



Rewarding Learning

ADVANCED
General Certificate of Education
2013

Business Studies

Assessment Unit A2 2

assessing

The Changing Business Environment

[AT221]

TUESDAY 4 JUNE, MORNING



AT221

TIME

2 hours.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number on the Answer Booklet provided.
Answer the **one** question.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.
Quality of written communication will be assessed throughout the paper.
Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each question or part question in allocating the available examination time.

Study the information and answer the question that follows.

Thales

Source 1: Rollercoaster ride for Thales' profits

Thales Air Defence is an advanced engineering company, located in Castlereagh, Belfast, which is a wholly owned subsidiary of the French parent company of the same name. The main activity of the company is the manufacture of missile defence systems and it describes its main products as the Starstreak missile system and related equipment as well as the production of specialised missiles and the development of a new product within its missile business area. Such weapons and missile systems are sold to national governments across the world.

By 2010, the company had not paid a dividend to its parent company in the previous two trading years, although in earlier years there were significant payments.

- Annual turnover dropped to £73 million in 2006 from its peak of £109 million in 2000
- In 2007 turnover increased to over £96 million and more recently has fallen again
- In 2010, turnover recovered again to £91 million, near to the levels reported in 2007
- Until 2008, the company had consistently reported stable operating profits which in 2008 rose to over 10% of turnover
- During 2009 and 2010 the trading results have been much less favourable. Operating profits have become losses of over £8 million each year
- Average employment has risen slightly from 510 people in 2007 to 522 in 2008, 583 in 2009 and 603 in 2010.

Adapted from © "Rollercoaster ride for Thales' profits" by John Simpson, Belfast Telegraph, 11 October 2011

Source 2: Enterprise Minister recognises success of Northern Ireland aerospace and defence sector

The Enterprise Minister stated that: "Aerospace and defence are strategically important for Northern Ireland in terms of their commitment to advanced manufacturing, innovation, exports and skills. At the core of the local industry are two of the industry's leaders, Bombardier and Thales, the continued growth of which is essential to the future development of aerospace and defence here. I am particularly keen to encourage and to assist the growth of the industry through closer collaboration between these major businesses and the cluster of smaller aerospace and defence companies here.

With the global aerospace market demonstrating real growth during this period of economic difficulty, Northern Ireland is set to increase its export potential and create new jobs".

© Invest Northern Ireland

Source 3: Aerospace, defence sectors give £1 billion boost to economy

A report by the Aerospace/Defence/Security (ADS) trade body claims Northern Ireland's air industry will continue to grow.

- The industry employs around 7500 people
- Northern Ireland contributed 7.1% of the total UK aerospace output last year
- Total sales amounted to £960 million in 2010, with another £640 million of orders in the pipeline
- Over 90% of total sales came from exports, with £664 million worth being sent outside the UK
- The EU received 20% of orders (£173 million), the US 12.8% (£110 million) and the rest of the world 44.2% (£380 million)
- Civil aerospace accounted for 85% of sales (£774 million), defence 14% (£128 million) and security at only 1% (£11 million)
- Firms from the three sectors were said to have pumped £34 million into research and development, representing 10.5% of all Northern Ireland's business R&D spending.

David Beatty, chairman of ADS Northern Ireland, said that despite defence cuts, the civil aerospace sector is set to continue to grow. Belfast-based firm Thales recently announced a contract for the development of lightweight multi-role missiles with the Ministry of Defence.

Adapted from © "Aerospace defence sectors give £1 billion boost to economy" by Clair Weir, Belfast Telegraph, 16 June 2011

Source 4: Northern Ireland spending cuts will have "devastating impact"

Northern Ireland's economy will be devastated by George Osborne's cost-cutting programme, the first minister predicted. This grim warning comes as an estimated £2 billion is to be taken out of the local economy after cuts of between 20 and 25% in the public sector. He predicted that the cuts would have a "devastating impact, bogging Northern Ireland down in a recession for a prolonged period. While the executive is not responsible for the economic downturn or the spending cuts, it is our responsibility to do what we can to tackle the problems they create. In these difficult economic conditions the executive's main priority must be to keep people in work and put people back to work. If necessary, budgets should be skewed to maximise the effect of public expenditure in keeping the economy moving forward".

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Source 5: Praise for Thales staff training

The Northern Ireland Employment Minister visited an east Belfast air defence factory to congratulate staff who have completed a business improvement scheme.

Staff at Thales obtained the Business Improvement Techniques (B-IT) qualification funded by the Department for Employment and Learning. The scheme gives employees a platform to demonstrate that they can develop quality, cost and delivery improvements in the workplace which can lead to reduced costs and improved productivity. Around 130 Thales staff finished the training.

The Minister stated: "My department is about people, skills and jobs. People are at the heart of a dynamic and innovative and sustainable economy. However, the skills of our workforce play a vital role in raising productivity and increasing the competitiveness of Northern Ireland companies".

Thales, which manufactures complex weapons for the aerospace, defence and security markets worldwide, employs over 600 people in Belfast. Managing director David Beatty said: "In these difficult economic times we are pleased to report an upturn in our business with the recruitment of over 65 new employees in Northern Ireland".

Adapted from © "Praise for Thales staff training" by Margaret Canning, Belfast Telegraph, 5 February 2010

Source 6:

Text removed due to copyright issues

Source 7: Raytheon winds up in Derry

In 2010, Raytheon, an American weapons manufacturer that specialises in missile construction closed its plant in Londonderry/Derry.

Raytheon manufactures the Patriot, Tomahawk, Cruise and Sidewinder missiles. None of these weapons were assembled in Londonderry/Derry where about 150 people were employed in the software division during peak production years.

Nevertheless, the plant has been the target more than once over the years for anti-war demonstrators.

Adapted from © "Raytheon winds up in Derry", published by The Irish Echo, 17 February 2011

Source 8: Corporation tax

In December 2011, Stormont ministers from Stormont and Westminster said they had constructive discussions over plans to cut corporation tax in Northern Ireland. The meeting was the first time they had met to discuss dropping the rate of corporation tax in NI from 26% to match the 12.5% rate of corporation tax currently levied in the Republic of Ireland.

Industry experts suggest that the lower rate of corporation tax levied in the Republic of Ireland acts as an incentive for multi-national companies to locate their business operations (e.g. factories, European Headquarters) to the Republic of Ireland at the expense of other countries.

If agreed, the tax cut would have to be accompanied by a proportionate reduction in the block grant – the money Northern Ireland receives from the UK Treasury. That could be a cut of more than £400 million a year.

In October, Finance Minister Sammy Wilson said that if agreed, it would be at least four years before the corporation tax rate in Northern Ireland is reduced.

Adapted from © "Robinson update on corporation tax", Belfast Telegraph, 17 January 2010

Question 1

You are a consultant employed by the Enterprise Minister at the Northern Ireland Assembly and you have been asked to prepare a formal report entitled “Thales Air Defence (Belfast) – a special case?”

The aim of the report is to assess whether a firm such as Thales Air Defence (Belfast) should be subject to a lower rate of corporation tax (in Northern Ireland), and/or whether it should be provided with financial assistance, as incentives to remain committed to operating in Northern Ireland.

Your report should be in an appropriate format and should include recommendations to the Enterprise Minister.

(You **may** find it useful to address **some** of the following areas in your report: business objectives, stakeholder objectives, financial implications, pressure groups, business ethics, economic growth, employment, government policy objectives, economic instruments used to achieve government objectives, effect of government objectives on business, international dimension of business.)

[80]

THIS IS THE END OF THE QUESTION PAPER

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