

January 16, 2008

Dear Prime Minister:

I am writing to express my disappointment in your letter dated January 15, 2008 following up on our meeting of November 30, 2007 and my subsequent letters of December 3, December 11 and December 18, 2007 and January 3, 2008. There are a number of issues which I would like to address.

First, you have stated that your government has kept its commitment to respect the Atlantic Accords. As you are well aware, the commitment, which was made by you personally on a number of occasions, was in respect of the removal of non-renewable resources from the Equalization formula. It was not about the Atlantic Accord. Had you kept your promise, there would be no need for the Atlantic Accord, as non-renewable resource revenues would be protected for all provinces.

Let me refresh your memory on the commitments which you have made to the people of Newfoundland and Labrador and to Canada:

"I would support the exclusion of non-renewable resource revenues from the Equalization formula." (March 2004, letter from Stephen Harper to Danny Williams)

"A Conservative government would also support changes to the equalization program to ensure provinces and territories have the opportunity to develop their economies and sustain important social services. We will remove non-renewable natural resource revenue from the equalization formula to encourage the development of economic growth in the non-renewable resource sector across Canada." (January 4, 2006 letter from Stephen Harper to Danny Williams)

"A Conservative government will ... Work to achieve with the provinces permanent change to the equalization formula which would ensure that non-renewable natural resource revenue is removed from the equalization formula to encourage economic growth." (undated: Stand Up For Canada, Conservative Party of Canada Federal Election Platform 2006)

The Right Honourable Stephen Harper
Prime Minister of Canada
Langevin Block, 80 Wellington Street
Ottawa, ON K1A 0A6

“The Conservative Party of Canada believes that offshore oil and gas revenues are the real key to economic growth in Atlantic Canada

***That’s why we would leave you with 100% of your oil and gas revenues.
No small print.
No excuses.
No caps.”***

(Undated Conservative Party of Canada Federal Election Platform)

These are just some of the commitments which you have made to the electorate. Your own Minister Hearn, has implied very clearly that the promise you made to the people of this province was broken...*“Could we have made a bit more if we had gotten the exact promise, with no cap? We’ll know that in a few days.”* (The Telegram, March 28, 2007, page 5). On March 21, 2007, Minister Hearn was quoted on CBC radio saying, *“Would I rather see what we clearly committed done? Absolutely.”* Minister Hearn’s own words are clear recognition that your promise was not kept.

I also take exception to your statement that your government has respected the Atlantic Accords, and made it easier for our province to qualify. As you have noted in your letter, Newfoundland and Labrador will soon become a non-equalization recipient province. However, this is the result of the artificial fiscal capacity cap, and the clawback of the Accords through the cap. The clawback of Accords through the fiscal capacity cap is disrespectful of the Accords, and is a clear and unequivocal violation of the election campaign promise by you and the Conservative Party of Canada as referenced above and in other sources. The clawback of the Accords through the fiscal capacity cap constitutes unilateral changes to negotiated bi-lateral agreements. The notion of a cap was proposed by a previous federal administration and was rejected by the parties.

There is a large gap between the substance of what you have promised and what you have delivered. You have indicated that the value gap of \$10 billion cannot be supported. The number is derived from the work of two independent and well respected economists based in part on information provided by your own federal finance officials. An agreed value gap between our governments could constitute the amount against which the value of the Hibernia share and the Net Profits Interest could be offset.

You have referenced the Province’s projected \$880 million surplus for the current year, and noted that it is a positive trend and cause for celebration. At least on this point, we can agree. However, we both know high oil prices have contributed in part to our projected surplus. There are no guarantees that prices will stay at current high levels. At the risk of stating the obvious, our non-renewable resources are being depleted every day, and will eventually be gone. This is not rhetoric. In just 3 short years, annual production at the Terra Nova Project is expected to be 1/3 of this year’s production.

You should also be aware that while this surplus is a positive trend, at least for the medium term, it follows more than 5 decades of deficits and accumulating debt. Even after this surplus, we will have a debt per capita that is more than twice the national average at \$21,500. This high debt burden which has contributed to a weak credit rating, results in debt servicing costs per capita in this province that are 220% of the national average. As you are aware, interest charges are a first call on revenues, are paid each and every year, and have robbed the ability of the Government of Newfoundland and Labrador to provide programs and services that are reasonably comparable to other provinces. The 2005 Atlantic Accord is predicated on providing the province the ability to address this massive debt burden. Perhaps it is trite to say this, but you cannot address debt without surpluses. If the Accords assist in generating surpluses, it means they are working, rather than are unnecessary.

I viewed with interest your comparison of the Newfoundland and Labrador per capita surplus and its equivalent per capita federal surplus. To complete the picture, if Canada had the equivalent per capita debt as Newfoundland and Labrador, Canada's total debt would be \$710 billion, an increase of more than 50%, clearly not a cause for celebration.

Finally, I come back to my proposal respecting the Canadian Hibernia Holding Corporation (CHHC) and Net Profits Interest (NPI). Based upon data available to me, it appears that your \$1.8 billion cost estimate still includes a \$975 million non-repayable grant, which by definition is not intended to be recovered. I am not aware of any other circumstances wherein the federal government has recovered non-repayable grants. I would appreciate, however, your detailed calculation of the \$1.8 billion cost estimate as it appears all federal figures are not public.

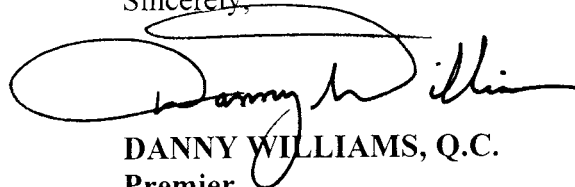
My proposal was intended to find some common ground from which we could address the value gap. I believe that a fair market value to the province would give recognition to a portion of the value gap on the promise not kept. Other solutions for the remainder of the gap were also offered at our meeting. In answer to your questions the Province of Newfoundland and Labrador wishes to receive the 8.5% interest valued on the same basis as the acquisition of equity from the private sector on the Hebron project, and the Net Profits Interest provision, and deduct both from the total agreed value gap.

Your question of what the reaction might be from other partners in the project appears to be questioning our capacity to manage the project and work with partners. We are a culture of hope, vision and competence. We have been accepted by the petroleum industry as a partner in both the Whiterose Project and the Hebron Project by many of the same principal corporations as are partners in Hibernia.

In closing, I will bring you back to the Gaelic Proverb quoted in the Conservative Party of Canada election platform policy brochure referenced previously: "*There is no greater fraud than a promise not kept.*" I ask you to reflect on the actual promise you have made rather than the re-invented promise, and I ask you to keep your commitment.

Integrity and trust should be the foundation upon which a strong and successful Canadian federation is built.

Sincerely,



DANNY WILLIAMS, Q.C.
Premier