January 16, 2019

Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act [IIAS-016-2018]

On December 17, 2018, the Intergovernmental Affairs Branch of the Intergovernmental and Indigenous Affairs Secretariat received your request for access to the following records/information:

Any briefing notes, information notes, reports, emails, or any other records which include an evaluation of the current Atlantic Accord Framework and/or Equalization formula conducted since January 1, 2016.

A decision has been made by the Deputy Minister of Intergovernmental Affairs to provide partial access to the requested information. In particular, access is granted to a variety of briefing notes, a letter from Saskatchewan Premier Moe regarding equalization, and a letter from Premier Ball to Prime Minister Trudeau related to the Atlantic Accord.

Access to the remaining records, and/or information contained within the records, has been refused in accordance with the following exceptions to disclosure, as specified in the Access to Information and Protection of Privacy Act (the Act):

<table>
<thead>
<tr>
<th>Page Number Removed</th>
<th>ATIPPA Exemption Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pages 4 – 12</td>
<td>Sections 34(1)(a)(i) and 34(1)(b)</td>
</tr>
<tr>
<td>Pages 34 - 70</td>
<td>Sections 34(1)(a)(i), 34(1)(b), 35(1)(f), and 35(1)(g)</td>
</tr>
<tr>
<td>Pages 71 - 115</td>
<td>Sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and 35(1)(g)</td>
</tr>
<tr>
<td>Pages 116 - 153</td>
<td>Sections 34(1)(a)(i), 34(1)(b), 35(1)(f), and 35(1)(g)</td>
</tr>
<tr>
<td>Pages 154 – 241</td>
<td>Sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and 35(1)(g)</td>
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</tbody>
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Policy advice or recommendations
29. (1) The head of a public body may refuse to disclose to an applicant information that would reveal
   (a) advice, proposals, recommendations, analyses or policy options developed by
       or for a public body or minister;

Disclosure harmful to intergovernmental relations or negotiations
34. (1) The head of a public body may refuse to disclose information to an applicant if the disclosure could reasonably be expected to
   (a) harm the conduct by the government of the province of relations between that
evenement and the following or their agencies:
   (i) the government of Canada or a province,
   (b) reveal information received in confidence from a government, council or
       organization listed in paragraph (a) or their agencies.

Disclosure harmful to the financial or economic interests of a public body
35. (1) The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose
   (f) positions, plans, procedures, criteria or instructions developed for the
       purpose of contractual or other negotiations by or on behalf of the
       government of the province or a public body, or considerations which relate
       to those negotiations;
   (g) information, the disclosure of which could reasonably be expected to
       prejudice the financial or economic interest of the government of the
       province or a public body; or

As required by section 8(2) of the Act, we have severed information that is unable to be disclosed and have provided you with as much information as possible. In accordance with your request for a copy of the records, the appropriate copies have been enclosed as a PDF.

Please be advised that you may appeal this decision and ask the Information and Privacy Commissioner to review the decision to provide partial access to the requested information, as set out in section 42 of the Act (a copy of this section of the Act is attached to this letter for your reference). A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your appeal should identify your concerns with the request and why you are submitting the appeal.

The appeal may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P. O. Box 13004, Stn. A
St. John's, NL A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500
You may also appeal directly to the Supreme Court Trial Division within 15 business days after you receive the decision of the public body, pursuant to section 52 of the Act (a copy of this section of the Act is attached to this letter for your reference).

Please be advised that this response will be published following a 72 hour period after the response is sent electronically to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

If you have any further questions, please contact me by telephone at 709-729-3523 or by email at angelaledwell@gov.nl.ca.

Sincerely,

[Signature]

ANGELA LEDWELL
ATIPP Coordinator
Intergovernmental Affairs
Access or correction complaint

42.(1) A person who makes a request under this Act for access to a record or for correction of personal information may file a complaint with the commissioner respecting a decision, act or failure to act of the head of the public body that relates to the request.

(2) A complaint under subsection (1) shall be filed in writing not later than 15 business days

(a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or

(b) after the date the head of the public body is considered to have refused the request under subsection 16(2).

(3) A third party informed under section 19 of a decision of the head of a public body to grant access to a record or part of a record in response to a request may file a complaint with the commissioner respecting that decision.

(4) A complaint under subsection (3) shall be filed in writing not later than 15 business days after the third party is informed of the decision of the head of the public body.

(5) The commissioner may allow a longer time period for the filing of a complaint under this section.

(6) A person or third party who has appealed directly to the Trial Division under subsection 52(1) or 53(1) shall not file a complaint with the commissioner.

(7) The commissioner shall refuse to investigate a complaint where an appeal has been commenced in the Trial Division.

(8) A complaint shall not be filed under this section with respect to

(a) a request that is disregarded under section 21;

(b) a decision respecting an extension of time under section 23;

(c) a variation of a procedure under section 24; or

(d) an estimate of costs or a decision not to waive a cost under section 26.

(9) The commissioner shall provide a copy of the complaint to the head of the public body concerned.
Direct appeal to Trial Division by an applicant

52. (1) Where an applicant has made a request to a public body for access to a record or correction of personal information and has not filed a complaint with the commissioner under section 42, the applicant may appeal the decision, act or failure to act of the head of the public body that relates to the request directly to the Trial Division.

(2) An appeal shall be commenced under subsection (1) not later than 15 business days

(a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or

(b) after the date the head of the public body is considered to have refused the request under subsection 16(2).

(3) Where an applicant has filed a complaint with the commissioner under section 42 and the commissioner has refused to investigate the complaint, the applicant may commence an appeal in the Trial Division of the decision, act or failure to act of the head of the public body that relates to the request for access to a record or for correction of personal information.

(4) An appeal shall be commenced under subsection (3) not later than 15 business days after the applicant is notified of the commissioner's refusal under subsection 45(2).
<table>
<thead>
<tr>
<th>Record Number</th>
<th>Pages (Pages removed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record Number 1</td>
<td>1 – 12 (Pages 4 – 12)</td>
</tr>
<tr>
<td>Record Number 2</td>
<td>13 – 16</td>
</tr>
<tr>
<td>Record Number 3</td>
<td>17 – 25</td>
</tr>
<tr>
<td>Record Number 4</td>
<td>26 – 27</td>
</tr>
<tr>
<td>Record Number 5</td>
<td>28 – 31</td>
</tr>
<tr>
<td>Record Number 6</td>
<td>32 – 33</td>
</tr>
<tr>
<td>Record Number 7</td>
<td>34 – 70 (All pages)</td>
</tr>
<tr>
<td>Record Number 8</td>
<td>71 – 111 (All pages)</td>
</tr>
<tr>
<td>Record Number 9</td>
<td>112 – 115 (All pages)</td>
</tr>
<tr>
<td>Record Number 10</td>
<td>116 – 153 (All pages)</td>
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<tr>
<td>Record Number 11</td>
<td>154 – 157 (All pages)</td>
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<tr>
<td>Record Number 12</td>
<td>158 – 161 (All pages)</td>
</tr>
<tr>
<td>Record Number 13</td>
<td>162 – 203 (All pages)</td>
</tr>
<tr>
<td>Record Number 14</td>
<td>204 – 239 (All pages)</td>
</tr>
<tr>
<td>Record Number 15</td>
<td>240 – 241 (All pages)</td>
</tr>
</tbody>
</table>

**Note:** Please refer to final response letter for ATIPPA exemptions used for redacted pages
IIAS-016-2018

RECORD NUMBER 1

NOTE: Pages 4 – 12 have been removed according to sections 34(1)(a)(i) and 34(1)(b) of ATIPPA, 2015
Council of the Federation (COF) – Background Note – Report on Equalization
Intergovernmental Affairs Secretariat

s. 34(1)(a)(i)

Issue:

Background and Current Status:

- EQ payments have been made to qualifying provinces and territories since 1957, and are determined by the federal government using a formula that it periodically changes. At present, EQ entitlements are allocated using a three-step process introduced in 2007-08 and modified in subsequent years. Following calculation of initial entitlements (step 1), a fiscal capacity cap is applied to ensure that an EQ-receiving province is not made better off, after EQ payments are taken into account, than the average of all EQ-receiving provinces (step 2). Finally, entitlements are adjusted to ensure that growth in the overall EQ pot does not exceed average three-year growth in nominal GDP (step 3).

- Newfoundland and Labrador last received EQ of $477 million in 2007-08. QC ($10 billion), ON ($2.3 billion), MB ($1.7 billion), NB ($1.7 billion), and PE ($380 million) qualified for EQ in 2016-17. NS also qualified for $1.7 billion in EQ in 2016-17. In addition, NS is to receive offset payments of $33.3 million as part of its 2005 offshore accord with the federal government, and an additional payment of $16.0 million under a subsequent 2007 offshore agreement. NS accepted these agreements to minimize EQ claw-backs related to offshore oil revenue, and is eligible for further offset payments until 2019-20. Newfoundland and Labrador received its last transitional payment under the 2005 Atlantic Accord in 2011-12.

- Under the Federal-Provincial Fiscal Arrangements Act, the Fiscal Stabilization Program provides funding assistance to any province facing a year-over-year decline in its non-resource revenues greater than 5 per cent (a decline in resource revenues is taken into account only if—and to the extent that—the annual decline exceeds 50 per cent). Legislated benefits are capped at $60 per capita; however, provinces may also request an interest-free loan for any amount in excess of the $60 per capita limit, to be repaid over a five-year period. The federal government is providing advance fiscal stabilization payments of $251.4 million to AB and $31.7 million to Newfoundland and Labrador with respect to 2015-16.

Analysis:

s. 34(1)(a)(i)

s. 34(1)(a)(i) and s. 34(1)(b)

s. 34(1)(a)(i) and s. 34(1)(b)
• Payments are meant to bring provinces with relatively less revenue raising capacity up to a common level or standard—currently, the average fiscal capacity of the ten provinces.

• Newfoundland and Labrador’s offshore oil royalties have been a factor in the Province’s ineligibility for EQ. For example, the Parliamentary Budget Officer reports that in 2016-17 Newfoundland and Labrador was initially entitled to $463.7 million in EQ (after the calculation of the Province’s fiscal capacity in step 1), but application of the fiscal capacity cap dropped the Province’s EQ entitlement to zero.

• As oil and gas resources have been a significant driver of inter-provincial fiscal disparities, changes in the scale of those disparities can alter the landscape of EQ. For example, at present the GDP growth constraint on the EQ pot services to reduce entitlements for EQ-receiving provinces.
• The $60 per capita limit on the Fiscal Stabilization Program has been in effect since 1967 and has never been increased to account for inflation.

**Action Being Taken:**
• IGAS support FIN officials in monitoring major fiscal transfers for impacts on the Province.

**Prepared/Reviewed by:** T. Duggan/ G. Clarke/ P. Scott, ADM, IGAS  
**Approved by:** S. Dutton, DM, IAGS  
**July 12, 2016**
Ledwell, Angela

From: Janes, Mark
Sent: Wednesday, April 12, 2017 3:37 PM
To: Clarke, Greg
Subject: MJ - EQ Renewal and Disparity among Atlantic Regional Interests.docx
Attachments: MJ - EQ Renewal and Disparity among Atlantic Regional Interests.docx

Greg,

Please see attached for your review.

Thanks,
Mark
Information Note
Intergovernmental and Indigenous Affairs Secretariat

Title: Equalization Renewal and Disparity among Atlantic Regional Interests

s. 29(1)(a) and s. 34(1)(a)(i)

Issue: The Equalization (EQ) Program is generally subject to a renewal every 5 years, with the current 5-year period set to expire on March 31, 2019. The following provides a brief overview of the EQ program.

This note was prepared for information purposes upon the initiative of the Secretariat.

Background and Current Status:

- Canada’s suite of federal major fiscal transfers (MFTs) comprise the Canada Health Transfer (CHT), the Canada Social Transfer (CST), and EQ. The CHT and CST serve to address what is referred to as the “vertical fiscal imbalance”, in recognition of the fact that, compared to any one province, the federal government has superior revenue-raising capacity, whereas the provinces have greater spending responsibilities, which arise primarily from provincial responsibility for healthcare and education. Given this, provinces are generally able to forge a common position vis-à-vis the federal government in discussions around the CHT and CST as their collective interests are generally aligned.

- Unlike the CHT and CST, EQ is intended to address what is referred to as the “horizontal fiscal imbalance”, in recognition of the fact that there are provinces that are not able to raise revenues to the same extent as others – those provinces which are less able to raise revenues are said to have weak fiscal capacity. Without equalization payments, those provinces with weak(er) fiscal capacities would not be able to offer their residents a mix of tax burdens and public services as attractive as those in other provinces with much higher fiscal capacities.

- Given that the particular, individual circumstances of any given province factors prominently into that province’s position on the EQ program, forging provincial consensus is much more difficult with regard to the EQ program than it is with regard to the CHT/CST.

This will be elaborated upon below, however an overview of the mechanics of the EQ program is required before proceeding.

Calculating EQ Payments

- EQ eligibility and payments are determined by a basic equation where EQ entitlement per capita equals average fiscal capacity of all provinces per capita minus a given province’s fiscal capacity per capita, where:
  - the average fiscal capacity of all provinces per capita is determined by calculating the potential revenue provinces could raise if they applied a set of “standard” tax rates to specified revenue sources within provincial jurisdiction, and;
  - an individual province’s fiscal capacity per capita is determined by calculating the potential revenue that province could raise if it imposed the same set of standard tax rates to the same specified revenue sources within its jurisdiction.
Analysis:

- While the fundamentals of EQ are relatively simple, the underlying calculations supporting those fundamentals are rife with complexity. For example: there are many revenue sources, the tax bases of which may be difficult to measure or are defined differently across provinces, making comparability a challenge; there are time lags in data availability, which can require re-calculations and adjustments in payments; there are various limits, adjustments, exclusions and special exemptions that can be placed within the formula to enrich or reduce a provincial government’s entitlements, or to reduce the aggregate cost of the program to the federal government.

- Crucially, these considerations not only create complexity, but changes in them or in the methodology for measuring underlying data can have substantial and competing fiscal implications both between provincial and federal governments, and among provinces themselves - it is these issues that tend to come to the fore during federal-provincial discussions on EQ. Also, while many factors such as demographics and various or expenditure pressures tend to drive provinces’ perception of the sorts of changes required to the EQ program, addressing such issues have historically proven to be prohibitively complex. Thus, less complex, but equally divisive issues such as the treatment of natural resource revenues tend to dominate the debate around changes to EQ.

Treatment of Natural Resource Revenue in EQ

- Among the various general issues cited above, the treatment of revenue derived from natural resource exploitation (oil & gas, minerals, hydroelectricity) is particularly and increasingly relevant to the EQ program. Currently, half of natural resource revenue is equalized, meaning that half of all natural resources revenues are included in calculating the average provincial fiscal capacity, and half of any given province’s natural resource revenue is included in the calculation on that particularly province’s fiscal capacity.

  s. 29(1)(a) and s. 34(1)(a)(i)

  (NOTE: provinces are currently entitled to opt for resource revenues to be included or excluded from both the calculation of the average and their own fiscal capacity and receive EQ entitlement based on whichever scenario provides the most funding)

  s. 29(1)(a) and s. 34(1)(a)(i)

- The source of natural resource revenue is also material to this debate given the fact that revenues derived from Crown-owned hydroelectricity assets are treated/able to be treated differently than if such revenues are derived from corporate taxation of private sector entities, or if hydroelectricity is not a component of Crown-owned energy operations. While this issue is complex and deserves future analysis.

  s. 29(1)(a) and s. 34(1)(a)(i)

Action Being Taken:
IIAS, in consultation with FIN, will continue to provide analysis of issues pertaining to EQ renewal.

Prepared by/Approved by: M. Janes
April 12, 2017
Patricia, I sent the Atlantic Accord portion of the note to FIN and NR (Fred and Wally) but haven’t heard back and may not before the note’s needed. I’ll keep you posted.

Greg
Meeting Note
Intergovernmental and Indigenous Affairs Secretariat
Meeting/Teleconference with the Prime Minister of Canada
Date and Time
Location

Attendees:
Honourable Dwight Ball, Premier
Honourable Justin Trudeau, Prime Minister of Canada

Purpose of the Meeting:
- The meeting provides an opportunity to discuss provincial priorities, in particular the 2005 Arrangement between the Government of Canada and the Government of NL on Offshore Revenues (2005 arrangement) and

Background:
- Premier Ball wrote to Prime Minister Justin Trudeau on February 13, 2018 inviting him to meet to discuss review of the 2005 arrangement.

Agenda Item #1 – Review of the 2005 Canada-NL Arrangement on Offshore Revenue
- NL and Canada signed the Atlantic Accord in February 1985, marking the end of a long dispute on the ownership of offshore resources. The Atlantic Accord, implemented through mutual and parallel provincial and federal legislation in 1986, addresses two main issues: recognition of the equality of both governments in the management of the resource, primarily through the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB); and revenue sharing to allow the Province to establish and collect revenues as if the resources were on land. NS has a similar accord, signed in 1986.
- The Atlantic Accord provides legislative measures to allow the Province to establish and collect royalties and other revenues, including: royalties, provincial corporate income tax, sales tax, bonus payments, rentals and fees, and other forms of provincial-type revenues and taxes as may be established.

- The Atlantic Accord thus provided an Equalization offset payment formula to ensure that there would not be a dollar-for-dollar loss of Equalization payments as a result of offshore revenues flowing to the Province.

- In the early 2000s the offshore sector had failed to meet early expectations as fewer finds were discovered and the price of oil declined sharply. The offset payments negotiated in the Atlantic Accord were also diminishing each year and were due to expire completely by 2012. By 2003, NL was receiving about 20 per cent of the revenues generated from the offshore, with the federal government receiving approximately 80 per cent.

- In 2003 and 2004, the Province negotiated with the federal government to amend the terms of the Atlantic Accord, with NL reaching an arrangement with the federal government in January 2005 that would ensure that the federal government would “offset” any reduction
(claw back) in Equalization payments charged against resource revenues until NL no longer qualified for Equalization entitlements. NL received an up-front minimum payment of $2 billion against any Equalization claw back upon completion of the 2005 arrangement.

- Should NL no longer qualify for Equalization through 2011-12 (as occurred in 2008-09) the Province would no longer receive offset payments following an additional year of transition payments in 2009-10. The 2005 arrangement provided for transitional payments for another two years, which occurred in 2010-11 and 2011-12 (see Annex A for detail on the un-triggered extension provisions of the 2005 arrangement).

- The 2005 arrangement states that "No later than March 31, 2019, the parties agree to review the current arrangement." The review explicitly includes addressing: (a) the extent to which the Atlantic Accord objectives have been achieved, including the key objective 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; and (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.

- A letter requesting a meeting with the Prime Minister to discuss review of the 2005 arrangement was sent on February 13, 2018. The letter refers to the core principle of the Atlantic Accord—that NL be the principal beneficiary of oil and gas development—and noted the Province’s fiscal challenges. The letter also notes (a) NL’s mis-characterization as a “have” province (under the Equalization formula) in the context of the constitution’s commitment to reasonably comparable levels of public services at reasonably comparable levels of taxation in section 36 of the Constitution Act, 1982; and (b) the federal government’s new environmental assessment process.

Analysis

- The constitutional commitment to reasonably comparable levels of public services at reasonably comparable levels of taxation is currently made practical through the Equalization program. Equalization, as it is currently set-up, is meant to help provinces with a lower ability to raise revenue on a per-capita basis.

- NL has a stronger per capita tax base that allows it to raise higher revenues than most other provinces, which prevents NL from receiving Equalization. In a geographically large province with a small, dispersed and aging population, however, high per-capita revenue does not
necessarily address the relatively high expenditure needs that make it difficult for NL to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

- Under the proposed Impact Assessment Act (Bill C-89), where projects requiring assessment are linked to life-cycle regulators, such as Offshore Boards, the new Impact Assessment Agency of Canada (IAAC) will collaborate with the life-cycle regulator to draw upon their expert capacity and ensure that safety and other key regulatory factors are considered as part of a single integrated review. During his February 8 announcement related to the proposed Bill, Minister O'Regan spoke of an enhanced role for the Board in collaborating with the IAAC.

Potential Speaking Points

- The Atlantic Accord, implementation legislation, and associated arrangements are fundamental to the economy of Newfoundland and Labrador and to the fiscal wellbeing of the Province.

- This is because this legislative and policy framework provides the foundation to allow Newfoundland and Labrador to be the principal beneficiary of the employment and fiscal benefits coming with the responsible development of petroleum resources in the Canada-Newfoundland and Labrador Offshore Area.

- The petroleum industry in the Province is made up of about 600 companies, employing about 10,000 people. Its success has increasingly led to technologies and expertise being exported globally.

- Petroleum development has accounted for up to 32 per cent of NL's GDP, and, since 2011, 10 to 32 per cent of the Province's total revenue. There are currently $2.9 billion in outstanding exploration-related work commitments offshore Newfoundland and Labrador.

- Review of the 2005 Arrangement Between the Government of Canada and Government of Newfoundland and Labrador on Offshore Resources, allows our governments to be active partners in ensuring that the Province remains the principal beneficiary of development of oil and gas in the Canada-Newfoundland and Labrador Offshore Area.

Trigger to get to 2nd 8 Years
• A successor arrangement for a second eight-year period will automatically occur if NL receives Equalization in either 2010-11 or 2011-12 and NL’s per capita debt servicing costs do not become lower than at least four other provinces.
• Whether or not the province is an Equalization recipient in either of 2010-11 or 2011-12 will depend on the structure of the Equalization program, the economies of all provinces, and the value of the offshore. This encompasses a variety of factors including oil prices, exchange rates, production levels, production costs, and Equalization entitlements and program changes.

Years 9 to 16 (2012-13 to 2019-20)
• While NL is an Equalization-recipient, the federal government will provide on additional offset payment to ensure the province retains 100 per cent of offshore revenue after the impact of equalization.
• In any year NL does not qualify for Equalization, a transition mechanism will occur:
  o In the first year the province is off equalization, a transition payment equal to 2/3 of the previous year’s offset will be paid.
  o In the second consecutive year the province is off equalization, the transition payment will be 1/3 of that previous year’s offset payment.
• Should the province re-qualify for equalization, the offset would revert back to 100% and the transitional payment would start again, if applicable.
IIAS-016-2018

RECORD NUMBER 4
February 13, 2018

Prime Minister Justin Trudeau
Office of the Prime Minister
80 Wellington Street
Ottawa, ON
Canada K1A 0E4

Dear Prime Minister Trudeau:

As you may be aware, the 2005 Atlantic Accord Agreement between the Government of Canada and the Government of Newfoundland and Labrador on Offshore Revenues stipulates that, no later than March 31, 2019, the parties agree to review the arrangement to 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.

The core principle of the Atlantic Accord was to see Newfoundland and Labrador as the principle beneficiary of oil and gas development in the Newfoundland and Labrador Offshore. This review is timely in light of the fiscal challenges facing Newfoundland and Labrador, our misnomer as a “have” province under the current equalization framework given the commitment under 36(2) of the Constitution Act, 1982, and the lingering uncertainty around the federal government’s new environmental assessment process.
I request a meeting at your earliest convenience to discuss these issues.

Sincerely,

DWIGHT BALL
Premier
MHA, Humber-Gros Morne

cc: Honourable Siobhan Coady, Minister of Natural Resources
    Honourable Tom Osborne, Minister of Finance
    Honourable Jim Carr, Minister of Natural Resources
    Honourable Bill Morneau, Minister of Finance
    Honourable Seamus O'Regan, Minister of Veterans Affairs
FYI – my IGA contact with SK just sent this to me.

Dan

From: Rennebohm, Stacey EC <stacey.rennebohm@gov.sk.ca> On Behalf Of Metz, Ashley EC
Sent: Wednesday, June 20, 2018 1:51 PM
To: Mackenzie, Dan <DanM@gov.nl.ca>
Cc: Rennebohm, Stacey EC <stacey.rennebohm@gov.sk.ca>
Subject: Equalization Letter

Good morning,

Please find attached a letter sent this morning from Premier Moe to your Premier. If you want to chat, please give me a call. I also plan to touch briefly on this regarding the COF context on the Senior Officials’ call today.

Ashley

Ashley Metz
Executive Director, Canadian Intergovernmental Relations
Intergovernmental Affairs
300-3085 Albert Street
REGINA SK S4S 0B1

Ph: 306.787.7962
Fax: 306.787.7317

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June 20, 2018

The Honourable Dwight Ball
Premier of Newfoundland and Labrador
Confederation Building, East Block, PO Box 8700
ST. JOHN'S NL A1B 4J6

Dear Premier:

I am writing to propose a simple change to the equalization formula that would make equalization fairer for all provinces.

I call it the 50-50 Formula. Under this formula, the overall amount of equalization and relative fiscal capacity of each province would continue to be calculated in the same manner it is now, using the same revenue sources. Half of the total equalization pool would be distributed on this basis.

The other half would be distributed on a per capita basis, based on the population of each province relative to the other provinces. This would ensure that all provinces receive some amount of funding from the equalization program, while continuing to ensure the "have not" provinces continue to receive significantly more relative to their size, based on their relative fiscal capacity.

As you know, the economies and finances of Saskatchewan, Alberta and Newfoundland and Labrador have been hardest hit by lower oil prices and a downturn in the natural resources sector over the past few years. Yet during that time, those provinces continued to receive zero equalization, while the overall equalization pool and payments to other provinces continued to grow.

Because of this, Saskatchewan residents believe there is an inherent unfairness in this program. I expect this may also be true in Alberta and in Newfoundland and Labrador. The 50-50 Formula would address this by ensuring every province receives a base amount from equalization based on its population, while at the same time continuing to ensure that some provinces receive significantly more, based on their fiscal capacity.
The Honourable Dwight Ball  
Page 2  
June 20, 2018

I would note that under this proposal, the benefit to Saskatchewan remains quite small. Saskatchewan would still only receive about 1.6 per cent of the overall equalization amount. As Saskatchewan has not received one dollar of the $177 billion in equalization paid out over the past 11 years and is not expected to receive any equalization payments for the foreseeable future under the current formula, I would contend that this proposal is more than reasonable in terms of its benefit to my province.

Below is a table of how 2018-19 equalization payments would have been distributed using the 50-50 Formula.

<table>
<thead>
<tr>
<th>Province</th>
<th>Fiscal capacity amount</th>
<th>Per capita amount</th>
<th>Total under 50-50 Formula</th>
<th>Current equalization amount (2018-19)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ millions</td>
<td>$ millions</td>
<td>$ millions</td>
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</tr>
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<td>Newfoundland</td>
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<td>0</td>
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<tr>
<td>PEI</td>
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<td>39</td>
<td>248</td>
<td>419</td>
<td>-171</td>
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<tr>
<td>Nova Scotia</td>
<td>966</td>
<td>250</td>
<td>1217</td>
<td>1933</td>
<td>-716</td>
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<td>1874</td>
<td>-737</td>
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<td>963</td>
<td>3181</td>
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<td>Manitoba</td>
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<td>1363</td>
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<td>BC</td>
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<td>1246</td>
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<td>0</td>
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<td>Total</td>
<td>9479</td>
<td>9479</td>
<td>18958</td>
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<td>0</td>
</tr>
</tbody>
</table>

I am requesting that a discussion about equalization be added to the agenda of our upcoming meeting of Canada’s Premiers in July.
The Honourable Dwight Ball  
Page 3  
June 20, 2018

Thank you for your consideration of this important matter.

Sincerely,

[Signature]

Scott Moe  
Premier

cc  Honourable Donna Harpauer  
Minister of Finance

Kent Campbell  
Interim Deputy Minister to the Premier and  
Cabinet Secretary
Council of the Federation – Background Note – Equalization
Intergovernmental and Indigenous Affairs Secretariat

Issue: As part of their discussion on the state of the federation, it is anticipated that SK Premier Moe will raise the issue of equalization. This note provides an overview of equalization and recent developments to support discussion of the subject.

Background and Current Status:
- Equalization is intended to ensure all Canadians have access to a reasonably similar level of provincial government services at reasonably similar levels of taxation.

- The fiscal capacity of each province is determined based on five categories: personal income taxes, business income taxes, consumption taxes, property taxes and natural resource revenues. To determine which provinces are eligible for Equalization – and, if so, for how much – each province’s per capita fiscal capacity in all five revenue categories is compared to the average fiscal capacity of all 10 provinces. If a province has a below-average ability to generate own-source revenues (and subject to secondary formula-based constraints), then it is eligible for an Equalization payment to make up the difference. If a province’s revenue-generating ability exceeds the 10-province average, then it is not eligible for an Equalization payment.

- NL has not received Equalization transfers since 2007-08 because its provincial revenue generating capacity is higher than the Canadian average. In fact, NL has had higher per capita revenue than any other province in nearly every year since 2007-08. In 2017-18, the federal government transferred almost $19 billion in Equalization payments to QC, MN, NS, NB, PEI, and ON. The largest transfer went to QC, which received a payment of $11.7 billion.

<table>
<thead>
<tr>
<th>Province</th>
<th>2018-19 Equalization Payment</th>
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<tbody>
<tr>
<td>NS</td>
<td>$1.933 Billion</td>
</tr>
<tr>
<td>NB</td>
<td>$1.674 Billion</td>
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<tr>
<td>PEI</td>
<td>$419 Million</td>
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<tr>
<td>QC</td>
<td>$11.732 Billion</td>
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<tr>
<td>ON</td>
<td>$963 Million</td>
</tr>
<tr>
<td>MB</td>
<td>$2.037 Billion</td>
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- On February 27, 2018, the federal Budget noted the “proposed renewal of Equalization ... for a five-year period beginning April 1, 2019, with technical changes to improve the accuracy and efficiency of the calculation of entitlements.” This matter was discussed at the December 11, 2017, Finance Ministers’ meeting and during FPT officials meetings in 2017.

- On June 21, 2018, media outlets reported that the federal government had announced that it had renewed the existing Equalization formula until 2024 (Newfoundland and Labrador will not receive Equalization payments in the near future). SK had proposed Equalization formula changes based on a “50-50” formula, which Premier Moe detailed in a June 20, 2018, letter to Premier Ball. Under this proposal, half of the Equalization funding envelope would be calculated on the basis of each province’s fiscal capacity (the status quo), but the other half would be distributed on a per capita basis. SK argues that this would be a fairer system, since all provinces would receive additional federal funding, even those that do not qualify for
Equalization. The letter notes that under this proposed formula, the Province would be entitled to an Equalization payment of $140 million in 2018-19.

Analysis:

- Like the other Atlantic provinces, NL has an older population than the rest of Canada. As of July 1, 2017, 19.8 per cent of NL’s population was aged 65 years and older. The Province’s median age was 45.7, the highest among all provinces. By 2036, the Province is forecasting that nearly one third of the population will be 65 years and over. One of the most significant issues arising from an aging population is increasing health care costs.

Action Being Taken:

Prepared/Reviewed by: I. Murphy/ G. Clarke (in consultation with FIN)
Approval: P. Hearn, DM

July 12, 2018
IIAS-016-2018

RECORD NUMBER 7

NOTE: Pages 34 – 70 have been removed according to sections 34(1)(a)(i), 34(1)(b), 35(1)(f), and 35(1)(g) of ATIPPA, 2015
NOTE: Pages 71 – 111 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
IIAS-016-2018

RECORD NUMBER 9

NOTE: Pages 112 – 115 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
IIAS-016-2018
RECORD NUMBER 10

NOTE: Pages 116 – 153 have been removed according to sections 34(1)(a)(i), 34(1)(b), 35(1)(f), and 35(1)(g) of ATIPPA, 2015
NOTE: Pages 154 – 157 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
NOTE: Pages 158 – 161 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
IIAS-016-2018
RECORD NUMBER 13

**NOTE:** Pages 162 – 203 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
IIAS-016-2018

RECORD NUMBER 14

**NOTE:** Pages 204 – 239 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015
NOTE: Pages 240 – 241 have been removed according to sections 29(1)(a), 34(1)(a)(i), 35(1)(f), and (35(1)(g) of ATIPPA, 2015