

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

OCT 24 2004

The Honourable Danny Williams, M.H.A.
Premier
Government of Newfoundland and Labrador
8th Floor – Confederation Building
Prince Philip Parkway
P.O. Box 8700
St. John's, Newfoundland
A1B 4J6

Dear Premier:

The Prime Minister asked that I write to you to follow-up on discussions I have had with your Minister of Finance with regard to the commitment made by the Prime Minister to ensure that Newfoundland and Labrador receives greater financial benefits from its offshore petroleum activities. While the Prime Minister has asked me to lead the Government of Canada's work in regards to this matter, I want to stress the important contribution made by the Honourable R. John Efford, Minister of Natural Resources Canada, in advancing this file in recent months.

This letter will serve to confirm how the Government of Canada intends to meet its commitment to provide greater benefits to Newfoundland and Labrador with respect to its offshore resource revenues.

Following discussions with the Prime Minister, I want to inform you that the Government of Canada is prepared to propose legislation to Parliament to provide

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additional annual payments that will ensure the province effectively retains 100 per cent of its offshore revenues for an eight year period covering 2004-05 through 2011-12, subject to the provision that no such additional payments result in the fiscal capacity of the province exceeding that of the province of Ontario in any given year. The inclusion of such a provision has always been a part of the Prime Minister's discussions with Newfoundland and Labrador on how to provide net benefits to the province equivalent to 100 per cent of its offshore revenues. This provision is also part of the arrangement being offered to Nova Scotia.

For the purpose of these payments, the per capita fiscal capacity of Newfoundland and Labrador will be determined by computing the sum of the following.

First, the fiscal capacity derived from annual own-source revenues of the province as calculated under the Equalization program, prior to the application of the generic solution.

Second, the payments received under the Equalization program.

Third, the payments received under both the existing *Canada-Newfoundland Atlantic Accord*, and the additional payments in respect of offshore revenues provided for under the approach outlined in this letter.

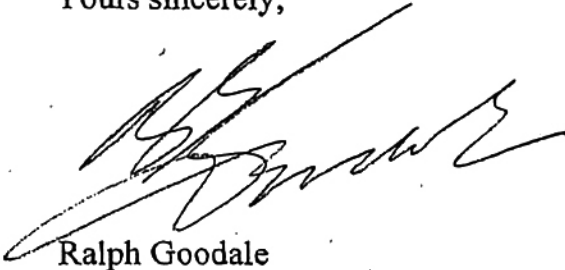
Amendments to either the *Canada-Newfoundland Atlantic Accord* or the Equalization legislation will not be required. These programs will continue to work as they are intended, as payments will be made separate from these programs, and Equalization payments under the new framework will not be affected. It is important to note that the amount of these payments will not reduce the aggregate guaranteed level of Equalization and Territorial Formula Financing that are part of the funding framework that the Prime Minister put forward at the September First Ministers' Meeting.

It is the view of the Government of Canada that this approach meets the recent commitments made to the people of Newfoundland and Labrador with respect to the treatment of offshore revenues while being fair and equitable to all Canadians. This arrangement is in all aspects comparable to the one offered to Nova Scotia.

In initial discussions, the Prime Minister indicated that you anticipated that these payments would result in expected benefits to Newfoundland and Labrador of about \$1.4 billion over the 2004-05 to 2011-12 period. As an alternative, if you so choose, the Government of Canada is prepared to consider providing predetermined annual amounts totalling \$1.4 billion over the same time period that would not be subject to the volatility of resources revenues, thereby providing your province more stability and predictability for budgetary planning.

The Prime Minister is willing to sign with you an agreement in principle reflecting this approach before the First Ministers' Meeting of October 26. I look forward to your response as early as possible so that we may move quickly to ensure your province receives greater benefit from its offshore revenues.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ralph Goodale', with a long, sweeping horizontal stroke extending to the right.

Ralph Goodale

c.c.: The Honourable Loyola Sullivan, M.H.A.
The Honourable John Efford, P.C., M.P.