

WHEN IT COMES TO TRADE, FIRST DO NO HARM

“Laws are like sausages, you don’t want to see them being made,” Otto von Bismarck, the first chancellor of Germany, famously observed in 1880. The master of *realpolitik* was referring to the shady deals and *quid pro quos* that invariably accompany the legislative process, but he could just as well have been speaking about the behind-the-scenes negotiations that produced the global trade agreements that govern imports and exports. We don’t know whether the process is tinged with corruption, but documents from the World Trade Organization suggest that it is a logic-free zone.

At *Music Trades*, we’ve spent a fair amount of time over the two past decades analyzing the trade data compiled by the World Trade Organization. Quantifying trade flows, like Chinese exports of instruments and audio gear to the U.S., or U.S. exports of similar products to Asia and the European Union, provides useful data for calculating the size and the trend lines of the music products industry. Wading through page after page of WTO tables—alternatively a source of frustration due to the “non-user friendly” format and a cure for insomnia—has also given us a working knowledge of variations in import duties levied by different countries and on different products. Let’s just say that the underlying rationale for the differing tariff levels is hard to discern.

In theory, duties are supposed to balance the competing interests of protecting local producers against the benefits of delivering the lowest prices to consumers, while also providing a revenue source for governments. Squaring this theory with reality is another measure. The U.S. levies a 4.9% duty on imported grand pianos, a modest tax that has little or no impact in the marketplace, given the selling price of grand pianos. Five percent, one way or another is not likely to make a difference on a \$50,000 instrument transaction. In the case of wind instruments, where domestic manufacturers could make a stronger case for protection against Asian imports, the duty is only 2.9%. There is virtually no electronic keyboard production in the U.S., yet synth imports are hit with a 5.4% duty. The majority of musical strings and cymbals sold in the U.S. are also domestically produced, yet imports in both product cate-

gories enter the U.S. duty free. If there is an explanation for these differentials, we haven’t heard it.

The Chinese take a much more straightforward approach to duties: they levy a 17.5% tariff on all musical products, from strings and accessories to brasswinds and premium guitars. The policy has consistency going for it, but it doesn’t seem fair, given that Chinese goods enter North America and the European Union at much lower rates. Adding to the sense of inequity, China now ranks as the world’s largest producer of musical instruments and audio gear, and manufacturers there hardly need protection. Are the high tariffs just a revenue grab by the Chinese government? A policy to discourage consumption of imports? The rationale is shrouded in mystery. Nevertheless, the levies continue to grate on U.S. guitar makers and European wind instrument producers. Chinese consumers can’t be too thrilled either, since they’re the ones who ultimately pay the tax.



Because we’ve spent time reviewing only the narrow music segment, we’ve been spared having to make sense of the entire schedule of import duties. The U.S. document runs to 3,472 pages, the Chinese tariff schedule fits in 1,174 pages, and the European Union document is a comparatively modest 921 pages. But, if the disparities in music tariffs is representative of all product categories, we’re not sure which of the following acronyms provides the best summation: LOL!, OMG!, or WTF!

We revisit the arcane issue of import duties because global trade has become a hot-button issue in Washington. Both President-elect Trump and Hillary Clinton campaigned on toughening the U.S. stance on imports, and Congress seems primed to take action. It’s not an issue most spend a lot of time thinking about, but it is very important to the music products industry.

The vast selection of products on display at this year’s NAMM show is the byproduct of an intricate web of global trade relationships. While most of the products carry a country of origin designation, it is more often than not, incomplete. “U.S.-made” guitars include components and woods imported from Asia; French woodwinds incorporate springs made from Swedish steel; and anything digital, most likely has components sourced from all over.

“Leveling the playing field,” is a laudable goal. But, given the complexity of these relationships, not to mention the mind-numbing detail of tariff schedules, getting agreement on what constitutes “level” won’t be easy. The best hope is that those in charge of crafting policy exercise caution and embrace the Hippocratic Oath, and “first, do no harm.”

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