

Answer EITHER Question 1 OR Question 2.

If you answer Question 1 put a cross in this box .

Question 1

Sugar

Extract 1

British Sugar, a sugar processing company, is making millions from a distorted sugar regime that denies developing countries the chance of trading their way out of poverty, according to a new report released by Oxfam. The company is one of ten large European sugar refiners which enjoy a virtual monopoly in their national markets.

- 5 The EU's Common Agricultural Policy rests on three principles: guaranteed minimum prices, import protection and export subsidies.

Guaranteed prices are applied to a quota of sugar which has been set at around 14 million tonnes in recent years. Originally, quotas were designed to ensure self-sufficiency but they evolved to provide price support for a volume of output far in excess of EU consumption. The domestic guaranteed price is usually some three or four times above world prices.

- 10

Import restrictions in the form of tariffs (taxes on imports) ensure that it is difficult for sugar from outside the EU to enter the EU market.

Export subsidies are required to keep the EU sugar surpluses off the domestic market.

- 15 These subsidies are paid to sugar refiners to bridge the wide gap between the domestic and world prices. The surplus sugar can then be exported to countries outside the EU at a competitive price. At present, the EU pays around 525 euros per tonne in export subsidies. In other words, every 1 euro in sugar export sales costs the EU 3.30 euros in subsidies. The effect on developing countries is huge: Brazil loses an estimated \$494 million each year because of these subsidised exports from the EU.

- 20

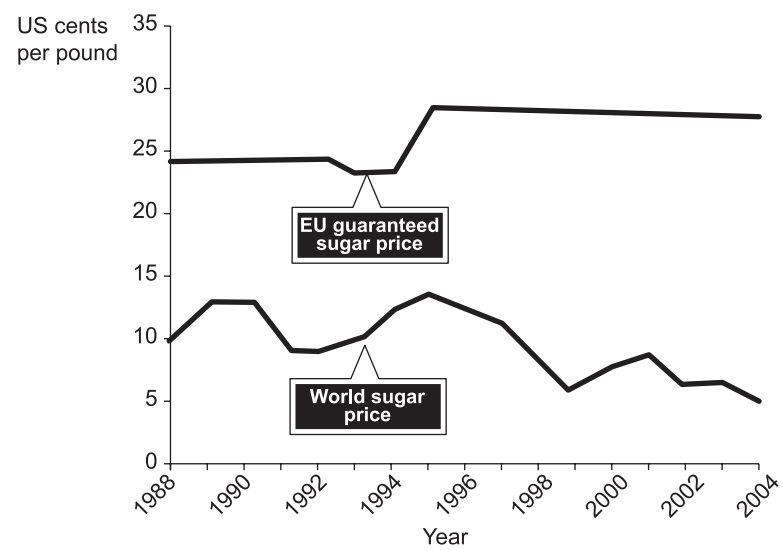
Meanwhile, developing countries are allowed only limited access to the EU market: the total annual quota allowance for 49 developing countries is equivalent to just three days' EU consumption. Three of the world's poorest countries are estimated to have lost \$238 million since 2001 in potential earnings because of these limited quotas.

- 25 However, the EU has promised to lift restrictions on sugar exports from poor African and Asian countries gradually over the next six years. If this happens, the European Commission admits that sugar surpluses from countries such as Mozambique, Malawi and Ethiopia will eventually drive prices down to the point at which most European farmers cannot compete.

Source: © Oxfam, adapted from 'Dumping on the World', *Oxfam Briefing Paper*, March 2004, and © The Guardian, 14 April 2004



Figure 1: EU and World Sugar Price



Source: *The Times*, 14 March 2004

- (a) (i) What is meant by the statement that British Sugar ‘is one of ten large European sugar refiners which enjoy a virtual monopoly in their national markets’ (lines 3 and 4)?

(3)

- (ii) Outline **two** economies of scale that are likely to benefit firms in the sugar processing industry.

(4)





<p style="text-align: right;">(10)</p> <p style="text-align: right;">(Total 40 marks)</p> <p style="text-align: center;">OR</p>	<p>Leave blank</p> <p>Q1</p>



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If you answer Question 2 put a cross in this box ☒.

Question 2

Tobacco

Extract 1: Tobacco Manufacturing in the UK

In 2003 about 5000 people were employed in tobacco manufacturing in the UK, down from 40,000 in 1979, mainly because of increased automation of production. The decline in jobs was about 72% between 1980 and 1993, whereas domestic consumption of cigarettes declined by 22% during that period and exports grew.

- 5 The UK cigarette market is dominated by two companies: Gallaher and Imperial Tobacco, each holding about a 40% market share. The rest of the market is divided between BAT (Rothman brands) with 14%, and others accounting for around 6% of the market.

Source: *www.ash.org.uk/factsheets*

Extract 2: A view from ASH, an anti-smoking pressure group

Tobacco crops are responsible for damage to ancient forests, soil depletion and pollution from pesticides and fertilisers. It is in some of the world's poorest countries that these effects are felt, as over 80% of the global tobacco crop is grown in the developing world. Local producers are often under contract to tobacco companies, who buy cured tobacco at a price they set themselves.

- 5 The costs of tobacco use include:
- indoor air pollution: cigarettes are the main source of indoor air pollution in the developed world. Tobacco smoke contains about 4,000 chemicals, some of which cause cancer.
- 10 • litter: a survey in 1995 found that cigarette ends accounted for about 40% of items of litter on the UK's streets.
- fire hazard: cigarettes and matches are the most common source of ignition causing deaths from fire.
- 15 • health costs: the cost to the National Health Service (NHS) of treating diseases caused by cigarette smoking is approximately £1.5 billion a year. In addition, the state also pays for sickness and other benefits. Further, an estimated 34 million days are lost to British industry every year from smoking-related sick leave.

Source: adapted from *www.ash.org.uk/html/international/html/environment.html*

Extract 3: A view from FOREST, a pro-smoking pressure group

Tobacco tax revenue in the UK currently stands at £7 billion a year compared with the £1.5 billion it allegedly costs to tackle 'smoking-related' diseases. Taxation revenue should be even higher – over £10 billion – but the government has cleverly 'lost' £3 billion by over-taxing tobacco and therefore encouraging smugglers and cross-Channel shoppers to buy the product abroad.

- 5 Nevertheless, these statistics haven't stopped opportunistic politicians and angry anti-smokers from suggesting that smokers should pay a premium to use the National Health Service. It's an interesting idea, but one which would spell the end of the NHS as we know it if it was ever implemented.

Source: *www.forestonline.org*



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(a) Outline **two** reasons that might explain why 'the UK cigarette market is dominated by two companies' (Extract 1, line 5).

(4)

(b) (i) What is meant by the term 'external costs'?

(2)

(ii) With reference to Extract 2, explain **one** external cost of tobacco production and **one** external cost of tobacco consumption.

(4)



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(d) With reference to Extract 3, explain the concept of ‘government failure’.

(4)

Q2

(Total 40 marks)

TOTAL FOR PAPER: 40 MARKS

END

