prices for exported agricultural commodities. The federal government's income stabilization programs (Agricultural Stabilization Act and Western Grains Stabilization Act) have been supplemented recently by new measures which protect farmers from the dramatic income shortfalls and financial distress caused by falling international market prices. These measures include the Special Canadian Grains Program, Farm Debt Review Boards, farm credit programs and other programs. The total financial commitment of the federal government to agriculture has been substantial, approaching $4.5 billion in 1986-87. When direct government payments to the sector are taken into consideration, overall realized net farm income will be some 14 per cent higher in 1987 than in 1986. This overall picture, however, masks important sectoral and regional differences.

The negotiation of the Agreement has taken place at a time when there is considerable uncertainty and instability in global agricultural markets. This disarray is due to depressed international market prices caused by the agricultural policies pursued by major industrialized countries. To compound the problem, rapid improvements in technology have increased supply relative to demand, thus putting additional pressure on farm prices. A revived strong growth in world demand for agricultural commodities, such as occurred during the 1970s, would help to ease the problem, but such prospects remain highly uncertain. It is more likely that excess capacity to produce farm products as well as the protectionist agricultural policies of competitors will persist for at least the balance of the 1980s and possibly well into the 1990s.

## Importance of the U.S. Market

In contrast to this relatively sombre global outlook, the potential for growth in agricultural exports to the United States is good. This situation is reflected in the recent trends in total Canadian farm exports and exports to the United States (Charts 2.1 and 2.2). Close proximity, relatively high economic growth rates, similar grading and distribution systems for the products traded bilaterally and, above all, a relatively open trade environment, suggest that agricultural exports to the United States should continue to grow faster than Canada's offshore exports.

Agricultural trade between Canada and the United States covers a wide range of commodities. A breakdown of trade by commodity in both directions in 1986 is shown in Chart 2.3.

Reflecting the less favourable situation in offshore markets, the importance of the U.S. market has increased significantly for Canadian farmers. In 1986, the United States was Canada's leading export market for farm products, purchasing 32 per cent of total farm exports. If grains and oilseeds are excluded, the role of the U.S. market becomes significantly more important. In 1986, over 60 per cent of non-grain and oilseed exports were sold in the United States. In recent years, there has been a marked increase in the percentage of products other than grains and oilseeds being exported to the United States. This proportion has increased rapidly from 37 per cent in 1981 to nearly 62 per cent in the first half of 1987 (Table 2.1).