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## International Trade

### Session 5

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Welcome to the course on International Trade.

The fifth session of the course provides an introduction into the WTO law's two fundamental principles of anti-discrimination: the Most-Favored Nation Principle or in short: MFN and the National Treatment Principle or in short: NT.

The **MFN** prohibits WTO members from discrimination between trading partners. For instance, the EU is obliged under the MFN to apply the same tariff to US and Japanese goods, if it grants a tariff-reduction or any other benefit to US good, it must, **immediately and unconditionally**, grant this reduction or benefit to all other WTO members.

The MFN **does not apply to regional economic integrations**, such as free trade agreements and customs unions, which liberalize substantially all trade among their members.

**Let's have an example** to demonstrate the operation of the MFN. Assume that Brazil launches negotiations with the EU, Japan and the US on the reduction of the tariffs applicable to automobiles. Brazil is ready to halve its tariff, if the three automobile exporting countries promise to decrease the tariff applicable to coffee. Japan, lead by the desire to protect its green tea producers, finds the demand deal-breaking and leaves the negotiations. However, the EU and the US find this an acceptable bargain and enter into an agreement with Brazil. Accordingly, Brazil halves the tariffs of automobiles, while the EU and the US do the same with the tariffs applicable to coffee. After the tariff concessions are executed, Japan demands the same concession from Brazil it afforded to the EU and the US, which, in turn, ardently object to this, arguing that Japan did not pay the price of the concession and now tries to

free-ride on the efforts of others.

Does the most-favored-nation principle apply here? Yes, it does.

The MFN knows no “payment exception”, that is, it is not a valid defense against the MFN that the other states reciprocated the tariff reduction with similar reductions. **The rule of categorical: if a member states grants a benefit to another member, this benefit has to be granted “immediately and unconditionally” to all other members.**

The **NT** applies only **once the import goods lawfully passed the border** (that it, they crossed the border in a legal way and the applicable tariff was paid). In other words, the NT applies to **internal measures but not to border measures**. It **prohibits discrimination between import and domestic goods**.

Please watch the short e-learning video prepared by the WTO on the MFN (“Let’s Talk Most Favoured Nation”). This is part of the WTO e-learning courses prepared for government officials from developing members and observers and is available at <https://www.youtube.com/watch?v=lZZxArfeol8>

This is accompanied with a short e-learning video prepared by the WTO e-Campus on the same subject. Please watch this too. It is available at [https://www.youtube.com/watch?v=Q5\\_Bh-Y48\\_E](https://www.youtube.com/watch?v=Q5_Bh-Y48_E)

Please watch the short e-learning video prepared by the WTO e-Campus on NT (“The National Treatment Principle”). This is part of the WTO e-learning courses prepared for government officials from developing members and observers

and is available at <https://www.youtube.com/watch?v=y1DW-xPGgdI>

At the end of the session, please answer the following questions:

- What in the MFN?
- Does the MFN apply to goods, services and intellectual property alike?
- What is the NT?
- Does the NT apply to border measures?