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| Year 12 Economics ATAR  Unit 3  India's export sugar subsidies | |
| Description of task | Students will read an article titled *“Australia wins case against India's export sugar subsidies at World Trade Organisation”* that describes how the World Trade Organisation (WTO) found India had export subsidies that were prohibited under trading rules and recommended their removal . Students then answer a series of questions related to the article. |
| Assessment Conditions | Students will have 20 minutes to answer all questions.  12 marks in total. |
| Content from the Year 12 Economics ATAR curriculum | **Free trade and protection**  1. identify different forms of protection 2. demonstrate the operation of tariffs and subsidies as forms of protection and their effects on trade and market efficiency 3. arguments for and against trade liberalisation 4. the influence of trade agreements, organisations and blocs on world trade |
| Economic Skills | * Economic Reasoning and Interpretation * Communication |
| Task preparation | |
| Prior learning | Students are familiar with the following economic knowledge and understandings:   1. the significance of trade for the Australian economy 2. sources of comparative advantage 3. demonstrate the gains from specialisation and trade i.e. the theories of absolute and comparative advantage, using the demand and supply model, the production possibility frontier model and/or the concept of opportunity cost |
| Assessment task | |
| Resources | **“Australia wins case against India's export sugar subsidies at World Trade Organisation”** by Melanie Groves, ABC News, and published on 15 December 2021. Retrieved February 2022, from <https://www.abc.net.au/news/2021-12-15/australia-wins-case-against-india-at-world-trade-organization/100682106> |

**Question**   **(12 marks)**

This question refers to the edited extract below, which is from an article by Melanie Groves, ABC News, and published on 15December 2021.

# Australia wins case against India's export sugar subsidies at World Trade Organization

Australian canegrowers have won a [long-running legal battle](https://www.abc.net.au/news/2020-11-30/australian-vs-india-sugar-subsidies-at-world-trade-organisation/12935044)against Indian sugar subsidies, after the World Trade Organization (WTO) ruled in Australia's favour overnight. A WTO panel found India had export subsidies in place that were prohibited under trading rules and recommended their removal. Chair of the Australian Canegrowers, Paul Schembri said it was an encouraging decision not only for Australian cane growers, but any sugar producers around the world that do not receive subsidies.

It has been three years since Australia, along with the Brazilian and Guatemalan governments lodged a complaint with the WTO, accusing India of distorting the global sugar price through subsidies to its farmers.

Australian growers alleged the subsidies caused an abundant supply in the international market, leading to a significant drop in global prices. "In the past three or four years, the world sugar price has been at or below the cost of production, and that has exacted enormous economic damage to the Australian sugar industry." It is not the first time the WTO has ruled in Australia's favour on sugar subsidies.

1. (i) Outline how India’s subsidies on sugar operate as a form of trade protection.

(1 mark)

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(ii) Using evidence from the article, outline why the WTO recommendation to

remove the subsides was ‘an encouraging decision’ for Australian cane

growers. (2 marks)

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1. Describe **two** arguments for trade protection. (4 marks)

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1. Using an appropriate model, demonstrate and explain how the subsidy to assist cane growers will impact the efficiency of the Indian sugar market. (5 marks)

Model

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**Marking Key**

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| **Part** | **Description** | **Marks** |
| (a) | (i) The subsidy lowers costs of production for Indian sugar producers, allowing them to increase output and sell sugar at a lower price to compete against imports.  (ii)   * The sugar subsidies caused an ‘*abundant supply in the international market, leading to a significant drop in global prices*’…...which *“in the past three or four years has been at or below the cost of production”* * The suggested removal of subsidies is encouraging as Australian cane growers were finding it hard to compete with the low prices, leading to unfair competition and claiming they were damaging Australian sugar industry. | 1  1-2 |
| (b) | *Any two arguments for protection, including but not limited to:*   * Increased employment argument * Protection against cheap foreign labour argument * Infant industry argument * Diversification argument * Anti-dumping argument * National Security argument * Favourable balance of trade argument | 1-4  *(2 marks each)* |
| (c) | * Correctly labelled D/S model showing impact of subsidy – supply shifts to right – DWL.   *Explanation*   * Explains the decline of market efficiency by referring to declining total surplus as a result of the deadweight loss and includes a clear reference to the model.   + Supply increases, price paid by consumers remains same, Qd remains same but domestic production increases   + PS increases   + Cost of subsidy to the government outweighs the benefits to producers, thus creating a DWL, decreasing total surplus and making the Indian Sugar market inefficient. | 1-2  1-3 |