General Certificate of Education January 2004 Advanced Level Examination



# ECONOMICS EC4W Unit 4 Working as an Economist: The European Union

Monday 26 January 2004 Afternoon Session

In addition to this paper you will require: an 8-page answer book. You may use a calculator.

# Time allowed: 1 hour 40 minutes

# Instructions

- Use blue or black ink or ball-point pen. Pencil should only be used for drawing.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is EC4W.
- Answer the compulsory question.
- At the very start of the examination, tear along the perforations in order to detach the question on page 2 from the extracts.
- The extracts are printed on pages 3, 4, 5 and 6, which can be unfolded.

# Information

- The maximum mark for this paper is 84. This includes up to 4 marks for Quality of Written Communication.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.

# Advice

• You are advised to spend the first 20 minutes reading the Case Study.

# EC4W

Answer the compulsory question.

You may detach this page by tearing along the perforations.

#### **Case Study:**

# THE EUROPEAN UNION

You are advised to spend the first 20 minutes thoroughly reading the Case Study before writing the report. The instructions below set the scene of the Case Study and explain what you should include in your report. The whole report will be marked out of 84, including 4 marks for Quality of Written Communication.

#### Setting the scene

You are an economist working for the Department of the Environment, Food and Rural Affairs (DEFRA) in the UK Government. A new junior minister has been appointed to the department, and will be given special responsibility for dealing with the Common Agricultural Policy (CAP) of the EU. The new minister needs to be briefed on the economic aspects of the CAP and you have been asked to prepare a report for this purpose.

When writing your report, you should make use of the information in Extracts A, B, C, D and E, together with any other relevant knowledge you possess.

#### **Requirements of the report**

You are to write a report entitled: 'Economic Reasons for, and Consequences of, the Common Agricultural Policy'.

Your report should:

- explain why agricultural products are often regarded by governments as products requiring intervention in the market;
- explain what the CAP was intended to achieve, and why it has caused problems such as 'butter mountains';
- evaluate the benefits and the costs of the CAP;
- conclude by recommending reforms to the CAP, giving reasons to justify your recommendations.

Use economic concepts and principles where appropriate. You will be given credit for demonstrating your ability to analyse, comment critically on, and make effective use of the data provided. *(84 marks)* 

# **Extract A: Common Agricultural Policy**

**CAP:** A policy set up by the European Economic Community (now the European Union) to support free trade within a common market and to protect farmers in the member states. The European Commission fixes a threshold price, below which cereals may not be imported into the EU, and also buys surplus cereals at an agreed intervention price in order for farmers to achieve a reasonable average price, called the target price. Prices are also agreed for meats, poultry, eggs, fruit, vegetables and certain other products. The common policy for exporting agricultural products to non-member countries is also laid down by the CAP.

Source: Dictionary of Business (Oxford University Press) 1996

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# Extract B: Common Agricultural Policy (CAP): from creation to the present day

- The Common Agricultural Policy (CAP), originally introduced in 1962, was driven by a strategic need for food security in Europe, which led to a deliberate increase in domestic food production and reduced dependence on imports. Its main mechanisms were market management to remove surpluses and protection for the domestic market through import taxes and export subsidies. As production responded, surpluses became chronic and 5 required increasingly heavy expenditure. This led to friction with other suppliers to the world market, who were not so reliant on subsidy. In some areas, the intensification of agricultural production led to environmental problems.
- 2 The key objectives of the CAP, according to the amended Treaty of Rome, are to:
  - increase agricultural productivity to ensure a fair standard of living for agricultural 10 producers;
  - stabilise markets;
  - assure availability of supplies;
  - ensure reasonable prices to consumers.

countries from Central and Eastern Europe.

- 3 The 'Agenda 2000' agreement (often called the 'McSharry Reforms', after the then 15 agriculture commissioner):
  - represented a significant shift from price support to direct payments;
  - helped reduce the economic distortions of the CAP;
  - will go some way towards helping agriculture meet the challenges of further trade liberalisation;
  - enabled the formulation of an integrated rural development policy, shifting the emphasis from production support to environmental and rural economy measures in the future.
- 4 The UK Government is committed to CAP reform: we are working with EU colleagues and the European Commission (EC) for further reform during the Mid-term Review of Agenda 2000 (scheduled for 2003).
  - The current CAP is not delivering what farmers, the rural economy, or the environment need. Also, it is an extremely expensive policy, and is insufficient to meet the challenges posed by the World Trade Organisation (WTO), and enlargement of the EU to include

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Extract C: Agenda 2000: reform of the CAP

Extract C was a table and an extract of text from *Agenda 2000* about the reform of the CAP.

#### **Extract D: Is real reform now possible?**

There has been a number of 'reforms' of the CAP. Some progress has been made. The CAP 1 accounts for a smaller share of the EU budget (down from two-thirds at one time to around 46%). A start has been made on its trade-distorting effects. There is at least some discussion of its environmental impact. The fact remains, however, that European farmers are still highly subsidydependent and a large proportion of the funds goes to better-off farmers and landowners, so if 5 CAP is meant to be a social policy it fails. It also fails in terms of creating an internationally competitive European agriculture, and has not been reformed sufficiently to take account of the likely consequences of eastern enlargement (without change to the CAP, this would bankrupt the EU budget).

10 At the beginning of the new century, an interesting new set of developments took place which provided a new driver for reform. European citizens have become increasingly concerned about food quality and safety issues. This can be traced to the BSE outbreak in Britain, the dioxin scandal in Belgium, and concerns about 'frankenstein foods' represented by genetically-modified products. The outbreak of foot-and-mouth disease in Britain (and subsequently in France) seems to have reinforced these fears. 15

The latest figures from the Organisation for Economic Cooperation and Development (OECD) on Producer Subsidy Equivalents (PSEs) show that the total value of publicly-funded aid to EU farmers actually rose in 2001 compared with 2000. The PSE includes all forms of assistance to farmers, e.g. tax reliefs, not just direct payments.

Country	PSE (per cent of agricultural income)
Switzerland	69
Norway	67
Korea	64
Iceland	59
Japan	59
European Union	35
United States	21
Canada	17
Australia	4
New Zealand	1

#### **PSE League Table (OECD)**

Source: adapted from Wyngrant's CAP Page, http://members.tripod.com/~WynGrant, accessed 4 October 2002

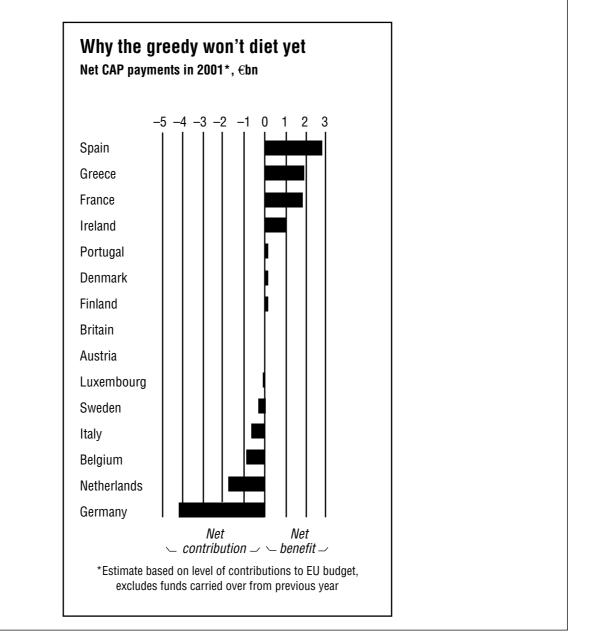
#### TURN OVER FOR EXTRACT E

# **Extract E: Reform? Forget it**

The EU lavishes about €40 billion a year on direct subsidies to European farmers. It is an expensive way to create surpluses, high food prices, environmental damage and harm to poor third-world farmers. In July 2002, however, Franz Fischler, the EU's agriculture commissioner, proposed a shake-up.

He did not propose anything as radical as a cut in subsidies, but he did suggest redirecting the 5 money, by 'decoupling' it from production. Farmers would no longer be paid to over-produce. Instead, they would get flat payments, which would be progressively cut back, the money being redirected towards rural development.

'Would', alas, was the operative word. It has become clear that the big beneficiaries of the CAP would fight to prevent a reform that might cost them money.



Source: adapted from The Economist, 3 October 2002

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