

**1. Under the Common Agricultural Policy (CAP), farmers receive payments from the EU for each hectare of land they own. The European Commission has proposed putting an upper limit on the total payment one farm can receive. Should this policy be adopted? Discuss. (30 points)**

In the light of COVID-19 pandemic and the question of the food sufficiency, we need to discuss whether CAP should target small or large farms. Currently, CAP benefits larger farms because when distributing the money, it does not take into account the economies of scale. Farmers in the EU, especially young farmers should receive a direct payment of a minimum of 2%. As a result, small farms face massive competition from large farms. Is it a problem? In the paper, we will argue that we should put an upper limit on the total payment one farm can receive as to benefit small farmers.

Under the current system, the bigger the farm is, the more subsidies it gets. The CAP benefits larger producers because the CAP has traditionally rewarded farmers who produce more. The bigger the farm is, the more it has benefited from subsidies. This is because of the economies of scale. Since 2003, subsidies from CAP function to give subsidy to the extent of a farm. So, two farmers can receive the same subsidy from even though their production is different. Therefore, while small farmers do get subsidies, the CAP has a bias towards larger farms.

Targeting smaller farms usually located in the rural areas of the member states will raise the income of those farmers, which in turn will increase the wealth of these regions. In recent years, we could have witnessed that as the Union member states were getting gradually wealthier, the gap between urban and rural areas within the member states deepened. Targeting small farmers could be one of many solutions on how to redistribute income to the rural areas by keeping more jobs on these farms and raising the farmers' income. This is because smaller farms are more labour intensive than larger farms. (World Bank 2017) In the same report, there is also evidence that smaller farms are more productive than larger farms in Romania.

Smaller farms tend to be more ecological. Large farms tend to grow fewer varieties of crops than small farms, so large farms are bound to use chemical fertilizers and pesticides. More so, smaller farms usually sell their crops locally. This means that ecological damage caused by transportation of food across hundreds of kilometres is not a problem. If smaller farms across Europe will be supported more by CAP, food will not have to race across the Union but will be created and consumed locally.

To conclude, the European Commission were to put upper limits on how much a farmer can get from CAP, not only would rural regions of the EU member states benefit from higher income, but the EU would also become greener. Not to mention, competition between smaller farmers would be more significant. Putting a price ceiling on how much the farmer can receive, large farmers can be given fewer CAP funds. These funds will be redistributed to small farmers. Therefore, all the benefits mentioned above will apply.