

CALCULATING THE COST OF NEW CITES REGULATIONS

You can't speak out while remaining anonymous. You can't take a lot of risks and simultaneously enjoy a sense of safety. You can't assume a leadership position while striving to be free of responsibility. Most would dismiss these observations as statements of the obvious. However, they could be a revelation to some prominent rule makers who seem blithely unaware that life involves a series of tradeoffs. Specifically, we're referring to the authors of the tough new Convention on International Trade in Endangered Species (CITES) regulations for rosewood that were rushed into place January 1 after just 90 days of deliberation. Prompted by the surging Chinese demand for rosewood furniture, the new rules are intended to put a brake on indiscriminate logging, which appears to be threatening the health of the world's rosewood forests. Yet, based on the breakneck pace of implementation, it would appear that the authors made little effort to weigh the benefits of conservation against the costs the new rules would impose.

To recap, all species of *Dalbergia*, a wood that has long been a staple raw material for the production of guitars, violins, pianos, and even drums, now fall under "Appendix II" of the CITES treaty. The more stringent rating requires that manufacturers must document the chain of custody of all rosewood logs, from the stump to the loading dock, to ensure wood was cut in compliance with all local laws. Furthermore, export licenses are now required for each individual instrument containing rosewood.

As manufacturers and retailers have indicated in our columns, the new paperwork requirements are time consuming, burdensome, and sufficiently ambiguous to inject uncertainty into what used to be straightforward cross-border transactions. There have been numerous anecdotes about production slowdowns caused by difficulty in obtaining rosewood, extra costs associated with securing licenses, and instrument-filled containers languishing on docks awaiting proper paperwork. Anecdotes, plural, are not the same as data, so we decided to try and quantify the impact of the new rules with a bit more precision.

Based on World Trade Organization data, the trajectory of U.S. guitar imports from the time the new rules were implemented on January 1 of this year shows a precipitous decline. Unit imports plunged 19.5% in the first quarter of the year to 426,329 units, versus 529,750 units for the same period a year ago. Instruments more likely to include rosewood experienced an even steeper decline. Acoustic guitars with a value of over \$299 dropped 25.4% to 60,722 units, versus 81,401 last year,

and electric guitars were off by 24.6% to 205,922 units, compared with 273,007 units last year. Entry-level acoustics declined a comparatively modest 8.9% to 159,685 units, most likely because many of them are rosewood-free.

Given that industry sales have been trending up modestly over the past few quarters, and that suppliers are good at managing their inventories, it's safe to pin nearly all the blame for this decline on the new rosewood rules. Production has slowed as manufacturers attempt to develop rosewood substitutes, shipments are being delayed due to difficulties in securing the proper documentation, and the expanded task of compliance is diverting attention away from the basic tasks of building and selling.

Apply an average retail margin to the landed value of the 103,421 fewer guitars imported in this year's first quarter and it indicates that the new rules will cost U.S. retailers about \$60 million in lost sales for the quarter. U.S. guitar makers, who rely heavily on export sales, also felt the sting of the new rules. For the first quarter of 2017, U.S. acoustic guitar exports dropped 27.6% to \$24.1 million, versus \$33.3 million



for the same period a year ago. Electric guitar exports fell 23% to \$39.6 million, versus \$51.5 million last year.

\$60 million in reduced retail sales and a \$21.1 million cut in U.S. guitar exports in a single quarter represent only a part of the difficulties rosewood regs have imposed. Piano manufacturers are facing similar problems, given that small amounts of rosewood are used in action assemblies. The same goes for the drum makers that offer bubinga (a variety of rosewood) shells, and the makers of grenadilla-bodied clarinets (another rosewood species). In addition, many smaller U.S. instrument makers have abandoned the export market entirely, lacking the administrative staff necessary to navigate the license process. Vintage and used instrument dealers have been similarly crimped. As one put it, "getting an export license for every shipment and making sure the recipient has an import license is just too much." Compounding matters, these revenue declines are accompanied by increased compliance costs.

Tabulating the costs associated with restricting the trade in rosewood is not to dismiss the goal of encouraging sustainable forestry. And perhaps extracting tens of millions from a tiny industry is the justifiable cost of ensuring the long-term health of rosewood forests. But given that India, to cite just one nation, strongly dissents from the new CITES rules, arguing that their rosewood forests are well managed and provide productive employment to thousands, we suspect that questions of efficacy and cost didn't factor into the rule making process. If they had, the resulting rules, whatever the specifics, would probably have enjoyed stronger support.

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