

**Arrangement between  
the Government of Canada and  
the Government of Newfoundland and Labrador  
on Offshore Revenues**

The Government of Canada recognizes the unique economic and fiscal challenges faced by Newfoundland and Labrador and the strong commitment of the province to improve its fiscal situation, as outlined in the correspondence received from Newfoundland and Labrador.

1. Recognizing that the obligations intended to be assumed by the Government of Canada, as outlined in this document, will require legislation, the Government of Canada will seek legislative authority from Parliament that will authorize additional payments to provide 100 per cent offset against reductions in Equalization payments resulting from offshore resource revenues.
2. This document reflects an understanding between the Government of Canada and the Government of Newfoundland and Labrador that:
  - Newfoundland and Labrador already receives and will continue to receive 100 per cent of offshore resource revenues as if these resources were on land;
  - the Government of Canada intends to provide additional offset payments to the province in respect of offshore-related Equalization reductions, effectively allowing it to retain the benefit of 100 per cent of its offshore resource revenues<sup>1</sup>.
3. Given that, under the new Equalization framework agreed at the October First Ministers' Meeting, Equalization payments are determined for 2004-05 and 2005-06:
  - For the fiscal year 2004-05, the value of the additional offset payment to provide this 100 per cent offset will be \$133.6 million.
  - For the fiscal year 2005-06, the value of the additional offset payment to provide this 100 per cent offset will be \$188.7 million.
4. Commencing in 2006-07, and continuing through 2011-12, the annual offset payments shall be equal to 100 per cent of any reductions in Equalization payments resulting from offshore resource revenues. The amount of additional offset payment for a year shall be calculated as the difference between the Equalization payment that would be received by the province under the Equalization formula as it exists at the time if the province received no offshore petroleum resource revenues in that year, and the Equalization payment for the province in that year under the Equalization formula as it exists at the time, net of any payments made with respect to the existing Atlantic Accord or Equalization offset provisions.
5. If in any fiscal year in the period 2006-07 to 2011-12 the province does not qualify for receipt of an Equalization payment, no additional offset payment in respect of clause 4 will be made for that fiscal year beyond the payment specified in the existing Atlantic Accord. The province will also be provided benefits equal to what it would have received if Part 1 of the Equalization offset provision of the Atlantic Accord had been extended to include the year 2011-12, should the province not qualify for Equalization in that fiscal year.

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<sup>1</sup> Defined as revenue received from the Government of Canada under the *Canada-Newfoundland Atlantic Accord Implementation Act* and Hibernia contractual royalties.

6. It is the Government of Canada's intent to provide the Government of Newfoundland and Labrador a payment equal to \$2.0 billion upon passage of legislation implementing this arrangement. This payment will allow the province to reduce its outstanding debt. Amounts calculated starting in 2004-05 under clauses 3 and 4 will not result in actual payments to the province until such time as their cumulative value exceeds \$2.0 billion.
7. A successor arrangement would be put in place for the period 2012-13 to 2019-20 if the province qualifies for an Equalization payment in 2010-11 or 2011-12 and its per capita debt servicing charges have not become lower than those of at least 4 other provinces.

Payments would continue to be calculated to provide 100 per cent offset for Equalization declines, as per clause 4, in any year in which Newfoundland and Labrador would qualify for Equalization.

Should the province not qualify for an Equalization payment in any year in the period 2012-13 to 2019-20, the province would receive, in that year, an offset payment equal to two-thirds of the previous year's offset payment and an offset payment equal to one-third of that previous year's payment in the following year, should it continue not to qualify for Equalization.


8. No later than March 31, 2019, the parties agree to review the current arrangement.

The review will address a) the extent to which the Atlantic Accord objectives have been achieved, including the key objectives of the Atlantic Accord that Newfoundland and Labrador be the principal beneficiary of its offshore; b) whether Newfoundland and Labrador has realized lasting fiscal and economic gains from its offshore petroleum resources revenues; c) the Equalization arrangements then in effect; d) the fiscal disparities that then exist between Newfoundland and Labrador and other provinces; e) Newfoundland and Labrador's undeveloped offshore petroleum discoveries; and will have regard to the 1987 Canada-Newfoundland Atlantic Accord Implementation Act, any legislation that implements the terms of this arrangement, and any other relevant considerations.

9. If, in the future, the Government of Canada enters into an arrangement with another province or territory concerning offshore petroleum resource revenues, which in Newfoundland and Labrador's view provides, on balance, benefits greater than those contained in this arrangement, Newfoundland and Labrador may elect to enter into discussions with the Government of Canada to revise this arrangement.

10. Signed in St. John's on February 14, 2005.

For the Government  
of Canada



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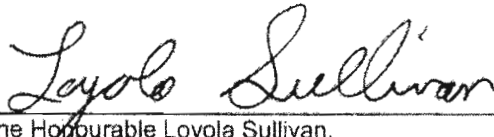
The Honourable John Efford,  
Minister of Natural Resources, Canada



Government  
of Canada

Gouvernement  
du Canada

For the Government  
of Newfoundland and  
Labrador



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The Honourable Loyola Sullivan,  
Minister of Finance and President of  
Treasury Board, Newfoundland and Labrador



GOVERNMENT OF  
NEWFOUNDLAND  
AND LABRADOR