



PRIME MINISTER · PREMIER MINISTRE

January 15, 2008

Danny
Dear Premier:

Thank you for your letter of December 3, 2007, regarding the Government of Canada's interest in the Hibernia oil project.

During our meeting on November 30, and in your subsequent correspondence, you indicated an interest in acquiring the Government of Canada's 8.5% interest in the Hibernia oil project and the related Net Profits Interest. I undertook to carefully examine the relevant facts and considerations, including the arguments contained in your letter.

It is important to recall that the Government of Canada incurred significant costs to develop the Hibernia project and subsequently assumed significant risks to prevent the project from collapsing in 1993. In fact, our analysis indicates that Canadian taxpayers financed over \$1.8 billion in investments (excluding loan guarantees except for reserves). By contrast, they have recouped only \$1.2 billion of these funds from the project.

The Honourable Danny Williams
Premier of Newfoundland and Labrador
Confederation Building
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I note with interest the examples you cite in support of a transfer of the taxpayer assets to the province. In the case of Canadian entitlements from the Columbia River Treaty, the province, through B.C. Hydro, undertook the construction and operational costs associated with the Treaty projects in exchange for the Canadian entitlement to power and flood control. In the case of the Northern Canada Power Commission, these assets were sold to the territories at a negotiated value. In other words, these are not examples of the transfer of federal assets, but of commercial acquisitions.

These precedents are reinforced by your own recent agreement with private sector partners regarding the participation of the province in the Hebron project under which you have the opportunity to acquire an equity share at market value. If you wish to acquire the federal interest in Hibernia, this raises issues of a similar nature. Specifically, what portion of the federal interest would you propose to acquire? What is your sense of its fair market value and on what basis would you arrive at that figure? How would you see the reaction of the other partners in the project?

With respect to transfers, my Government fully met its commitment to respect the Atlantic Accords by offering Newfoundland and Labrador and Nova Scotia the choice to continue to operate under the existing Equalization formula and receive the same benefits as before. In addition, the Government of Canada provided enhanced flexibility for 2007-08, allowing Newfoundland and Labrador to benefit from the new Equalization system for 2007-08, while postponing a decision to permanently opt into that system for a year.

Your Government recently indicated that the province intends to take advantage of this flexibility and opt into the new Equalization formula with full resource exclusion for 2007-08. As indicated, this will provide a net cash gain of \$66.5 million to your Government. Starting in 2008-09, should your Government decide to continue to operate under the new Equalization formula, your province will be provided a cumulative best-of guarantee similar to Nova Scotia. The assertion that there is a \$10 billion value gap resulting from the impacts of the new Equalization formula is simply unfounded.

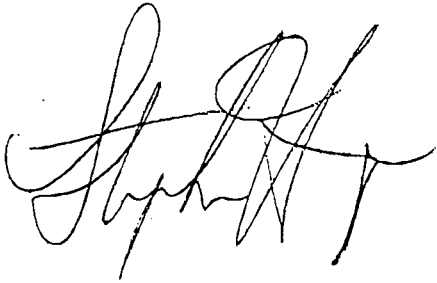
As you are aware, it is easier for Newfoundland and Labrador to qualify for extension of the Offshore Accord under the new formula. However, as your Government indicated, given the strength of the provincial economy, Newfoundland and Labrador could well soon become a non-equalization receiving province. The continued economic growth and improved fiscal strength in the province is evidenced by a record surplus exceeding \$880 million, which on a per capita basis would be equivalent to a federal surplus exceeding \$57 billion. This is a very positive trend and cause for celebration.

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I look forward to further discussing this matter with you.

A copy of this exchange of correspondence will also be sent to the Honourable Rona Ambrose, President of the Queen's Privy Council for Canada and Minister of Intergovernmental Affairs, the Honourable James Michael Flaherty, Minister of Finance, the Honourable Gary Lunn, Minister of Natural Resources and the Honourable Loyola Hearn, Minister of Fisheries and Occans, for their information.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Stephen H. ...', written in a cursive style.