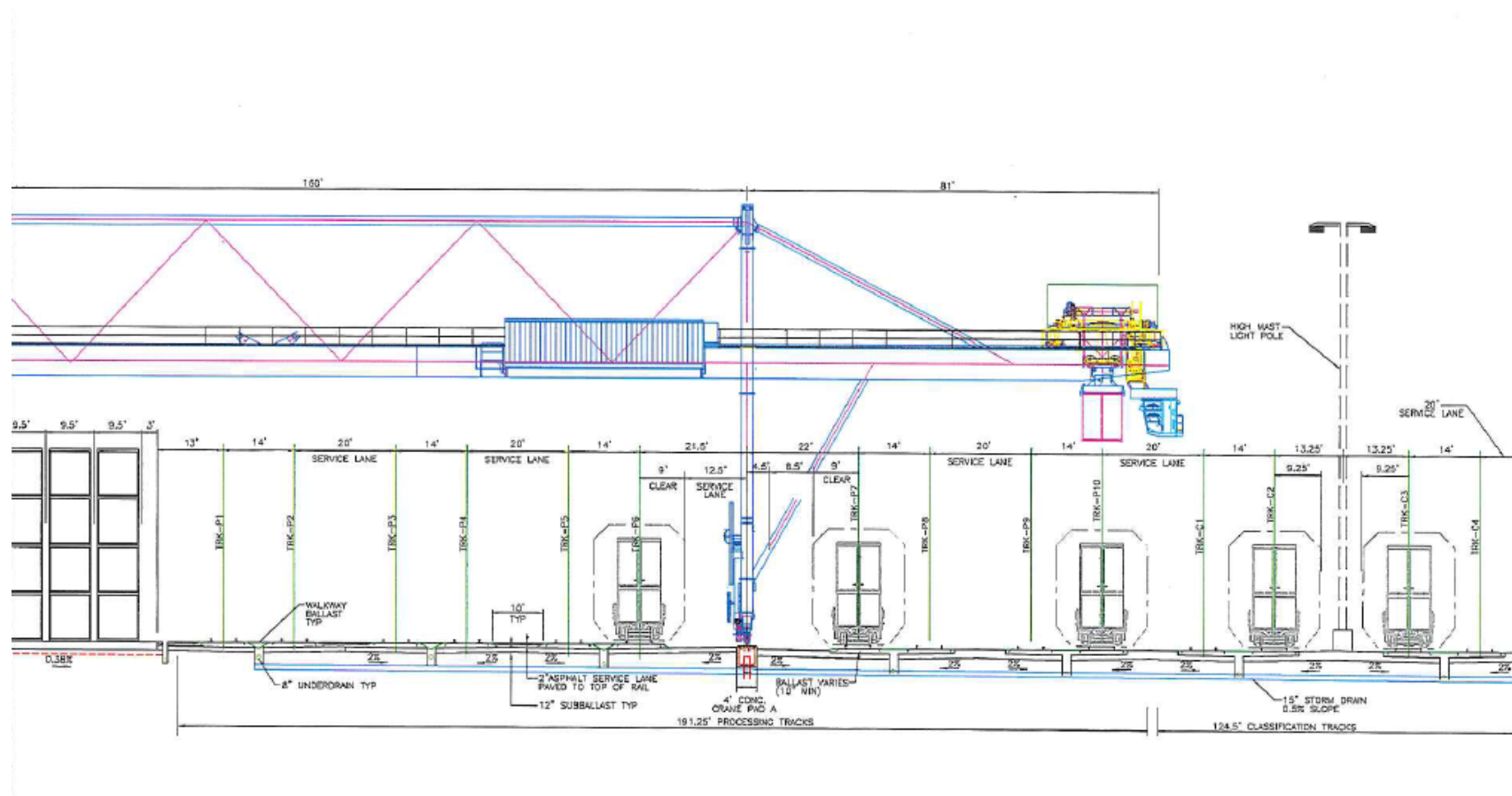


Navy Base Intermodal Facility





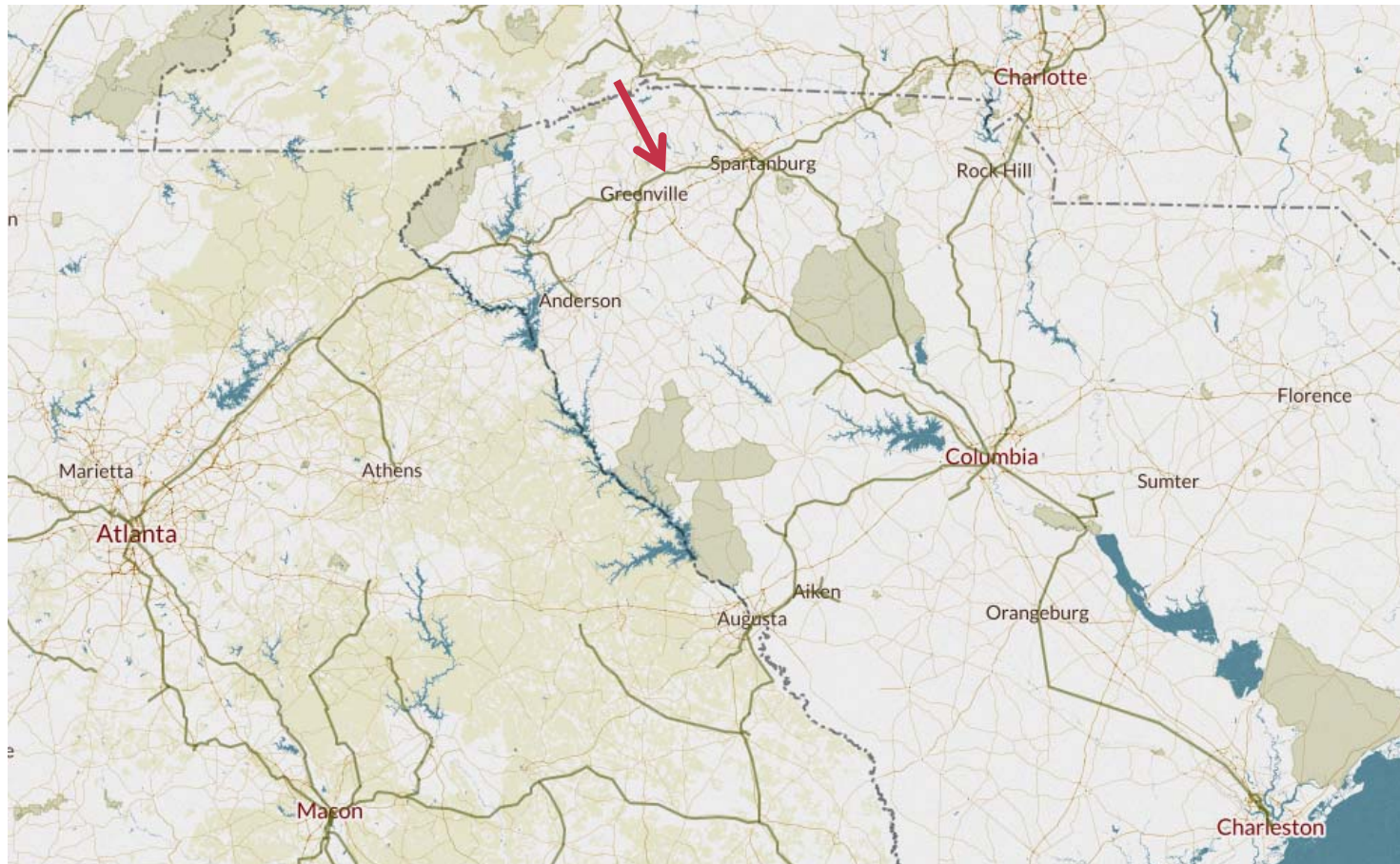




NAVY BASE INTERMODAL FACILITY

- USACE Public Notice 10/19/2016
- Comment Expiration Date 11/16/2016
- Final EIS expected March 2017
- Completion expected 2018

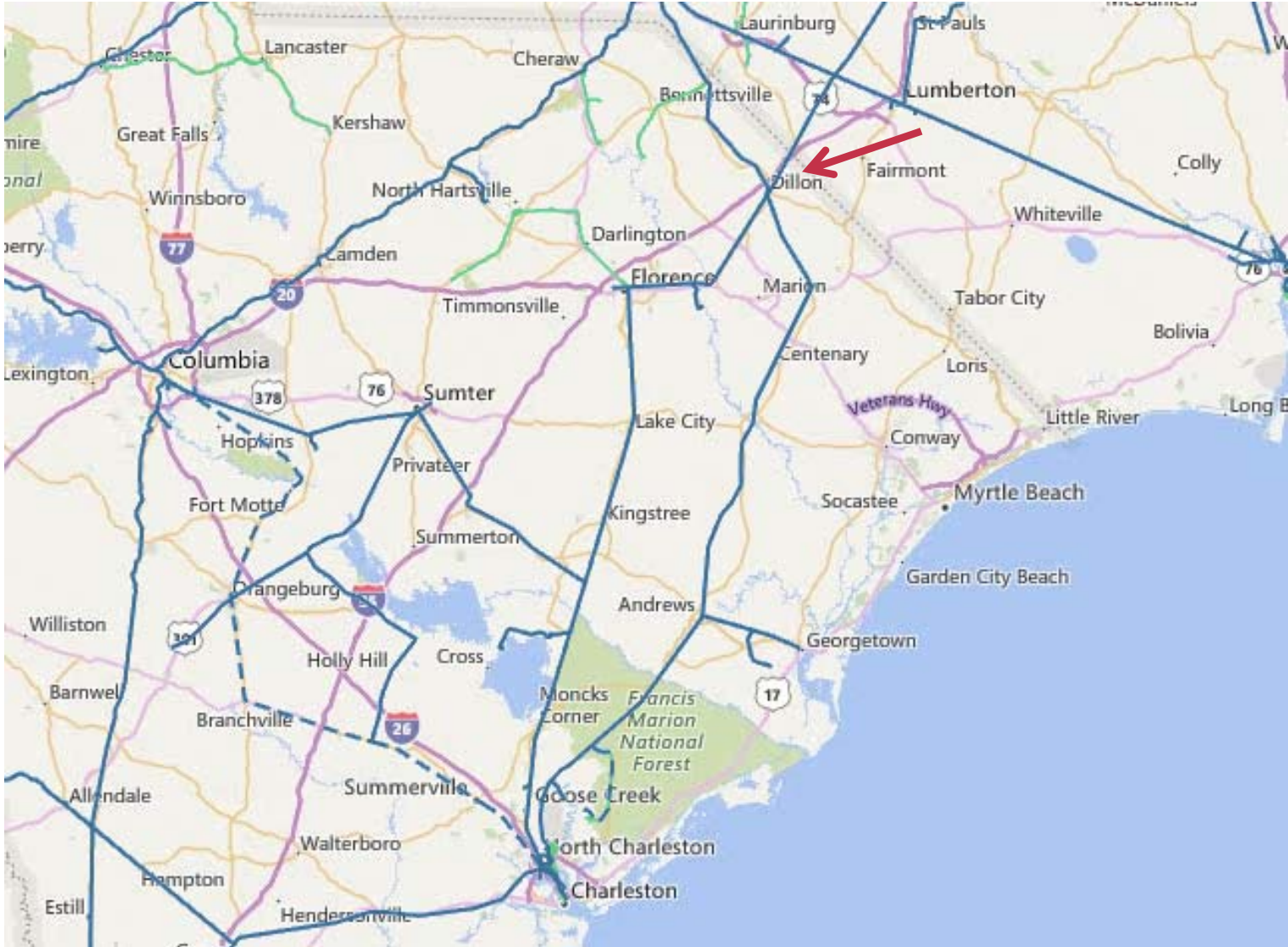
Inland Port, Greer SC





INLAND PORT DILLON SC

- Ground broken March 10, 2017
- Opening expected 2018



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HOW THE NEW ADMINISTRATION'S TRADE AND COMPLIANCE POLICIES COULD AFFECT YOUR BUSINESS

By Stacy J. Ettinger and Steven F. Hill

TRUMP TRADE POLICY OBJECTIVES

- **Guiding principle** - Expand trade in a way that is freer and fairer for all Americans
- **Every action with respect to trade will be designed to –**
 - Increase U.S. economic growth
 - Promote job creation in the United States
 - Promote reciprocity with our trading partners
 - Strengthen U.S. manufacturing base & ability to defend ourselves
 - Expand U.S. agricultural & services industry exports
- **Focus on bilateral negotiations** rather than multilateral negotiations
- **Renegotiate and revise trade agreements** when U.S. goals are not being met
- **Reject the notion that the United States should**, for putative geopolitical advantage, **turn a blind eye to unfair trade practices** that disadvantage American workers, farmers, ranchers, and businesses in global markets

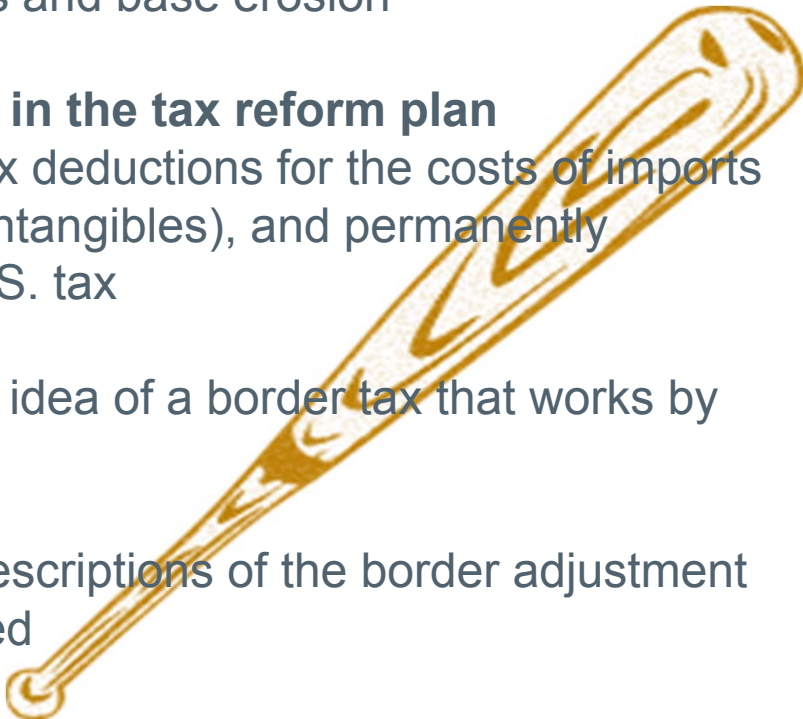




TOP FOUR PRIORITIES

- 1. Defend U.S. sovereignty over trade policy**
- 2. Strictly enforce U.S. trade laws**
- 3. Use leverage to open foreign markets to U.S. exports, and protect and enforce U.S. intellectual property rights**
- 4. Negotiate new and better trade deals**

IMPOSITION OF NEW TAXES ON IMPORTS

- Key part of House Republican tax reform plan is a **border adjustment tax**
 - The border adjustment tax (“BAT”) is intended to **stimulate U.S. economic activity**, and deter corporate inversions and base erosion
 - The BAT is a **principal revenue offset in the tax reform plan**
 - It works by permanently denying tax deductions for the costs of imports (including products, services, and intangibles), and permanently exempting sales of exports from U.S. tax
 - The Administration also has floated the idea of a border tax that works by imposing a tax on imports
 - To date no legislative text or detailed descriptions of the border adjustment tax or the border tax have been released
 - President Trump’s engagement on tax reform will be important in deciding the fate of the border adjustment tax and larger tax reform
- 

CHINA FLASHPOINTS & REACTION

- Steel and aluminum overcapacity
 - Dumped or subsidized imports causing economic harm to U.S. industries
 - Unfair competitive behavior by state-owned enterprises
 - Currency manipulation
 - Barriers to investment, in-country operations, and market access
 - Theft of intellectual property and American trade secrets
 - Foreign direct investment
 - Cybersecurity

 - **U.S. companies operating in China may face higher scrutiny**
 - **U.S. companies may be subject to regulatory harassment, including –**
 - Customs and tax audits
 - Antitrust and anticorruption investigations
 - National security threat accusations
 - Delays in processing licensing applications
- 

NAFTA - TRADE BARRIERS ELIMINATED

NAFTA came into effect on January 1, 1994

- **Eliminated tariffs and non-tariff barriers** on goods produced and traded within North America
 - Kept tariffs on certain agricultural products (e.g., Canadian tariffs on eggs, dairy and poultry products; U.S. tariffs on sugar, dairy, peanuts and cotton)
- **Set rules of origin** to determine which goods get duty-free treatment
 - 62.5% for autos, light trucks, engines & transmissions; 60% for other vehicles and auto parts
- **Liberalized trade in services**
 - Exceptions include provision of telecommunications services, maritime shipping (United States), film & publishing (Canada), and oil & gas drilling (Mexico)
- **Removed investment barriers**
 - Mexico reserved the right to prohibit foreign investment in its energy sector
- **Created dispute settlement mechanisms** for investment & trade
- **U.S. trade with NAFTA partners** tripled since agreement took effect
 - In 2015, U.S. goods and services trade with Canada totaled \approx \$662.7 billion
 - In 2015, U.S. goods and services trade with Mexico totaled \approx \$583.6 billion



NAFTA 2.0 → WHAT'S ON THE TABLE?

- **Country of Origin** → Raise content requirements & eliminate loopholes
- **Dispute Settlement** → Eliminate trade & investor-state mechanisms
- **Buy American** → Eliminate waiver for Mexico and Canada
- **Border Security** → Strengthen southern US border by building “the wall”
- **E-Commerce** → Update NAFTA to include rules, using TPP as a model
- **Services** → Eliminate obstacles to services (e.g., express delivery) exports
- **Energy** → Eliminate energy proportionality clause
- **Regulatory Cooperation** → Promote transparency & regulatory compatibility
- **Currency Manipulation** → Create binding rules, subject to trade sanctions
- **Labor Mobility** → Increase versus restrict labor mobility
- **Remittances** → Tax versus ensure free flow
- **Customs** → Simplify paperwork & raise shipment value thresholds
- **Border Infrastructure** → Improve infrastructure to facilitate cross-border trade
- **Labor & Environment** → Strengthen provisions & include in NAFTA 2.0



IMPACT ON THE STATE ECONOMY? ARE YOU ON THE MENU?

- State relies heavily on foreign investment, exports and shipping
- Administration policies, actions & tactics: collateral damage to the state economy?
- Vulnerable industries include vehicles, tires, aerospace, machinery, rubber, plastic, pulp and paper, chemicals, textiles, shipping
- Negotiations create unpredictability which disrupts supply chains
- Tighter NAFTA rules of origin limit content from outside North America
- Rhetoric & actions have chilling effect on foreign direct investment
- Focus on Buy American jeopardizes government procurement Ks
- Border adjustment tax raises shipping costs
- Exporters vulnerable to retaliatory measures by trading partners



EXPORT CONTROLS & SANCTIONS

Where are we?



(Yes, this is the other shoe)

CURRENT PICTURE

- **Trump team not in place**
- **Treasury Department – Enforces U.S. economic sanctions laws (including OFAC)**
 - Steve Mnuchin, Secretary
 - No one in place below him in critical positions
 - Deputy Secretary of the Treasury
 - Under Secretary of the Treasury for Terrorism and Financial Intelligence
 - Director, Office of Foreign Assets Control
- **Department of Commerce – Enforces the U.S. Export Administration Regulations (EAR)**
 - Wilbur Ross, Secretary
 - Waiting to fill subordinate positions
- **These are wonky laws, and require specialists to understand and make appropriate changes**

IRAN – WHAT NEXT?

- **January 2016** → Joint Comprehensive Plan of Action (JCPOA) aka Iran deal formally implemented by deal parties including the United States
 - Nuclear-related sanctions dropped
 - General License H permits foreign entities owned/controlled by U.S. persons to engage in Iran-related transactions
 - “Secondary” U.S. sanctions scaled back, but “primary” sanctions on U.S. companies and persons remain
- **Trump the Candidate** → Deal “incompetently negotiated,” vows to tear it up
- **Trump the President** → Probably not so fast – why?
 - U.S. likely to go it alone if it backs out of deal
 - U.S. companies and their foreign subsidiaries benefiting from deal (e.g., \$17b deal for Boeing airplanes)
 - Most objectionable parts of deal (e.g., unfreezing and transfer of cash Iranian reserves) cannot now be undone
 - Iran appears to be complying with deal – Might be better able to keep a check on Iran with deal in place, rather than without deal through renewed U.S. sanctions
 - Trump nominees for State, Defense and CIA all stated desire to keep and enforce deal

IRAN – WHAT NEXT?

- Iran deal stays – for now
- What we might see for the near-term
 - Strict enforcement of obligations under JCPOA and ballistic missile sanctions
 - Where Iran is said to have violated parts of JCPOA or ballistic missile sanctions, respond with targeted sanctions (e.g., SDN designations)
 - Stepped-up enforcement of remaining “secondary” sanctions on Iran (e.g., sanctions for engaging with IRGC and its affiliates and other Iranian SDNs)
 - Reinterpretation of guidance to broaden sanctions prohibitions (e.g., adjusting downward the 50% threshold for Iranian government-owned entities)
 - Shift of OFAC policy away from licensing transactions in line/consistent with JCPOA (e.g., commercial aviation)
 - No more encouraging non-U.S. banks to reengage with Iran



IRAN – WHAT NEXT?

- OFAC’s “snap-back” guidance
 - Amendment to Iran FAQs (Dec. 2016)
 - Unusual in that it presumes what would be U.S. policy in the event of snap-back of US sanctions (could, of course, be further amended by OFAC under Trump)
 - Would not retroactively impose sanctions for past transactions
 - No grandfathering of contracts entered into prior to snap-back
 - Would permit a 180-day period to wind down operations that would not be permissible post-snap back
 - Would permit non-U.S. persons to receive payment under written contracts for goods or services provided prior to snap-back, assuming activities were consistent with sanctions in effect at the time



RUSSIA – WHAT NEXT?

- **Where are we?** → Patchwork of sanctions measures imposed piecemeal since early 2014
 - SDN designation of various Russian Ukrainian officials, individuals and entities linked to situation in Ukraine
 - More limited “sectoral” sanctions targeting entities in the Russian energy, financial and defense sectors
 - Crimea sanctions – Comprehensive embargo similar to Iran, Syria etc.
 - EU and other US allies have imposed their own sanctions that are similar in scope to U.S. sanctions
 - Cyber-related/election interference sanctions (December 2016)



RUSSIA – WHAT NEXT?

▪ Roll-back in Russia sanctions? Not so fast

- Top Trump foreign policy personnel have been critical of Russia and supportive of continuing sanctions measures
- Political situation in DC may practically prevent Trump from taking any bold action on Russia
- Scaling back sanctions may be at odds with EU allies
- “Countering Russian Hostilities Act of 2017” – Bipartisan bill introduced in Senate that would codify Ukraine and cyber-related sanctions against Russia

WHITE HOUSE

Trump tells Ukrainian politician he won't lift Russia sanctions

The president appears to take a harsher stance on Russia in an unusual private meeting.

By **KENNETH P. VOGEL**, DAVID STERN and **MICHAEL CROWLEY** | 02/03/17 06:27 PM EST |
Updated 02/03/17 07:00 PM EST



Politico, Feb. 3, 2017

THE OTHER HOT (AND COOL) SPOTS



North Korea

- Already subject to comprehensive sanctions
- Likely to see additional sanctions measures if situation accelerates



Sudan

- General License (Jan. 2017) authorizes all transactions previously prohibited under Sudanese Sanctions Regulations
- Sanctions will be terminated July 2017 assuming continued human rights progress by government regime

ACTION PLAN

Monitor developments & timetable



Assess impact on your business



Develop contingency plans



Build regional & industry alliances



Engage with government officials

SPEAKERS



W. Ford Graham

Of Counsel

Charleston

+1 843 579 5645

ford.graham@klgates.com



Stacy J. Ettinger

Partner

Washington, D.C.

+1 202 778 9072

stacy.ettinger@klgates.com



Steven F. Hill

Partner

Washington, D.C.

+1 202 778 9384

steven.hill@klgates.com



Julius "Sam" H. Hines

Partner

Charleston

+1 843 579 5660

julius.hines@klgates.com

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