The A-B-C-Ds of Tariff Negotiations

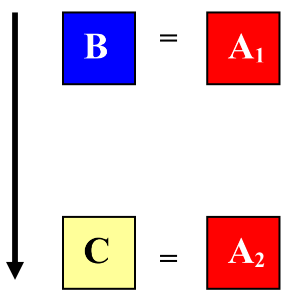
A — **A**pplied rate (A_1 = before a negotiation, A_2 = after), the rate that is actually applied to non-preferential imports

B — **B**ound rate (prior to a new negotiation), the maximum rate that a country can legally apply to imports from countries that receive MFN treatment

C — **C**ommitment, the new bound rate that a country agrees to in a given trade negotiation

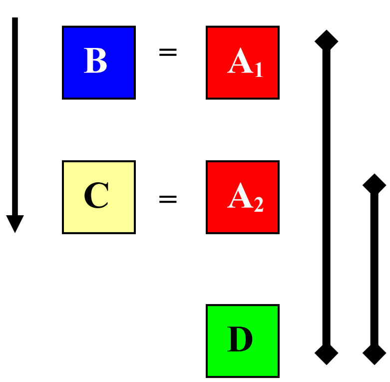
D — **D**iscriminatory rate, a reduced or zero rate that a country applies to imports from certain partners under programs (e.g., the Generalized System of Preferences) or treaties (e.g., a free trade agreement)

Case 1(a)
Idealized Commitment of a Typical OECD Country: MFN Liberalization



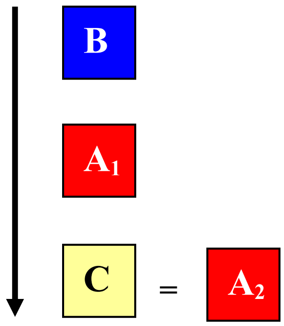
The country applies its tariffs at the bound rate prior to the negotiation, then makes a commitment to reduce its bound rate. Once that commitment takes effect, the country applies at the new bound rate.

Case 1(b)
Idealized Commitment of a Typical OECD Country: MFN Liberalization Leading to Reduced Margins of Preference



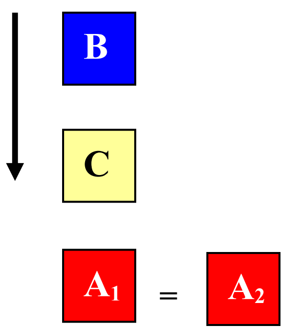
The margin of preference is the difference between the applied MFN rate and the preferential rate available under an agreement or program. Any reduction in the applied rate (e.g., in a multilateral trade agreement) will reduce the margin of preference. (Note that the margin might be preserved, in whole or in part, if the preferential rate was higher than zero prior to the negotiation, and is reduced at the same time as the MFN reduction takes effect.)

Case 2(a)
Idealized Commitment of a Developing Country: MFN Commitments Leading to Real Liberalization



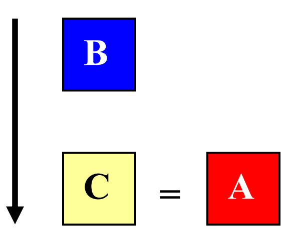
The country's applied tariff prior to the negotiation was below its bound rate (i.e., there was "water in the tariff"). Because it reached a commitment in the negotiation that is lower than the applied rate, it must now reduce the applied rate to a level that is equal to or less than the new bound rate.

Case 2(b)
Idealized Commitment of a Developing Country: MFN Commitments Leading to a Lower Binding



The country's applied tariff prior to the negotiation was below its bound rate. Because it reached a commitment in the negotiation that is still higher than the applied rate, it need not make any change. The only practical consequence is a reduction in the available wiggle room: If the country later raises its applied rate, it cannot raise it as high as it could have before the negotiation.

Case 2(c)
Idealized Commitment of a Developing Country: MFN Commitments Leading to Binding of the Applied Rate



The country's applied tariff prior to the negotiation was below its bound rate. Because it reached a commitment in the negotiation that is equal to the applied rate, it need not make any change. The country can no longer raise its applied rate.

Note that for all of the cases illustrated here it is possible that the country had no bound rate at all prior to the negotiation. The result is similar, only the "B" value is infinitely high.