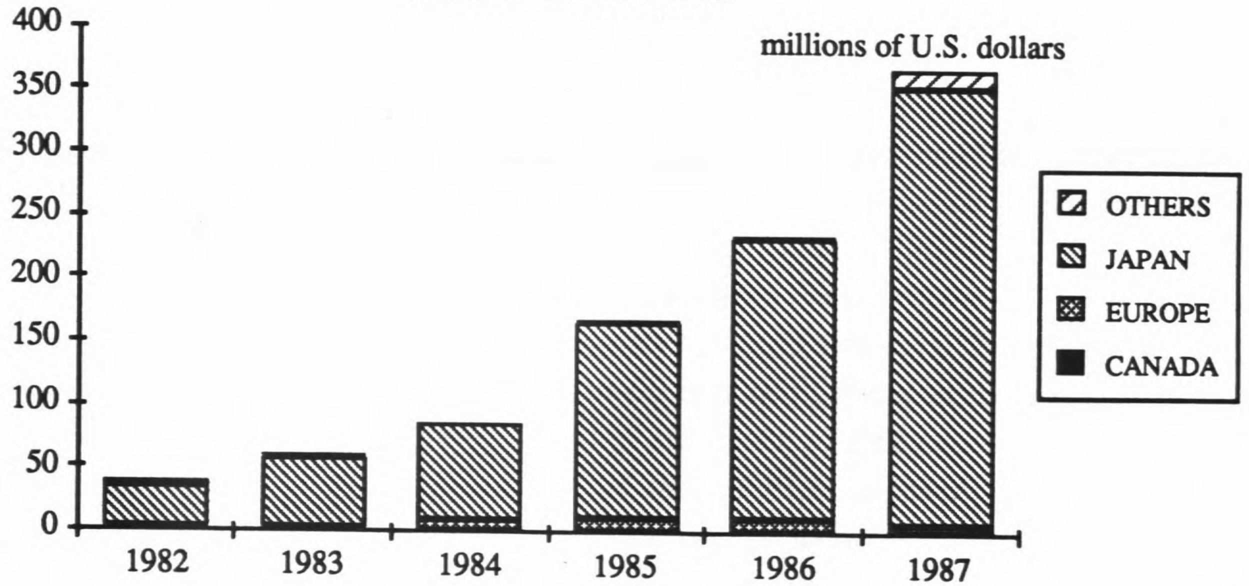
**CHART 1**

**TOTAL U.S. IMPORTS OF ELECTRONIC MUSICAL INSTRUMENTS (OTHER THAN FRETTED STRINGED OR ORGANS) NSPF**

SCHEDULE A 8982560




Source: *U.S. General Imports and Imports for Consumption*, U.S. Department of Commerce.

The devaluation of the U.S. dollar presents an opportunity for Canadian manufacturers to substitute Canadian goods for increasingly expensive imports. Furthermore, the implementation of the Canada-U.S. Free Trade Agreement provides a competitive advantage for Canadian goods as tariffs ranging from 2.5% to 13% are phased out over a five to ten-year period commencing January 1, 1989. Currently, only bagpipes, parts for bagpipes and cymbals are duty free. A full listing of the present tariffs on musical instruments and the schedule for their removal is presented in Appendix 5.

While the realignment of international currencies is making U.S. importers look for alternative sources of supply, the extent to which their requirements can be met from Canada is obviously dependent on Canadian production and competitive capabilities. Production of musical instruments in Canada is carried out by relatively small production companies (by international standards) that mainly produce specialized and/or custom-made products of high quality. In contrast, production of musical instruments in Japan and certain other Asian countries is primarily devoted to high



volume, non-customized product lines which benefit from large economies of scale and, in some cases, significantly lower wage rates than those in North America. U.S. imports from Asian countries have grown rapidly over the last several years and it is expected that even with the lower U.S. dollar, these imports will continue to grow at a somewhat reduced rate.

## U.S. INDUSTRY OUTLOOK

This section is based on the *1988 U.S. Industrial Outlook* published by the USDOC. This information provides a general forecast of short-term prospects and gives an indication of expected trends and developments in the U.S. musical instruments sector. While such information may be of interest, readers should proceed with caution in utilizing the data for the following reasons.

Firstly, although the USDOC is the source of both the "U.S. Imports 1982-87" (summarized above) and the "U.S. Industry Outlook", two different systems of product classification are used. Differences may not be obvious. In some cases, slightly different titles reflect very similar sets of products; in others, similar titles for sectors or product groups encompass a slightly different mix of products. Thus the market forecasts in the "U.S. Industry Outlook" section may cover a slightly different mix of products than the rest of this report.

Secondly, while most sections of the "U.S. Industry Outlook" address the entire sector, others address specific products or product groups. Forecasts made at both levels should be assessed carefully, as they may differ significantly from the prospects of any individual product included within them. It is therefore recommended that outlook data be used only as a general indication of sectoral prospects in the near term.

Apparent U.S. domestic consumption of musical instruments (at manufacturer's price) reached $1.2 billion (U.S.) in 1987, up 7.6% from the 1986 level. In 1986, the retail market for musical instruments exceeded $3 billion (U.S.) for the first time in 40 years. Imports continued to make strong advances at the expense of domestic manufacturers. In 1987, imports of all musical instruments were up 25% from the 1986 level to reach $730 million (U.S.), while apparent shipments by domestic manufacturers to the U.S. market were down nearly 12%, according to the USDOC.