

Peterson Institute for International Economics

Thank you for the music! What are tariffs doing to the music industry?

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[00:00:20.26] - Cecilia Malmström

Good morning, good evening, good afternoon, good night, depending on where you are. Welcome to this episode of Tradewinds. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics. We have been talking about tariffs for quite a long time in this series. How are they affecting different regions, different countries? What are they doing to the economy? What are the effects of the global trading system on WTO, et cetera? But now we're going to dig a little bit deeper into the effects of tariffs. How they affect ordinary people, and in one of the most globalized industries that we have, the music industry. Musicians all over the world, whether they are world-famous artists or just friends playing in a band in a garage, they all need instruments fitting to their skills and their budget. The instrument industry is a very finely tuned ecosystem dependent on craftsmanship, mass production, and quite complex value chains. What are the effects on people if exports of instruments are disrupted or subject to much higher prices? This is going— is what we're going to discuss today, and I have a stellar panel including Cullen Hendrix, who is my colleague at Peterson and who has written a lot about this.

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He's also a band player and a keen music lover. We have John Mlynchak, who is the president and the CEO of National Association of Music Merchants, and and Julie Robbins, who is the CEO of EarthQuaker Devices. A warm welcome to all three of you. Colleen, why don't you start a little bit? I think you have told me that the US is the largest consumer market for musical instruments and that 22 million instruments were sold last year. So that's quite a lot. But how important is that relatively to, to the economy overall, and what is happening? What are we seeing? What are the effects of tariffs? Can we see that in the graphs? Can we measure that in the economy? Can you please give us a little bit of a background?

[00:02:34.08] - Cullen S. Hendrix

You have a very nice one. Oh goodness, that's a tall order, but I'll see what I can do. It's wonderful to be here again with you, Cecilia, on Trade Winds. So the musical instrument industry is actually a tiny fraction of global trade. It's only 0.4% and the Overall global market value— John may have better numbers on this— is probably somewhere on the order of \$20 to maybe \$40 billion depending on exactly how inclusive you are in terms of what constitutes an instrument. But as you mentioned already, Cecilia, it's incredibly complex. I mean, a single electric guitar could involve tonewoods from 2 or 3 different continents and metal parts stamped in Asia, magnets for the pickups sourced from China, and then those pickups might be hand-wound in the United States. And then ultimately when that electric electric guitar is all put together, it might be played through an effects pedal, you know, manufactured somewhere like, let's say, Akron, Ohio, right? Now, that doesn't sound like much in the context of the global economy, but it's important to remember that in at least one sense, these are in fact widgets. These are inputs into the global music ecosystem.

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So if you think about recording or streaming or touring, that's already a, you know, \$100 billion industry, and in the next decade may become a \$200 billion industry.. But I'm kind of talking about prices and throwing out large numbers without having established value. I think that what we really should be talking about, in addition to this enormous kind of economic footprint, is the fact that there's a really significant cultural and human impact to this. You know, I said before that they were widgets in some senses, but in other senses, you know, as a player myself, right, instruments are how That's the conduit through which musicians access and interpret the human condition. And it's a context and it's a vehicle through which, you know, consumers, listeners enjoy that. They're identity objects as well. You see this drum over my left shoulder here. I've been playing that drum for 30 years. It was made in the United States. It has hoops that were harvested from a Japanese snare drum that was made sometime in the 1980s. You know, there are 5 or 6 different countries just represented by the items behind me. You know, it's a joke that my musical collection is kind of like a UN cocktail party, right?

[00:04:58.07]

It's noisy, it's multicultural, and it's more expensive than anyone would like to admit. And, you know, for kids, it boosts learning and confidence and creativity. I see that in my own daughter. And it's an international language. There are transnational groups like Yo-Yo Ma's Silk Road Ensemble, or, you know, folk punk weirdos like Gogol Bordello, who recently played in the European Parliament. Gogol has members, I think, from 8 different countries. Countries, including a frontman from Ukraine, right, who's singing and playing alongside a violinist from Russia, right? I think now more than ever, those kind of cross-cultural ties are important. Now,

all of that, I think, is facing some pressure because of the tariffs and generally speaking, global economic uncertainty. So in terms of the latest trade data, which only go through July because of the government shutdown, US exports of musical instruments are down about 8.4% relative to the to the previous trend. Now, that's against 5% general increase in the value of US exports. So if you think about it, there's a pretty significant delta there. And to certain markets, like to China, the only country that really imposed retaliatory tariffs, they're down 27%. But they're down even more in Brazil, down 28% to Brazil, which is a major growth market where US brands have a lot of cachet.

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They're up to the UK and Japan. But those markets, and I think John probably can speak to this better than I can, have somewhat weaker long-term demographics. In terms of growth as potential markets. And so if you take kind of those numbers together, what that's telling you is that in a very real sense, the tariffs and general macroeconomic conditions are hurting US exports more than they're reducing US imports. And that's because of tariffs directly in the case of China. But more generally, it's the macroeconomic uncertainty. For most people, instruments are luxury or leisure goods, right? I'm not a touring professional musician. These are wants. Not needs for somebody like me. And so when economic headwinds hit, people tend to delay purchasing instruments or put off purchasing instruments. That's why there's this enduring pawnshop guitar kind of cliché that's out there. And I think that in part, you know, because US brands are so iconic, they're the most respected and well-known names in this industry, that also makes them easy targets for retaliation. Maybe people are upset, consumers are upset about US tariff policy, but potentially broader US kind of geopolitical stance at this point. So I will stop there and turn it over to the real experts in the room.

[00:07:39.07]

Thank you.

[00:07:40.06] - Cecilia Malmström

Thank you very much. But do you see or do you hear any evidence of sort of consumer boycotting because of that? Is this something you can see?

[00:07:51.13] - Cullen S. Hendrix

No. Well, I mean, it's a little bit harder to see because the consumer market is a little bit smaller. I mean, I do think that, you know, it's more difficult to detect than, say, Canadians not buying

Canadian whiskey. I don't know if there's a similar kind of attitude towards, say, US-made Zildjian cymbals in Canada.

[00:08:09.11] - Cecilia Malmström

Or Coca-Cola in Europe. We see a lot of— Right.

[00:08:11.24] - Cullen S. Hendrix

Or Coca-Cola. So customers have agency. And because these brands are iconic, but also because they're so identified with kind of the US musical culture and US musical art forms, you know, it's very easy to use that as a lever for retaliation against, you know, sort of U.S. policy actions across a variety of domains.

[00:08:37.28] - Cecilia Malmström

Thank you, John. NAMM is an association with, I think, 14,000 members, a members association. Tell us a little bit of how this is affecting your members when it comes to export, when it comes to the consequences of tariffs, as Kellan described it. How do you see it in your daily work?

[00:08:57.20] - John Mlynczak

Thank you so much, Cecilia, and Peterson Institute for having me on Tradewinds. Yes, so NAMM, the National Association of Music Merchants, represents companies who make, manufacture, or sell musical products worldwide. And, you know, so we are an association of both the makers and the retailers who sell these products. So we have insight on both sides there. And, you know, you look at NAMM's membership on the manufacturing side, you know, 50% at least of the companies who manufacture products are based outside the US. And of the 50% who are in the US, they have supply chains all over the world and they export heavily all over the world. And on the, you know, the retail side, we're about 70% US, 30% rest of world. So we have a pretty broad perspective of how this works. I think Cullen said a lot of really good points. I just want to start and pick up something Cullen just said about identity and your question just now about, is there any cultural boycotting specifically like in other markets? Musicians, the identity, your sound, your art form is that instrument, that pedal, that amp, all those components you use. That is part of your identity.

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That's part of a sound. That you create. And I think that drives a lot more of what musicians decide. And I don't think they have a choice, quite frankly, to boycott based on one or another because they want and need what's going to make their art thrive. And I think that's where there's that deep sense of identity. But a couple of things I'll share. First of all, I think one thing we have to recognize with music making, and it's interesting, yes, it's over \$100 billion in touring and live and recording industry, but every single one of those industries rely about a product. And so, yes, \$20 to \$40 billion is probably right, Cullen, depending on how you look at it. But all that market sits on top of like everything, every sound we hear sits on top of that worldwide. I think one thing I've been really clear on, music is a universal, non-threatening cultural import and export around the world. And that's really important because every country, every person wants to play, learn music. It is just a really—it is a universal import and export. And that can be really effective because music is so universal.

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And I think the tariffs and all the policies on trade have a deep impact on that because we rely on music making for so much. And it is part of identity. And yes, it's not a want. But it's not a need, it is a want. But in a lot of ways, you talk to musicians, it is a piece of their life, it's a piece of their belonging. I think that's where these effects get really, you know, unfortunate for musicians. I want to share a little bit about musical products though, just to paint the landscape of our industry and how it may be affected different than other industries. First of all, musical products depend on very specific materials. So our materials, yes, they might need to look a certain way, but they also need to feel a certain way. They need to resonate a certain way. So you can look at whether it's tone woods or metal components or electronic components, or, you know, you go through all the different pieces that make up a particular product, whether it's in the acoustic side, the electric side, etc. The materials we use are very specific. They're in the very, very top percentile of what we need because they not only have to look a certain way and function a certain way, but they have to be tempered and created and they have to resonate a certain way.

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So there's not a lot of room for substitutions. And in the grand scheme of things, we are a mighty industry in sound, but we are a small industry in items and, and dollars. And so there's not a lot of room for substitutions, there's not a lot of room for sourcing a component really quickly or changing when you found the exact piece of what you need to make your product, or the exact piece of 1 out of 90 components you need to make your product. Like, that's not easy for our industry because they're so reliant on very, very, very niche-specific, um, needs for the materials alone, not to mention the techniques. So manufacturing of musical products is based

all over the world, and some of this is because it's been honed over centuries. There are places in the world that have made a certain product for over 200 years. And there's like multiple generations of people that have, that have done that. And you can look at many companies. I, I can name all the, I, I try not to name companies. I'm just gonna be pretty, you know, agnostic here. But, you know, I think those that know music, you know that, you know, whether it's Pennsylvania or Germany or France or there's places in the world where like these same products been made forever.

[00:14:01.22]

And that takes a certain skill. When you're building a musical product, you don't hire someone and say, all right, you're on the factory floor, here's what you do. You'll get trained up in a week, you're independent. I've toured many, many factories. Um, it's sometimes 6 months before someone can be an independent contributor to a musical product, uh, manufacturing, sometimes longer for some of the high-end specialty stuff. People have been doing these jobs 10, 15 years. Um, and they, and they just feel it. They know. So we're, we're so between those two, we're not an industry that can adapt fast. We can't just, oh, move it to America, move it to Malaysia, go out of China. It doesn't happen that way. I mean, it really takes it, you know, decades for, for this to happen. I think that's one, one area that's really important to understand about musical products. The other thing about our market particularly is people start— everyone starts music somewhere, and there's always that entry-level place. And so we're, we're a range of, of products that people start, and they go all the way up to like the highest level. And the amount of education that happens through that determines when they purchase and upgrade and get products.

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The better a musician gets, the more understanding they get, and the more nuanced of tones and sounds that they want. That's when they decide to say, oh, I might need to get this type of guitar now. I need another guitar with this wood, or I need this pedal, or I need this amp, or I need this trumpet now because I understand what a flared bell or this, you know, a lead bead versus a silver solder does to my sound. All these things that we get into. So there, there's a, um, there's a continuum of musician learning. And so we're an industry that is definitely like It's, you know, you look at like a pyramid where like you have the entry level, mid-level, high. We're not a pyramid, we're a swordfish looking up. It's like massive entry level. You need products that people want to try, get into it a little bit, see if they like it, and then you get mid, and then the musicians who are really professional depend on very high-level specialty products. And one of the things that, that the reason that our industry has such a global supply chain and relies on it

is We as an industry, to get that consumer to start and try, they want to— there's a, there's a price point at which a consumer is going to say, okay, I'll try this, I'll give it a shot.

[00:16:19.26]

But when that consumer tries whatever product they want, if that product doesn't function at a level that's going to work for that beginner who doesn't really know what they're doing, then they're going to have a bad experience and they're going to quit music. Tried that, didn't do it, and we lost another musician in the world. So our industry is really, really passionate. And I, I would say this is something special about our industry. Our industry is like vigilant about quality at the entry level because anyone making products at that level knows that that instrument has to function enough to give that person a good experience. And that person doesn't actually know if it's the instrument or them. And so that right there is the biggest driver of quantity of our industry, is, is one of the reasons why we depend on manufacturing anywhere we can, that any, any penny added to the manufacturing process could tip over and create a situation where those people don't want to try instruments or quality is sacrificed. And that's the driver of like entry level and starting our industry. And musicians are incredibly competitive. So like we want all these different variations of instruments and that's, that's another piece.

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So if you look at all those components, You know, this is why our industry particularly, and people that have been, you know, scouring import and export data have flagged musical products a lot in the past, you know, since April 2nd or so, give or take. And they realize the reason our—

[00:17:47.18] - Cecilia Malmström

Liberation day.

[00:17:48.26] - John Mlynczak

Yes, that's right. I forgot I was liberated. The global supply chains, the reason that we have such an interdependent global supply chain is all the reasons I just mentioned. And I just think that's really important to understand that we are so deeply interconnected and any break in any part of that chain, uh, is, is disruptive overall. And so yes, this has been a very disruptive year for the music industry, incredibly disruptive. And I know we'll get into it later, but you know, we'll, we'll, I'll, I'll save this, but I'll just make a point that one of the biggest disruptions is, you know, we're, we're so delicate as far as supply chain because our materials are nuanced in our, in our and our processes for manufacturing are so nuanced, but also we thrive on innovation. This

industry, and I love, love, love, love this industry. I might steal the UN cocktail party joke, Cullen, because I think that's actually the NAMM Show. It's loud, it's multicultural, and it costs more than we'd admit. I think that's actually stealing that from you right now. But, you know, we're a passionate industry that thrives on innovation. And sometimes I'll admit innovation that I don't know who even knows.

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And you see these amazing products that come out at the NAMM Show and it's like, oh, I tweaked this one thing and can you hear it? 2.5K now, there's a little— but we care so much about that. Or I use this new wood and it has— you can hear it in the high frequency, low, whatever. We have such innovation. That's what drives the passion and fuel of our industry and our customers. We haven't been as an industry in offensive passion innovation mode since on or about April 2nd. We've been liberated into defensive mode, trying to just protect the products that we already make. And so there is some effect there that, that is unfortunate, that does affect innovation.

[00:19:40.10] - Cecilia Malmström

We'll come back to innovation because that's a very interesting angle. But if you stick to the supply chain, you said that for obvious reasons you depend on so many countries, on so many different exporters, and you have to put all these pieces together and they are very hard to replace and you cannot move fast. Because this is something that has been built up for a lot of years and you have quite, you know, demanding clients. They know what they want and they want it. So when all this is sort of not working with different tariff lines, with different countries and different products, what has been the effect so far since April? How are the discussions going inside now on the concrete economic effects of this?

[00:20:27.17] - John Mlynczak

Well, what, what the one thing that we see, and this is something that our industry is very sensitive to because we just went through a long pandemic and like had this at a very macro level.

[00:20:37.19] - Cecilia Malmström

Yeah.

[00:20:38.01] - John Mlynczak

Inventory imbalance. When inventory gets wacky, that's an industry term. Uh, it's, I, I use terms musicians can understand. Uh, so an industry gets, when, when in, when inventory gets wacky, that has rippling effects everywhere. And so it's not just— and of course, like pricing, but also availability. And, you know, even down to the retail level, because if you're oversupplied in one area, you're sitting on too much inventory that's not moving. So you're, you're not buying in another area because they're, you know, so there's all these imbalances. And I think that, that creates a lot of troubles, especially because different segments of the industry have different cycles. And, you know, obviously we're a heavy Q4 industry, one, because a lot of musicians are playing a lot of music around the holidays, because that's the biggest time people want, you know, music. But also a lot of people are gifting and buying instruments. And you've got, you know, but the school music market, obviously back to school in August is a really, really big thing. But that actually starts those orders and that ramp up for like all those products. It starts long about March or April, sometimes earlier.

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So you have all these like different cycles that we really have to hit our marks long before to make sure that we're delivering products at a certain time because these products are nuanced. They take a long time to manufacture and get. So these sort of disruptions over the summer, they have ripple effects for a long time. And, you know, a lot of people try to, you know, handle this. So obviously everyone's trying to survive this the best they can, but it, it's, it's been a challenge. And there's also, you know, there's a lot of reasons I You know, as my position at NAMM, I, I can't talk price or anything like that. But I will say that, you know, as, as a whole, our particular industry, like I said before, a lot of our customers are price-conscious customers. And we're an industry that has a tipping point because we are, like Cullen said, a want, not a need for the majority of us hobbyists. For professionals, it's a need. But for most of our, you know, we're a lot of hobbyists, you know, be amazed how many dentists play guitar. Just so you know, there's a lot of dentists out there, which is probably a good thing.

[00:22:55.06]

I want, I'm very, you know, I'm very, you know, so, but as that, you know, there's, there's definitely, there's a fear overall. I'm speaking very broadly here. There's a tipping point where I think there's a fear that our consumer gets, gets priced out. And yeah, so there's an idea of like, you know, bread and gas and all those other things that we, we hear about in the news. But there, there's definitely a tipping point that everyone's fearful of that, like, all of a sudden enough people will say, you know what, I need to wait on my musical aspiration. Or, you know what, maybe I don't buy that other instrument right now, but I'll share something else that's really interesting. Again, I said it before, our industry, our customer, uh, is, is on a learning journey

throughout the, the, the whole path of, of their career. That sort of LTV that people look for, lifetime value or customer value, that's dependent on a learning journey. So not just, oh, inflation, or I'm worried about inflation or threats of inflation or whatever, or gas and or instruments or, you know, pricing might be changed or now's not the time to play guitar, to buy that 17th guitar of the 30 that everyone needs to own in their life.

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But that doesn't mean that person is not playing a guitar. That might be a, you know what, I might put guitar down for a minute or I might, you know, focus on something else. So it's not only like that product journey, but if they, if they stop that identity and that musical journey, we start losing music makers. And that is a— that's more concerning to us overall. And there is an effect here.

[00:24:24.12] - Cecilia Malmström

Might have an effect on the dentist industry as well.

[00:24:27.24] - John Mlynczak

I hope they keep practicing regularly.

[00:24:31.02] - Cecilia Malmström

Julie, you, you run a rather niche product at EarthQuaker Guitar Effects Pedals, but it's, it's a product that you export widely all over the world with a very strong branding. To it. So, and you obviously, well, you'll have to explain that you also are dependent on different components from different parts of the world. How has this affected the tariffs? How are they affected EarthQuaker in your business as a small company?

[00:25:01.14] - Julie Robbins

Thank you so much for your question, and thank you for having me today. So, um, a little bit of background about EarthQuaker Devices. We're a small business. We're located in Akron, Ohio. Myself and my husband Jamie Stillman are the only two owners of EarthQuaker, and we started as a hobby that accidentally turned into a business, um, when my husband had a guitar pedal that broke, opened it up to teach himself how to repair it, and became fascinated by circuits. So that was 20 years ago. Fast forward to today, we have 35 employees, and as I mentioned, we're located in Akron, Ohio. From my office, I can see the former B.F. Goodrich factory buildings. Akron was the rubber tire capital of the world up until the '70s and '80s when all of the

companies— Firestone, Goodyear, B.F. Goodrich— moved their operations either to another state or abroad. And so when I grew up, Akron was, uh, definitely not doing well. So when we started manufacturing, it was important to us to create jobs here in Akron. So we are very vertically integrated in that we do all of our manufacturing here. We have the capabilities to populate circuit boards, machine, paint, and print enclosures.

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We also do all of our own R&D and marketing in-house. And it always would have been cheaper and easier to manufacture overseas, which is more common because there's other areas that are, you know, very skilled in this, where we have learned and taught ourselves how to do this as we went. So in order to make our line of more than 50 guitar pedals, we use almost 1,000 components. It was 961 in one pedal. 1,000 components across our full line. Wow. Here I have a few. So this is, um, our Rainbow machine. This was an iconic Earthquaker Devices release. Really, there was nothing else like this when it came out about 15 years ago. But if you can see on the inside, there's multiple components, many components. So across our line of 50 pedals, there's over 961 individual components. These components originate from over 16 different countries and are comprised of about 35 Harmonized Tariff Codes. So let's just let that sink in. That is a lot to keep track of, right? And that's why I'm saying it would have been simpler to offshore this to an area where we just, we give them the schematics and the bill of materials and they return us a finished product.

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But again, we wanted to have jobs, we wanted to do manufacturing ourselves. A few years ago, we made a significant investment in a state-of-the-art PCB assembly line. We had previously been using some older technology, um, through-hole components and doing soldering using a different method. We used a solder bath, but in the pandemic, the supply chain became incredibly disrupted and these components are no longer widely manufactured. So we found it necessary to adapt, and we invested nearly \$750,000 in this state-of-the-art line, which really sets us up for the future. We also own two buildings here in downtown Akron. We provide benefits above and beyond what is required of us. For example, full coverage health insurance, paid parental leave, vacation and sick time. So what I'm getting at is, you know, we're really trying to do things right. Now, when the tariffs were announced and leading up to it, we had spent a lot of time trying to make sure that we understood the country of origin and tariff code for all of our components because we don't import most of them directly. We buy them from wholesalers which are already located in the US. And they're not required to share that information on an invoice with us.

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It can be found, but you have to do some research. So we build up our database and we're already very good at forecasting inventory and making sure that we have enough inventory to make what we're planning to make. But the complexity just got so much higher trying to figure out, you know, basically we're meeting every week to review the current tariffs and their impact on EarthQuaker, and very rarely is it the same. And it's hard enough for current products that we've already determined the correct price point for those, but for new products to have complete uncertainty, um, around how much they'll cost in the future. So we've really had to be quite nimble and adapt, um, and we've— we're seeing our costs go up drastically. Um, our raw materials costs are going up about 30% they could hit 50% next year. So that's literally thousands of dollars every week that we're spending on a tax that was abruptly imposed on us with no ramp-up time, no, um, no other options. And yeah, very, very challenging. So, um, without even making any price increases, our sales have declined about 10% year over year. But they've declined even larger for export markets.

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So the question you were talking about earlier, have you seen consumer behavior or anything change? We have noticed a change overseas. In Canada, where we've threatened their sovereignty, there's a strong, you know, buy Canadian, and there are Canadian pedal builders that make great pedals. There's actually great pedal builders all over the world. And we're all suffering right now. Um, in Europe, where we've destabilized the security, those consumers are not prioritizing American products or actively boycotting them. And then in other markets where their economies have been impacted, there's just less discretionary income to avoid, you know, luxury products like guitar pedals. So that's just some of the impacts of what we've seen. We've also like essentially implemented a hiring freeze. We've had to pull back on charitable giving. Our research and development is— it's more challenging now to be able to price out future products and do calculations like when you'll break even or return on an investment. Yeah, we spend a lot, a lot of time just trying to navigate a chaotic policy.

[00:31:54.14] - Cecilia Malmström

You testified in Congress earlier this summer as a representative of a small American company who very much focused on exports to talk about the effects of the tariff policy. What were the reactions on this? There were several different companies from different branches, of course, but I guess the idea was to get a view, how is it affecting? And you were very clear on explaining, and that was in the summer, so I guess the effects have been even harder right now as we are approaching Christmas. You were quite clear on explaining to them that this— how this affects a small company, your staff and exports and the costs and so on.

[00:32:34.25] - Julie Robbins

Absolutely.

[00:32:35.11] - Cecilia Malmström

Can you reiterate a little bit for us?

[00:32:38.16] - Julie Robbins

So, um, April, almost as soon as Liberation Day occurred, our sales literally plummeted. We average about 100,000 in orders a week, and we had weeks where we received 10. So we were terrified. And as small business owners, my husband and I have pledged all of our assets, including our house as collateral on the loans that we've taken out for these buildings and this equipment. So if those conditions would have persisted, we could have lost our home just as our two children were in college. So I felt the stakes were very high and felt that it was important to speak out, even though it was somewhat risky to do so. I think some people might think, oh, you could end up alienating half of your customers, as though half of our customers support tariffs. And I would say that's not the case. The process of testifying itself was interesting. I had never been involved in the government that way. It was a great behind the scenes. The meeting ended with Joni Ernst explaining that we just are going to have to endure some pain to get on the right track. But what I don't see is a future where all these components that come from these 16 different countries are going to be relocated to the U.S. It just isn't feasible.

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So, um, and it was somewhat callous of her to say that, you know, some businesses are going to need to go out of business in order to enact this great plan. We did have a huge outpouring of support from our customers. We, um, the second half of May, we had sales that were quite strong, and then we had new releases over the summer that were very successful. So fortunately, we have money coming in the door, and as long as that's happening, we've got a lot of fight left in us. We did get some, you know, negative online comments I would categorize these as uninformed. So for example, they might say, why don't you just manufacture in the US? To that I say, I am manufacturing in the US. They might accuse me of saying you're just assembling in the US. Well, if you get a degree in this type of assembly, it's microelectronic manufacturing. They also might say, just get your components from US sources. To that I would say, there's no domestic manufacturers. I do buy from domestic sources. So my money is supporting companies in the US that bring these products in, assure their quality, and consolidate shipping and things like that.

[00:35:25.13]

Another thing I should mention about EarthQuaker is we offer a lifetime warranty. So we're not always making decisions just on price. We're looking for the best product. Quality in components because we want to build brand loyalty, and that's impossible if our pedals are breaking all the time. So, um, you know, in general, I'm really proud that I spoke out and am pleased with the response that we got and hope to continue educating people about why they're so destructive for small businesses who are manufacturing in the US.

[00:36:02.13] - Cecilia Malmström

Thank you, Cullen. This is, of course, we're talking about a business that is quite specific with very demanding customers. In a way, they know what they want and they want only this. And both John and Julie have been talking about so many countries involved, so many different components, and so many different tariff lines to, to keep track of. And of course, China is a very important partner here, and, and the tariffs have been going up and down and they're changing, and it's a bit volatile if you— whatever you think about about tariff, it's a volatile situation. And of course, small businesses are more affected than others. Is this a pattern you can see when you look at tariffs in general when it comes to trade with China?

[00:36:47.05] - Cullen S. Hendrix

Well, yes, Cecilia, I think you're using the right metaphor there. I mean, we are on a roller coaster. Whether or not you are enjoying that roller coaster is a point of individual taste. But yes, there has been a high degree of uncertainty. So when thinking about the US-China relationship here, I mean, Julie's already pointed out that China is one of the major suppliers of all the intermediate goods, you know, the widgets that are going into the final assembled stomp box or something like that. But it's also a huge source of, I would say, beginner, but also intermediate and even in certain instances kind of more high-end kind of instruments. Instruments now. And because of that, I think it is, it is a market where the US consumer is highly exposed, whether they know it or not, right, because of the role it plays in the intermediate goods. But it's also an area in which I think China, because of these disruptions, it and other, I would say, lower-cost, but potentially, you know, some of the higher-cost producers in Asia are likely to pick up market share. Coming out of this because, you know, as— and this is something that's consistent with other Peterson research and a lot of our discourse, right, is that this is not the 1930s.

[00:38:08.01]

The United States declared a unilateral trade war on many, you know, essentially the rest of the world. The rest of the world did not follow suit. And so to the extent that these tariffs are causing US manufacturers, US exporters, and US brands to lose market share, right, there are going to be some beneficiaries and they might not be the beneficiary— well, let me say that differently. They might be— it might be benefiting exactly right the producers of the country that these tariffs were intended to harm, or at least re-level kind of the bargaining space with. And so I think that that's one area. But then I would also add that, you know, that one of the things that I think that this uncertainty is pushing us into, and maybe John can speak to this as well, and I don't know if Julie, if you guys are dabbling in any of the modeling, but But one of the effects I think that this is going to have, to the extent that the economic uncertainty continues and the tariffs are up and down and hard to keep track of, is it's going to push more people into what is one of the fastest-growing segments of the music instrument and instrument-adjacent kind of industry, which are digital instruments and sample libraries and production software.

[00:39:22.22]

And the reason is, is that for the purposes of trade, those are digital services. And I say this not just because I'm looking at the data. I can tell you that the last time I was recording a project, instead of going to a studio to record live drums, which easily could have run into the thousands of dollars, I recorded and then partially programmed those at home using a piece of software that's actually from your native country of Sweden. And so I think that to the extent that there's increasing uncertainty and consumers are increasingly price conscious for all the reasons that John alluded we may be inadvertently pushing that market more and more in the direction of virtual instruments. Now, from a listener's perspective, that might be fine, but there's a big difference between being able to pull, you know, some MIDI grooves and in the computer create a drum part and all of the years of dedication it took to be able to conceive of that part and to play that part. And also all of the years I spent with other musicians developing lifelong friendships and relationships. That part of the music experience is going to be significantly impoverished to the extent we move out of the physical space and further and further into the digital realm.

[00:40:37.14]

There are benefits too, but I think that that's one of my main concerns.

[00:40:41.23] - Cecilia Malmström

But one area related to this, whether you are moving towards more digital instruments, if I can call them so, but also the existing, I mean, you showed the pedal with a lot of electronics in it,

and I think this is, I mean, there's a lot of metals, there's a lot of rare earth needed in all this industry. As well. And that this, in addition to the tariff, is also something that is heavily affecting trade all over the world. The interdependence that we have from China or from very few producers or owners of these companies. I know you've been looking very much into this. How important is that for the music industry?

[00:41:19.19] - Cullen S. Hendrix

Well, I mean, so we now have a new expanded critical minerals list, which includes things like copper, right? And so if you look behind me, you'll see a lot of copper. And that's what I was going to say.

[00:41:28.25] - Cecilia Malmström

Yes.

[00:41:29.14] - Cullen S. Hendrix

Right. That is used in all sorts of wiring in the internal electronics in virtually all of these kinds of products. You know, it's interesting because the music industry is also a consumer of some of these products that are actually really at the heart of the US-China kind of green tech and related competition. And that's neodymium magnets. Right. So neodymium magnets are increasingly being used in guitar pickups. I think metal players in particular, some jazz guys, but metal players really like the clarity, um, and I guess the low end, um, right, that those are based on neodymium permanent magnets, which were one of the items that was covered by those export controls that were announced by China, and which they've subsequently walked back, at least with respect to the United States. Yeah, right, for now. But also think about, think about, think about the way in which just that, that negotiation, that bilateral negotiation, has provided coverage and potentially, you know, ease supply chain supply chain constraints for somebody like Julie. But that only covers the United States. Producers in the European Union will have to negotiate their separate peace with China. Producers in Indonesia, for that matter, many of which are part of vertically integrated supply chains, are going to have to, right, negotiate a separate peace with China.

[00:42:47.20]

Julie works in a small business. You know, Julie's incredibly capable, but my guess is that she doesn't have a white-shoe trade law firm on speed dial to figure out all of these issues. It's just, it's massively increasing the complexity of doing this business, but also just complying with and understanding the policy landscape. And so, you know, it is, it is interesting that the two areas

I've been focusing on the most recently are these very niche parts of the global economy that enable vast swaths of the, of the, of the global economy downstream. And so they are, they are wrapped up in this and, you know, Section 232s or 301s on all of the metals. I mean, there's tons of copper, aluminum, and then all of these trace materials as well. So you're absolutely right, Cecilia. They're getting pulled into this tech competition, which really doesn't, at the end of the day, have anything to do with musical instruments.

[00:43:40.13] - Cecilia Malmström

Do you feel this as well, John, Julie, on the minerals and on the 232 section, Therese?

[00:43:48.17] - Julie Robbins

All of our pedals are in aluminum enclosures. Closures. Um, so those have recently increased, um, to 50% on top of any other country-specific tariffs. And then a lot of the electronic components that we use would be considered semiconductors, and there's an open investigation into those that we really want to understand that impact before we make any changes with our pricing. Um, so it's, it's really challenging to navigate all that And like Cullen said, no, we don't have outside lawyers to help us navigate all of this. We're a small team. We rely heavily on following institutes like the Peterson Institute to help us decipher what's going on. NAMM has also been holding monthly webinars that talk about the current state of tariffs.. It's really a lot of spreadsheets, a lot of research without having like domestic options.

[00:44:55.23] - John Mlynczak

So, of course, I think you're—

[00:44:58.10] - Cecilia Malmström

yes, John, please. You, how do you feel this? I mean, you're obviously much bigger and with 14,000 members, but still, it must be hard to navigate also for your, your companies and members.

[00:45:12.05] - John Mlynczak

Well, I think, you know, Julie, your story is really, really powerful. And first of all, like, thank you for sharing it because like that, it's, it's, you know, bad. We talked about China and we talked about, you know, Julie, your story. I'll, I'll paint a larger picture of a theme that's very clear here. Let's, let's say that the US is too dependent on China for manufacturing across all industries and there's a threat there and we're trying to solve it. Solve that. You know, obviously there's a lot of

reasons here. For the music products industry, like Julie's company, who is 100% in manufacturing and hiring American workers and paying benefits and doing charitable contributions and buying from US suppliers. Like, if the idea is doing that, you know, we have in our industry particularly, Some of the greatest, the highest quality, the most coveted instruments in the world are made in the United States. And you could look at pedals like that, electric guitars, drums, horns. There are companies in the US that have been doing cymbals, that have been doing this in the US for decades. And they are products that are coveted worldwide. They're also products that are copied and competed with worldwide.

[00:46:29.26]

And so the idea, if you want to prop up US manufacturing and you want to support US, the, the way the policies have played out is making all the cost of the raw materials and all the other components that we just can't get in the US hurting American manufacturers, making the cost of their materials higher is actually hurting their ability to compete abroad. And I think that's what's always really interesting too. There is an absolute effect here where like, yeah, arguably, you know, we— if Julie's making pedals in the US and hiring US jobs, we want Julie to like be able to compete in the US and not have someone else that can go source somewhere else without all the tariffs and components that can get, you know, much lower cost and get products imported. Like, you can see there's, there's probably some reason to have a larger macroeconomic discussion on like maybe there should be tariffs to to level out competition in US versus abroad. I'm not going to posture on that, but I will say what I've seen. These policies are hurting US manufacturers, not only in the US, they're the proportionality of like fully imported products versus US makers that are dealing with Section 232s and IP and all that.

[00:47:42.22]

It's not actually helping. It's not actually helping at all. It's not, it's not, it's not fixing any imbalance that might have existed at all. And also it's hurting the ability to compete internationally. The other piece, and I'm sure Cullen, you have data on this, that's happened maybe coincidentally, maybe it all this has some interconnection, is the domestic market in China has collapsed and it's collapsed big time for musical products due to, you know, political focuses on other things besides music and their shifts in that economy there. So on top of all this, over the past 2 years, it's been happening longer, but it just really happened Chinese domestic market is not a source of as a market anymore. It's been cut in half in the past 2 years of what it was for personal musical products. So now you have this, this push of like tariffs against Chinese products in the US, the domestic market in China. So now what do you expect companies to do? Export to rest of the world. So now this battle is playing out in Europe, it's playing out in Latin America, it's played out Southeast Asia, it's played out in emerging markets.

[00:48:46.22]

Markets where now products are being flooded. So US companies that are the highest quality coveted brands that everyone wants to play an insert brand here instrument and buy it anywhere in the world now have more competition on the rest of the world. It's costing them more to make in the US and import. You have retaliatory tariffs from other countries. So it's not working. I'll just say that. And I'm not here to, I'm not here to say that we shouldn't have tariffs and I'm not here to say that we, we don't have an imbalance and an overreliance of China at all. Like, I think there's a lot of points here that are very fair, but the abrupt sledgehammer policies that are happening are, from what we've seen so far, are not helping US manufacturers be more competitive abroad. They're not helping US manufacturers be more competitive in the United States, and they're only actually creating and so far they've created opportunities in other markets outside the U.S. states for companies fully manufactured abroad to compete more. And that's what we're seeing.

[00:49:53.20] - Cullen S. Hendrix

And can I just add something? I wanted to come back to something that John mentioned earlier, and, you know, insert manufacturer's name here, just to be inclusive. You know, one of the, one of the benefits that U.S. brands get out of a globalized marketplace is that they are able to meet the needs of different consumers at different price points. Okay, right, that, that dentist who's buying that \$10,000 custom shop guitar, they never in a position to even want to do that unless they bought that \$250 version of that guitar. And if I held them up to you and you don't know much about guitars, they would look pretty similar, right? Right, they're able to meet those consumers at the, at that price point and able to offer what are considered, you know, mid-grade instruments in the United States are professional quality in many, you know, less developed countries, right? I mean, and the fact that they're still purchasing those US-branded goods is a sign of just how strong that magnetic pull is of US musical brands. This is an industry that the world wants what the United States has to sell, or at least it did up until very recently.

[00:51:09.02]

And this is sort of an example example, in many respects, of globalization working like the textbooks told us it was going to work. And so it's just mystifying to me that this, this, this cool dynamic sector of the economy is just being thrown on the rocks by these kinds of policies.

[00:51:28.12] - Cecilia Malmström

I wanna— sorry, Judy, yes.

[00:51:30.28] - Julie Robbins

So, you know, as I mentioned, we get our components from about 16 different countries. China comprises approximately 30% of that. In my network of small business owners, manufacturers, I don't know anybody that would be opposed to a cohesive trade policy with some tariffs, but that is not what we have. We have complete chaos that makes it impossible to plan, and you need to plan in order to grow. So it's actually making the U.S. one of the most difficult places to do business. With rapidly changing policies that impact you immediately. No ramp-up period. And I think that's partly due to the conflicting goals of the stated goals of the tariffs, such as can you actually be benefiting manufacturers and bringing manufacturers back, or are you negotiating trade deals with other countries, or are you raising money for the government? I mean, you can't be doing all those things at once. If you really wanted to support US manufacturers, you would really be interested in what manufacturers need, what they think about all this. I can't get my senators to respond to an email. And then you would have a ramp-up period. These tariffs go— you have 2 years to set up production here, and then these tariffs go into effect, something like that.

[00:52:53.20]

But I think it really boils down to this isn't a result of a sound economic policy. Policy. It's a result of an ideology as laid out in Project 2025. So there's, there's no sound economic policy that shows that this will be successful, and I don't think that it will be. It is really going to be very destructive. I think in the next few months we're going to see a lot more fallout. People have been able to, you know, grit their, their teeth and hang on, but it's going to get really rough here very soon.

[00:53:26.16] - John Mlynczak

Yeah, Julie, you make such good points. You know, I think for our industry, and I, you know, I'll, I'll speak on behalf of the music products industry here a little bit. You know, I know some industries have spoken out hard against like no tariffs on that. I think one thing about our industry that I've learned that I am so proud of, we're resilient. We are resilient as, as an industry. And I've talked to so many companies that says, you know what, we do know that Chinese imports have been a threat to U.S. manufacturing in some way. We see that. And as an industry, we definitely want to say, one, the current policies are hurting us. They're hurting U.S. companies' ability to compete in the U.S. and abroad, and they're not effective for our industry. We'll say that loud and clear. But second, we'll also say that we are a resilient industry. We recognize that there are real threats and we welcome a long-term thoughtful plan, and we

will adapt to that, and we will adapt to that and make musical products and create the joy of music-making worldwide, but we need time to adapt to it.

[00:54:28.22]

So if there's a real plan that says we should move manufacturing here, we should do whatever that real plan is, we welcome it. We will adapt to it. We will figure it out. And I just want to be very clear that that's what I'm hearing, and that's our stance. But, you know, tariffs are a tool. They're a tax on imports. They're an economic tool. They're a hammer in a toolbox. There are screwdrivers, there are vice grips, there are all the tools in this toolbox. Show us the blueprint, the construction blueprint of what we're building, and we'll get there. Don't take the hammer out and just beat on stuff for 6 months because we don't know what's building and what's happening. And that's what we see happening right now.

[00:55:07.10] - Cecilia Malmström

What you're asking for was, is what many other companies are asking for as well. Predictability, stability, clear rules, and not this roller coaster and changing all the time. But what you're talking about, how it's affecting your business, how it's affecting the sales, how it's affecting your capabilities to actually figure out all of this with the small staff that you have, Julie, but also for your companies, John, is you can measure this and you can find evidence. It's going up, it's going down, there's statistics. But you mentioned both, all three of you actually, in the beginning innovation. And innovation is more long-term. It's more— you can't really measure that on a long-term basis. And it's also related to the next generation who gets access to these instruments, who can play, who can, who can develop their skills, some of them. And among them, there will be some really good potential artists who can renew and innovate the whole business. And you said that schools are starting to, to— they file their, their demands very early. In the year. Is this something you can see now how the supply to schools are affected by tariffs and what does this do to innovation?

[00:56:24.11]

Anyone?

[00:56:24.26] - John Mlynchak

I can, I mean, I can, I can tell you, yeah, the school, the, it was because of the timing of Liberation Day in April and all that. I mean, it was, it was a really rough summer because schools put in their orders early and those products are generally, you know, created and manufactured based on that demand. And they get on the water to land at the retailer in the

summer so they can be delivered to schools. And so it was, it was really scary for the school market because a lot of these products were on the water in April and May and the pause and all of that. And I, and, and what's amazing about our industry is, and this, the, the, we care so much about that next generation music maker. I know companies that had to sell products for far less than they paid to import them, but they were gonna fulfill their commitment to the school. They were gonna make sure those kids has instruments. That's what we do as an industry. But it, it did have an impact. And so, you know, again, we as an industry can figure this out and we definitely see, especially on the low end, there's serious threats of very low-end products coming in from China and other places on Amazon that, you know, So that's a real threat in our industry.

[00:57:38.14]

So we welcome a comprehensive policy to help, you know, manufacturers in the US compete, but it, it needs to be long-term. I mean, these things are, are over 9 to 12 month planning innovation. You'll go to R&D for, I mean, Julie can speak this, 6 months, 9 months, a year. You R&D, you take it to an artist, you go back. I mean, we are long-term. We welcome, we welcome a long-term thoughtful plan. And I'll just share with everyone listening, I'll just get on my little soapbox. Congress has the power. Your member of Congress, Congress can pass a comprehensive, bipartisan, thoughtful, long-term plan. They have the power to do this. It can be done. And I think at some point it, it, that's, that needs to be where this goes. I mean, that's where we see this. Congress has the power to do this, but they're pretty radio silent on it right now.

[00:58:37.08] - Cecilia Malmström

For the moment, yes indeed. Julie, uh, Colleen, any comments on this? Schools, innovation, next generation? I mean, you're stopping away.

[00:58:46.18] - Julie Robbins

Any, any money that we have for innovation is getting sucked up by these abrupt taxes. I mean, it's really, really challenging to invest more when your costs are going up rapidly and chaotically. So it's, it's very difficult.

[00:59:04.07] - Cullen S. Hendrix

No, I, I, all I would add is the most, the most important \$400 I ever spent in my life was on my first used set of drums and cymbals, and my interactions with music education, in particular marching band. Yeah, you know, dork central, that's fine. Um, that was incredibly enriching for

my life, and I can't imagine the kind of adult and person I would have become without that. About that. And in terms of innovation, you know what Julie and her husband are really good at? Making pedals that make guitars sound crushing or shimmery or strange. I want them doing that. And this is in terms of deregulation. What do I want Julie and, and EarthQuaker doing? I want them innovating and making cool tones. I don't want them spending all their time in regulatory compliance. So there's your deregulation argument argument for why it is that this tariff schedule is counter to our highest aspirations for the US economy.

[01:00:04.16] - Cecilia Malmström

Well, we are at the hour. Cullen, Julie, John, thank you so much for the music. Thank you for your contribution. And thanks for watching.

[01:00:16.07] - John Mlynczak

Thank you.