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Commentary

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***Assessing the Equalization Options of Budget 2007 for the
Atlantic Provinces***

by

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Executive Summary

This paper evaluates the impact on the provincial treasuries of Atlantic Canada from the equalization provisions contained in Budget 2007. In particular, it compares the resources transferred from the federal government to each of the provincial treasuries under both the Fixed Framework (status quo) approach and the New Equalization (both 50% and 0% resource-inclusion) approach for the period 2007-08 to 2019-20, the remaining life of the Atlantic Accords. As Table ES1 illustrates, Nova Scotia, New Brunswick and Prince Edward Island are better off financially under the New Equalization approach for two years and thereafter are disadvantaged by the revised equalization program. Newfoundland and Labrador is immediately worse off under the New Program and on the whole, receives significantly lower revenues under the New Equalization approach than under the status quo. Specifically, the impacts on the respective treasuries are:

Specifically, the impacts on the provincial treasuries are:

- **Nova Scotia** - \$159 million increase in revenues for the first two years under the new Equalization program, and reduced revenues in each year thereafter compared with the Fixed Framework: in aggregate, the province receives \$1.4 billion less under the new Equalization program than under the Fixed Framework;
- **New Brunswick** - \$68 million increase in revenues for the first two years under the new Equalization program, and reduced revenues in each year thereafter compared with the Fixed Framework: in aggregate, the province receives \$1.1 billion less under the new Equalization program than under the Fixed Framework;
- **Prince Edward Island** - \$7 million increase in revenues for the first two years under the new Equalization program, and reduced revenues in each year thereafter compared with the Fixed Framework: in aggregate, the province receives \$196 million less under the new Equalization program than under the Fixed Framework;
- **Newfoundland and Labrador** - \$654 million reduction in revenues for the first two years under the new Equalization program, an increase of \$22 million in the third year, and reduced revenues in each year thereafter compared with the Fixed Framework: in aggregate, the province receives \$1.4 billion less under the new Equalization program than under the Fixed Framework. It should be noted that Newfoundland and Labrador will no longer be a recipient of Equalization after 2008-2009, under both the Fixed Framework and the new Equalization program.

On the surface, these results may appear surprising. They are generated by the fact that the pool of monies available for equalization payments under the Fixed Framework grows at 3.5 percent per annum under existing legislation, while the amount of funds available for equalization payments under the New Equalization Program is determined endogenously and grows at a much slower rate. Therefore, even though the amount of

equalization available to each of the three Maritime Provinces is initially larger under the New Equalization Program, it grows slower than the funds that would be available under the status quo. Consequently, the beneficial impact of the New Equalization Program will eventually be dominated by the monies available to each of the Maritime Provinces under the Fixed Framework. However, at this point the following caveat is in order: these results assume that the legislatively-specified 3.5 percent growth rate is unaltered until at least 2020. This, of course, introduces another source of risk for Nova Scotia in that the federal government can alter the attractiveness of the Fixed Framework in the future by changing the growth rate applied to pool of monies available for equalization purposes. That is, the reality is that the rate could be changed and Nova Scotia would lose anyway.

Budget 2007 raises very different issues for Newfoundland and Labrador and Nova Scotia. For Newfoundland and Labrador, it's all about Equalization. Only a formula based on 0% resource revenue inclusion (and no total fiscal capacity cap) would have kept the Province in Equalization. A pre-cap trigger on Additional Offset payments would have kept the Province in the Accord.¹ None of this was on offer, however.

When all is said and done, Newfoundland and Labrador was faced with no choice at all—in effect, they were locked into a Hobson's choice. The total fiscal capacity cap under the New Equalization Program coupled with reduced Offset Payments, neutralizes any gains in pre-cap Equalization payments relative to the Fixed Framework for 2007-08 and 2008-09. Beyond 2008-09, the Province would be out of Equalization. Only the option of a formula based on 0% resource revenue inclusion (and no total fiscal capacity cap) would have kept Newfoundland and Labrador in Equalization.

For Nova Scotia, on the other hand, it's all about the Accord. As we understand the Nova Scotia government's position, it is that the receipt of its offshore revenues is projected to cause the Province to exceed the cap and thereby reduce the Province's Equalization payment. It is then argued that the 2005 Agreement protects the Province from any such reduction by requiring that Ottawa make additional offset payments. This argument appears to us to be entirely valid.

It may, however, be more than just about the Accord: the Province may well be better off remaining under the Fixed Framework. If it were to do so, there would be two Equalization programs in operation. It is hard to imagine such a system being allowed to continue under subsequent budgets. It would, for example, be simple to restrict growth in Equalization payments under the Fixed Framework to be no greater than what they would have been under the New Equalization Program.

¹ While the value of the offset payment under the New Equalization Program is calculated based on pre-cap equalization, s.84 of the Budget implementation Act imposes a separate qualifying trigger. In effect, this trigger requires the province's own-source fiscal capacity in per capita terms to be lower than the lowest province not receiving equalization in order to qualify or receipt of the Atlantic Accord under the New Equalization Program. This qualifying trigger effectively precludes Newfoundland and Labrador from receiving the protection of the Atlantic Accord. This could have been avoided by using qualifying for equalization pre-cap as the Accord qualification trigger.

Generally, under Budget 2007, respecting the Accords would have required a positive pre-cap Equalization eligibility trigger for Accord payments. Furthermore, provision should have been made that any Equalization reductions resulting from the application of the fiscal capacity cap would be compensated for through additional offset payments.

Beyond 2007-08, Nova Scotia is faced with a real choice — remaining under the Fixed Framework or opting into the New Equalization Program. To do so in 2008-09, however, would lose the Province the potential benefit of the Fixed Framework in future years. It is difficult to imagine that Equalization payments on a significantly greater growth track under the Fixed Framework relative to the New Equalization Program would be allowed to persist under future budgets. Simply put, a system with two Equalization programs is not sustainable within a principle of equal treatment of provinces. Perhaps, then, Nova Scotia is also locked into a Hobson's choice.

For New Brunswick and Prince Edward Island, the Fixed Framework option would have been in their financial interest, but was not an option. Yet, it was presented as an option for Nova Scotia (and Newfoundland and Labrador), so why not for these provinces too? Is a system with two Equalization programs sustainable?

**Table ES1: Revenue Implications for Each of the Atlantic Provinces
Under the Fixed Framework and the New Equalization Program
(Millions of Dollars)**

| Year | Nova Scotia | | | Newfoundland and Labrador | | | New Brunswick | | | Prince Edward Island | | |
|------------|-----------------|-----------------|-----------------|---------------------------|----------------|-----------------|-----------------|-----------------|-----------------|----------------------|----------------|---------------|
| | Fixed Framework | New Program | Difference | Fixed Framework | New Program | Difference | Fixed Framework | New Program | Difference | Fixed Framework | New Program | Difference |
| 2007-08 | \$1,438 | \$1,533 | \$95 | \$972 | \$732 | -\$239 | \$1,435 | \$1,477 | \$41 | \$291 | \$294 | \$3 |
| 2008-09 | \$1,514 | \$1,578 | \$64 | \$1,000 | \$585 | -\$415 | \$1,486 | \$1,513 | \$27 | \$301 | \$305 | \$4 |
| 2009-10 | \$1,565 | \$1,469 | -\$96 | \$465 | \$488 | \$22 | \$1,543 | \$1,539 | -\$4 | \$312 | \$311 | -\$1 |
| 2010-11 | \$1,630 | \$1,454 | -\$176 | \$389 | \$171 | -\$217 | \$1,600 | \$1,549 | -\$51 | \$323 | \$314 | -\$9 |
| 2011-12 | \$1,680 | \$1,474 | -\$206 | \$325 | \$156 | -\$169 | \$1,638 | \$1,573 | -\$66 | \$330 | \$319 | -\$11 |
| 2012-13 | \$1,720 | \$1,574 | -\$146 | \$0 | \$0 | \$0 | \$1,670 | \$1,595 | -\$76 | \$336 | \$323 | -\$13 |
| 2013-14 | \$1,765 | \$1,660 | -\$105 | \$0 | \$0 | \$0 | \$1,707 | \$1,615 | -\$92 | \$344 | \$328 | -\$16 |
| 2014-15 | \$1,808 | \$1,715 | -\$93 | \$0 | \$0 | \$0 | \$1,743 | \$1,637 | -\$106 | \$351 | \$332 | -\$19 |
| 2015-16 | \$1,855 | \$1,738 | -\$117 | \$0 | \$0 | \$0 | \$1,782 | \$1,658 | -\$124 | \$358 | \$336 | -\$22 |
| 2016-17 | \$1,900 | \$1,762 | -\$138 | \$0 | \$0 | \$0 | \$1,819 | \$1,680 | -\$139 | \$365 | \$341 | -\$25 |
| 2017-18 | \$1,942 | \$1,785 | -\$157 | \$45 | \$0 | -\$45 | \$1,854 | \$1,702 | -\$152 | \$372 | \$345 | -\$27 |
| 2018-19 | \$1,982 | \$1,807 | -\$175 | \$245 | \$73 | -\$172 | \$1,888 | \$1,723 | -\$165 | \$379 | \$350 | -\$29 |
| 2019-20 | \$2,022 | \$1,830 | -\$193 | \$466 | \$279 | -\$186 | \$1,924 | \$1,744 | -\$179 | \$386 | \$354 | -\$32 |
| Sum | \$22,821 | \$21,378 | -\$1,443 | \$3,907 | \$2,485 | -\$1,422 | \$22,090 | \$21,005 | -\$1,085 | \$4,448 | \$4,253 | -\$196 |

Introduction

Budget 2007 presented a New Equalization Program for Canada — one that is principle-based and formula-driven. Following on the recommendations of the Expert Panel on Equalization, the new program includes the re-establishment of a ten-province standard, simplified measures of capacity through a reduction in the number of equalization bases in the formula and a more predictable and stable payment system. Equalization payments are also constrained by a fiscal cap so that the total fiscal capacity of a receiving province cannot rise higher than that of the lowest non-receiving province.

Special provision was made for Newfoundland and Labrador and Nova Scotia, the two provinces covered by the equalization offset programs under the Accords, which compensate for reductions in equalization payments associated with oil and gas revenues. Each province was given the option of remaining under the current Fixed Framework, with an opportunity to permanently opt into the new Equalization program at a future date.

As well, the federal budget introduced other changes to federal-provincial fiscal relations, such as a shift towards equal per capita cash transfers under the Canada Social Transfer (and eventually, the Canada Health Transfer), each of which could have profound effects for Atlantic Canada. Although these effects can potentially be significant from the perspective of the Atlantic Provinces, they are not dealt with in this paper. Rather, this paper focuses on the implications of the equalization proposals for each of the Atlantic Provinces.

The issues surrounding the New Equalization Program are dominated by those to do with natural resource revenues. Indeed, provincial ownership of natural resources has been one of the biggest stumbling blocks in the development of Canada's equalization program and probably the single most contentious issue in federal-provincial fiscal relations over the past 20 years. The discovery of substantial oil and gas reserves off the coasts of Newfoundland and Labrador and Nova Scotia resulted in a dispute over ownership that culminated, in the case of Newfoundland and Labrador, with a Supreme Court of Canada ruling that confirmed the property rights pertaining to offshore resources were within the federal domain.

Subsequently, agreements were signed between the federal government and the provinces of Newfoundland and Labrador and Nova Scotia — the Atlantic Accord, signed in 1985, and the Canada-Nova Scotia Offshore Petroleum Resources Accord, signed in 1986. These agreements gave the provinces the right to tax their offshore oil and gas resources as if they were on provincial land. Hence, these agreements provided substantial potential for enhanced revenue-generating capacities for each province in connection with its offshore oil and gas industry.

These Accords were supplemented in 2005 with the Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act which provided for additional Equalization offset payments to Nova Scotia and Newfoundland and Labrador

to ensure that each province would receive 100 percent of the benefit of its offshore revenues. That is, the offset payments would ensure that there was no claw back of offshore revenues through Equalization.²

The total fiscal capacity cap introduced in Budget 2007 as part of the New Equalization Program is inexorably tied to the issue of natural resource revenues. By construction, it is only natural resource revenues and any associated Offset Payments through the Accords that can trigger the cap process. As such, the cap process would seem to undermine the intent of the Accords.³

In effect, the cap process is only binding on Nova Scotia and Newfoundland and Labrador, among the four Atlantic Provinces. Modeling this as part of the New Equalization Program, as well as the option of the Fixed Framework, is essential to understanding the issues around the choice that Nova Scotia and Newfoundland and Labrador must each make and to understand whether the other Atlantic Provinces are better off with the New Equalization Program than under the Fixed Framework. Undertaking this analysis and determining its implications for each of the four Atlantic Provinces is the purpose of this paper.

Changes to the Fiscal Arrangements Act

The Budget Implementation Bill⁴ (Bill C-52) lays out the terms of the New Equalization Program applicable to the provinces. Associated changes to the Federal-Provincial Fiscal Arrangements Act are in clause 64, pp. 64-83. In addition, clauses 80-86, pp. 93-103 lay out the associated changes to the Canada-Newfoundland Atlantic Accord Implementation Act and the Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act.

S.3.1 specifies amounts for fiscal equalization payments to the provinces for 2007-08. These amounts are derived from application of the formula described in s.3.2(1)(a) in the cases of Prince Edward Island, New Brunswick, Quebec, and Manitoba. In the cases of Saskatchewan and British Columbia, the amounts are derived from application of the formula described in s.3.2(1)(b) and with application of the cap process described in s.3.4. Neither Ontario nor Alberta would qualify for an equalization payment under either formula. The amounts specified for Nova Scotia and Newfoundland and Labrador are

² In effect, the 2005 Accords would calculate equalization entitlements for both Nova Scotia and Newfoundland and Labrador with and without offshore oil and gas revenue and any difference would be made up by payments under the existing Accords or the 2005 Accords. That is, the reduction in equalization payments due to offshore oil and gas revenues net of payments under the 1985 and 1986 Accords was to be paid to the province in question under a separate offset payment available through the 2005 Accords.

³ The specific and stated intent of the Accords were: (1) under the Nova Scotia Accord, it specified that the Accord was to provide “100 per cent protection from Equalization reductions resulting from the inclusion of offshore resource revenues in the Equalization program” and (2) for Newfoundland and Labrador, it specified that the Accord was 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.”

⁴ An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2007.

derived from application of the special provisions made for those provinces in s.3.6. In addition, s.3.7(1) allows either of those provinces to select an alternative amount for 2007-08 derived under the terms of s.3.2. These amounts are shown in Appendix B, (Table 4.1 reproduced from the Budget Plan, Chapter 4 (Budget 2007)).

S.3.2(1) provides for two versions of an Equalization formula. S.3.2(1)(a) is the O'Brien formula — a 10 province standard with 50% inclusion of natural resource revenues for purposes of determining fiscal capacity. S.3.2(1)(b) is the same formula but with 100% exclusion of natural resource revenues for purposes of determining fiscal capacity. A province's Equalization *entitlement* is to be determined as the greater of the two amounts resulting from the application of these formulae. A province may, however, elect to have its Equalization entitlement computed according to the O'Brien formula (s.3.2(2)).

S.3.3 makes transitional provisions for British Columbia with regard to the calculation of revenues derived from property taxes.

S.3.4 introduces the new cap on Equalization. The so-called fiscal capacity cap is designed to ensure that Equalization *payments* do not raise a province's total fiscal capacity above that of any non-receiving province. Where a province's total fiscal capacity, measured as the sum of non-resource revenue fiscal capacity, natural resource revenue fiscal capacity (100 percent inclusion), offset payments arising from the Nova Scotia and Newfoundland and Labrador Accords, and (pre-cap) Equalization entitlements exceeds that of the lowest non-receiving province, Equalization payments will be reduced accordingly. In principle, this could result in a province with a positive Equalization (pre-cap) *entitlement* receiving either a reduced or, indeed, no Equalization *payment* (post-cap).

S.3.5 provides definitions of terms and bases and describes the three-year-moving-average process, which is lagged two years, that is to be used in making calculations pertinent to s.3.2 and s.3.4.

S.3.6 makes special provision for Nova Scotia and Newfoundland and Labrador, specifying that in each of those provinces Equalization entitlements will be calculated according to an extension of the Fixed Framework in place since 2004. Importantly, it is specified that the aggregate of the fiscal equalization payments that may be made to all provinces shall grow at 3.5% per annum (s.3.6(1)(b)(iii)).

Notwithstanding this, s.3.7 allows either province to elect to receive instead an Equalization payment determined in accordance with s.3.2, including the cap process specified in s.3.4, during the 2007-08 fiscal year. These amounts are specified as \$1,465 million for Nova Scotia (derived from application of the formula in s.3.2(1)(a) and \$521 million (derived from application of the formula specified in s.3.2(1)(a) or \$732 million (derived from application of the formula specified in s.3.2(1)(b)) for Newfoundland and Labrador. Each province must make its decision by March 1, 2008. Specific to Newfoundland and Labrador, an election to take the \$521 million will be deemed to

mean that Province has made the election under s.3.2(2). Otherwise, there are no strings attached to either province's decision for 2007-08.

Beyond the 2007-08 fiscal year, Nova Scotia and Newfoundland and Labrador have the option to have their Equalization payments determined in accordance with the New Equalization Program—s.3.2 and s.3.4. Should either province do so, it will be deemed to have opted into the New Equalization Program (forfeiting the special provision of s.3.6). In any event, the special provisions of s.3.6 will cease to apply should a province ceases to qualify for a payment under the Accords and the New Equalization Program would then apply (s.3.8).

There exists the possibility under these terms that either Nova Scotia or Newfoundland and Labrador may be in the position that its Equalization payment would be greater under the 0% inclusion calculation than under the 50% inclusion calculation. In that event, the Province may elect to have its Equalization payment determined under the O'Brien formula. The issue here is that, under 0% inclusion, there would be no additional offset payment under the Accord. Thus, even though the Province's Equalization payment might be greater under 0% inclusion, it might be better off, in total, with 50% inclusion and an associated offset payment under the Accord.

For Nova Scotia, then, there is no issue for 2007-08. The Province can elect to receive an Equalization payment of \$1,308 million under the Fixed Framework and an associated offset payment of \$130 million under the Accord or an Equalization payment of \$1,465 million under the O'Brien formula and an associated offset payment of \$68 million under the Accord. In total, the Province is better off under the latter (\$1,533 million versus \$1,438 million, a difference of \$95 million). In electing to receive the latter set of payments, the Province is not deemed to have opted into the New Equalization Program — put differently, they are simply asked to choose between two sets of numbers. Beyond, 2007-08, however, the Province must make its choice between the Fixed Framework and the New Equalization Program and, should it choose the New Equalization Program, it will be deemed to have opted in permanently.

For Newfoundland and Labrador, the Fixed Framework remains the best option in 2007-08. Under this option it receives \$477 million in Equalization payments and an associated offset payment under its Accord of \$494 million, for a total of \$971 million. Under the New Equalization Program it would receive \$520 million in Equalization payments and an associated offset payment under its Accord of \$212 million, for a total of \$732 million. Note that the \$732 million total is the same as its equalization payment under the 0% inclusion version of the formula (s.3.2(1)(b)).

The Accords

The Atlantic Accord, signed in 1985, and the Canada-Nova Scotia Offshore Petroleum Resources Accord, signed in 1986, gave Newfoundland and Labrador and Nova Scotia, respectively, the right to collect royalties and to levy taxes on offshore operations as if the resources were on provincial land. In addition, the Accords provide equalization offset

provisions to compensate for potential reductions in equalization payments (the clawback) as these additional revenues come on stream.

Beyond the direct transfer through the equalization guarantee, the granting of tax room to the provinces in regard to the offshore itself constitutes a transfer of revenues from the federal government to the recipient provinces.

It is interesting to note that the equalization protection provisions under the two accords were made necessary by the exclusion of Alberta from the five-province equalization standard and 100% inclusion of natural resource revenue. Under a national standard, the formula itself would have treated royalties from the offshore on par with other forms of royalty, obviating the need for bilateral equalization agreements designed to supersede the formula-driven entitlements computed under the Equalization program. Such bilateral arrangements represent a move away from the formula-driven approach to federal-provincial fiscal relations that has been a characteristic of the Canadian system.

Atlantic Accord

The Atlantic Accord contains provisions that are intended to mitigate the dollar-for-dollar equalization loss that would otherwise have occurred with the increase in Newfoundland and Labrador's fiscal capacity resulting from the development of its offshore oil and gas fields. These provisions, referred to as the *Equalization Offset Provisions of the Atlantic Accord* (hereafter referred to as the Accord provisions), are authorized by Part V of the Canada-Newfoundland Atlantic Accord Implementation Act. The equalization protection provided under the Atlantic Accord commenced in the 1999-2000 fiscal year.

The payments under the Accord provisions consist of two distinct components: Part I payments and Part II payments.

Part I Payments

The Part I payment formula was designed to ensure that, independent of future legislative changes, the floor provisions of the equalization legislation (*Federal-Provincial Fiscal Arrangements and Federal Post Secondary Education and Health Contribution Act, 1977* or the Fiscal Arrangements Act) in place at that time, would continue to apply to the phase-out of equalization entitlements.⁵ This floor provision, guaranteed for 12 years after cumulative oil production from Newfoundland and Labrador's offshore oil and gas resources reached 15 million barrels, ensured that its equalization entitlements plus any grants received through Part I of the Accord provisions could not fall from one year to the

⁵ The offset floor available under the Atlantic Accord is slightly more attractive than the floor provision contained in the legislation at that time. The difference between the two was that under the existing legislation the floor provision applied to the pre-floor equalization entitlements while the floor provision under the Atlantic Accord applied to the post-offset floor; that is, the offset provision itself was included in the base for calculating the floor. In 1999 the floor provision in the Fiscal Arrangements Act was changed. Under this approach, the equalization entitlement for a province cannot fall short of its previous year's entitlement minus a threshold amount. This threshold is currently set at 1.6% of the per capita Equalization standard.

next by more than a predetermined percentage. The specific percentages by which this base was permitted to fall were contingent upon the per-capita fiscal capacity of the province relative to the national average fiscal capacity.⁶ Essentially, this provision entitles the provincial treasury to some minimum equalization payment because if actual payments fall below this minimum, the Part I grant equals the shortfall.

Part II Payments

Part II equalization offset payments were intended to compensate the province in the event that the defined base decreased from one year to the next. The base used for this calculation is the sum of actual equalization payments and Part I offset payments received by the province in each year. The Accord specified that in the first four years of production, the province would receive payments equal to 90% of any decrease in the defined base. In the fifth and subsequent years, the rate of protection would drop by 10 percentage points per annum until 12 years after production, when there would be no longer any protection from equalization loss through the Atlantic Accord.

An interesting aspect of the Atlantic Accord equalization offset provisions is that offset payments are triggered by any decrease in equalization within the 12-year period. It does not matter what causes the fall, all that matters is that the fall in equalization occurs within the relevant 12 years. In other words, the province is entitled to receive equalization offset payments for reductions in equalization that may occur for reasons other than offshore oil and gas, as long as they occur within the time period in which the Atlantic Accord equalization offset protection applies.

Bill C-52 proposes certain changes to the Canada-Newfoundland Atlantic Accord Implementation Act. Specifically, clause 80 proposes that offset entitlements are to be calculated on a pre-cap basis in accordance with the amended s.3.2 of the Fiscal Arrangements Act, but without regard for s.3.4 of that Act. One implication of this is that Accord entitlements may be reduced or eliminated (the latter if pre-cap entitlements increase) even though post-cap entitlements might have fallen.

Canada-Nova Scotia Petroleum Resources Accord

The equalization protection provided under the Nova Scotia Accord commenced in 1993-94 with the Panuke-Cohasset project. The formula applied to equalization offset protection was relatively straightforward. In the first year, the offset grant would be calculated as the difference between provincial equalization entitlements that would accrue to the province under the assumption that 100% and 10% of the offshore revenues were considered, which effectively means that 90% of these revenues were protected from equalization losses. In each subsequent year, an additional 10% of the revenue was

⁶ If the province's per capita fiscal capacity is less than or equal to 70% of the national average per capita fiscal capacity, then the sum of the actual equalization payments and Part I payments in each year must be equal to 95% of the previous year's figure. The level of protection reduces to 90% if the province's fiscal capacity is between 70% and 75% of the national average fiscal capacity. If the province's fiscal capacity moves above 75% of the national average fiscal capacity, the level of protection falls to 85%.

considered in calculating the equalization losses so that by the tenth year, there was no equalization offset protection available under the Nova Scotia Accord. Notwithstanding that the equalization protection under the Nova Scotia Accord was triggered by the Panuke-Cohasset project, the 2004 federal budget reset the start date for Nova Scotia's equalization offset protection under its Accord.⁷ This change was in recognition that the Nova Scotia Accord did not provide very much in the way of benefits to the Nova Scotia treasury. Moreover, the equalization protection provided with this new start date meant that Nova Scotia received equalization offsets over and above that provided under the Generic Solution until 2006-07.⁸

The 2005 Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act

The 2005 Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act provided for additional Equalization offset payments to Nova Scotia and Newfoundland and Labrador to ensure that each province would receive 100 percent of the benefit of its offshore revenues. That is, offset payments would ensure no claw back of offshore revenues through Equalization.

S.8 of the Act reads as follows

The additional fiscal equalization offset payment that shall be made to the Province for a fiscal year corresponds to the amount determined by the Minister in accordance with the formula (*italics are ours*)

$$(A - B) - C$$

where

A is the fiscal equalization payment that may be made to the Province for the fiscal year *under the equalization formula in effect at that time, calculated as if the Province did not have any offshore revenue or petroleum production;*

B is the fiscal equalization payment that may be made to the Province for that fiscal year *under the equalization formula in effect at that time;* and

C is the fiscal equalization offset payment for that fiscal year.

⁷ The 2000-01 start corresponds to the commencement of natural gas production from the Sable project – first gas was delivered ashore in late 1999.

⁸ Under the Generic Solution, an equalization receiving province that owns 70% or more of an equalization base can invoke the Generic Solution. This would entail that in calculating equalization entitlements for all provinces, only 70% of that base would be included in those calculations.

These *additional* Equalization offset payments ensure that, should there be a *change* in the Equalization formula, the Province will be fully compensated for any resulting claw back of offshore revenues.

There are, however, restrictions under the Act. Most importantly, that “[f]or any given fiscal year between April 1, 2006 and March 31, 2012, the Province will not receive the additional fiscal equalization offset payment [calculated as above]...*if it does not receive a fiscal equalization payment for that fiscal year*” (again, the italics are ours).

Bill C-52 proposes certain changes to the 2005 Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act. Specifically, additional offset entitlements are to be calculated on a pre-cap basis—that is, as the difference between Equalization entitlements based on a 10 province standard and with 0% inclusion of natural resource revenues and Equalization entitlements based on a 10 province standard and 50% inclusion of natural resource revenues (the O’Brien formula). In addition, a province is deemed to be ineligible for a payment under the Act if its total own-source fiscal capacity (non-resource plus resource fiscal capacity) exceeds that of the lowest non-Equalization receiving province.

Under Budget 2007, the inclusion of 100 percent of offshore oil and gas revenues in the determination of total fiscal capacity for purposes of the cap can result in a province with a positive Equalization entitlement (pre-cap) receiving a reduced Equalization payment or no Equalization payment. Yet, under the 2005 Act, the Province is entitled to additional offset payments to compensate for any such reduction. Moreover, 100 percent inclusion of offshore oil and gas revenues may result in a province having a fiscal capacity, measured as the sum of non-resource fiscal capacity and resource fiscal capacity, that exceeds that of the lowest non-receiving province, thereby making the Province ineligible for an Equalization payment (even though it has a positive entitlement pre-cap). This would make the province ineligible for an additional offset payment also, yet it clearly contradicts the notion that such payments should be calculated as the difference between the Equalization payment that would obtain *under the equalization formula in effect at that time, calculated as if the Province did not have any offshore revenue or petroleum production* and the Equalization payment that obtains *under the equalization formula in effect at that time*.

Moreover, the definition of fiscal capacity for purposes of the trigger that would invoke the restriction on additional offset payments mentioned above under the Budget Implementation Bill (Bill C-52) violates the Accord since it can deny a province its additional offset payment precisely because it has offshore oil and gas revenue. While this may not be a matter of immediate concern to Nova Scotia, it most certainly is to Newfoundland and Labrador. Newfoundland and Labrador is in the peculiar position that it can be denied additional offset payments precisely because it has offshore oil revenues, the ultimate claw back and precisely that which the Accords were intended to ensure against.⁹

⁹ To be sure, the long-standing position of the Government of Nova Scotia that Equalization should be based on a 10 province standard with 100 percent inclusion of resource revenues would ensure that a

Under Budget 2007, respecting the Accords would have required a positive pre-cap Equalization eligibility trigger for Accord payments. Further, provision should have been made that any Equalization reductions resulting from the application of the fiscal capacity cap would be compensated for through additional offset payments.

Simulation Methodology

The basic framework utilized for calculating equalization entitlements was taken from the Budget Plan and the Budget Implementation Act. The oil revenue for Newfoundland and Labrador was calculated based on a publicly-available oil price forecast and production profiles.¹⁰ The assumed exchange rate was \$0.87 US/CDN and the annual inflation rate was 2%. As well, an additional \$150 million in non-oil fiscal capacity was added to the Newfoundland and Labrador estimates to reflect the impact of Voisey's Bay and other new mines starting in the province. The natural gas revenue for Nova Scotia was projected forward based on the an assumed decline path for royalties that gave a total provincial royalty of \$2.4 billion for the life of the Sable project and an additional 15% to account for provincial corporation income taxes that would be payable. It was assumed for all provinces that per capita non-oil and gas fiscal capacity grew from levels at 1.4% per annum from the levels utilized in the federal budget.¹¹ The non-oil and gas fiscal capacities for every province were taken from information obtained from Finance Canada for the most recent years utilized in the budget. The relative fiscal capacities across provinces were held constant over time, except for the effects of oil and gas revenues.

Nova Scotia

Table 1 and Appendix Table A1 through A3 provide estimates for Nova Scotia under each of the Fixed Framework and New Equalization programs, under both the 50% and 0% inclusion options. As was mentioned above, for 2007-08 Nova Scotia is better off under the New Equalization formula. Since, in any event, the Province had the option under Budget 2007 of receiving an Equalization payment of \$1,465 million (calculated according to the O'Brien formula) and an associated offset payment of \$68 million under the Accord rather than payments calculated under the Fixed Framework, its decision to take the deal in 2007-08 is clearly rational. Moreover, in so doing, the Province is not deemed to have opted in to the New Equalization Program.

province with a fiscal capacity, measured as the sum of non-resource fiscal capacity and resource fiscal capacity, above that of the lowest non-receiving province, and therefore above the Equalization standard, would not qualify for an Equalization payment and would, therefore, not be eligible for an additional offset payment. But that is not the Budget 2007 Equalization program.

¹⁰ Oil prices were based on Sproule's February 28, 2007 forecast and the production profile was based on a Canada-Newfoundland and Labrador Offshore Petroleum Board forecast given at PRAC's Small Field Development Conference in St. John's on March 25, 2007.

¹¹ The 1.4% growth assumption was based on the actual growth rate in non-offshore oil and gas fiscal capacity in the last 10 years for Canada as a whole. To test the sensitivity of the results to this assumption, a 2% growth assumption was also utilized. While the specific numerical estimates were altered, the basic conclusion remained intact. That is, the conclusions reached in this paper were not changed by varying the growth assumption from 1.4% to 2%.

**Table 1: Nova Scotia Equalization Plus Accord Estimates
(Millions of Dollars)**

| Year | Fixed Framework | New Program | Difference |
|------------|-----------------|-----------------|-----------------|
| 2007-08 | \$1,438 | \$1,533 | \$95 |
| 2008-09 | \$1,514 | \$1,578 | \$64 |
| 2009-10 | \$1,565 | \$1,469 | -\$96 |
| 2010-11 | \$1,630 | \$1,454 | -\$176 |
| 2011-12 | \$1,680 | \$1,474 | -\$206 |
| 2012-13 | \$1,720 | \$1,574 | -\$146 |
| 2013-14 | \$1,765 | \$1,660 | -\$105 |
| 2014-15 | \$1,808 | \$1,715 | -\$93 |
| 2015-16 | \$1,855 | \$1,738 | -\$117 |
| 2016-17 | \$1,900 | \$1,762 | -\$138 |
| 2017-18 | \$1,942 | \$1,785 | -\$157 |
| 2018-19 | \$1,982 | \$1,807 | -\$175 |
| 2019-20 | \$2,022 | \$1,830 | -\$193 |
| Sum | \$22,821 | \$21,378 | -\$1,443 |

For 2008-09, the situation is more problematic. The Province is better off in total taking the \$1,578 million under the New Equalization Program than \$1,514 million under the Fixed Framework. To do so, however, requires that the Province opt into the New Equalization Program, forever giving up its right to the Fixed Framework. In 2009-10, however, the Province would be better off in total under the Fixed Framework and, indeed, in every fiscal year through 2019-2020. The additional \$64 million in revenues in 2008-09 under the New Equalization Program is more than offset by the loss of \$96 million in 2009-2010 from having given up the Fixed Framework option. For Nova Scotia, then, remaining with the Fixed Framework would appear to be the rational choice. Our estimates suggest that, in total, through 2019-20, the Province would receive \$22,821 million as opposed to \$21,378 under the New Equalization Program, a difference of \$1,443 million.

It is true that the province would receive more Equalization under the New Equalization Program in each of fiscal 2009-10 and 2010-11, but the accompanying reductions in offset payments under the Accord render the Province better off in total only in 2007-08 and 2008-09 under the New Equalization Program. And, as mentioned above, opting into the New Equalization Program in 2008-09 would leave the Province worse off in subsequent fiscal years relative to the Fixed Framework.

It is also interesting to note that, under the New Equalization Program, the fiscal capacity cap bites in each year from 2009-10 through 2013-14. The Equalization reduction due to the cap claws back \$142 million of the Provinces offset payment of \$167 million in 2009-10. Similarly, in 2010-11, \$167 million of the \$178 million in offset payment is lost through the operation of the cap.

The Chart below illustrates the claw back for 2010-2011.

Step 1 illustrates the calculation of Nova Scotia's (pre-cap) Equalization entitlement — the difference between the ten-Province standard and Nova Scotia's own-source fiscal capacity, measured as the sum of its non-resource fiscal capacity and 50 percent of its resource fiscal capacity.

Step 2 calculates of Nova Scotia's total fiscal capacity — measured as above, but with the addition of the remaining 50 percent of its fiscal capacity (excluded from the calculation of its Equalization entitlement) and any offset payments made pursuant to the Offshore Accords.

Step 3 provides the total fiscal capacity for the lowest non-receiving province (Ontario in this case).

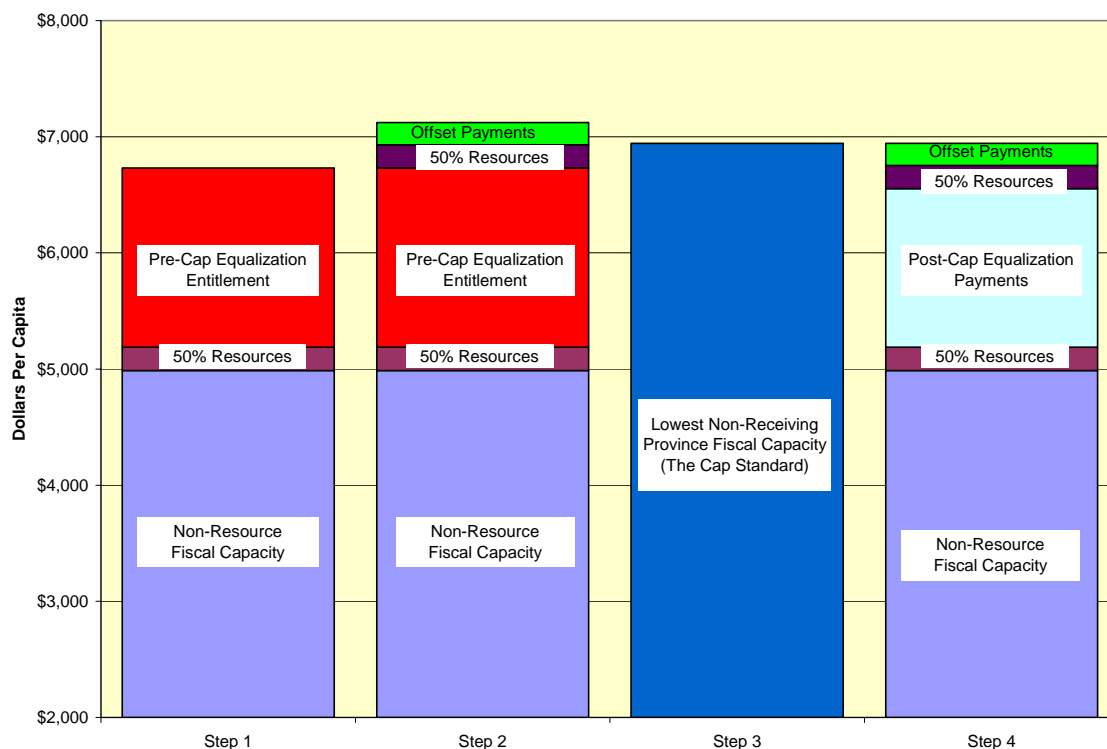
Step 4 indicates how the Equalization reduction is calculated to ensure that Nova Scotia's Equalization Payment does not raise its total fiscal capacity above the level of the lowest non-receiving province.

For 2010-2011, this amounts to a claw back on offset payments made under the Accord estimated to be \$167 million.

Between 2009-2010 and 2013-14 (a five year period), equalization reductions due the cap are estimated to amount to \$612 million. This can be interpreted to be a \$612 million claw back on the \$786 in offset payments under the Accord projected for the same period — in other words, 78% of the Accord payment is clawed back through equalization reductions.

If the spirit and the letter of the Accords were to protect against such claw backs through Equalization, then, in our opinion, there is a legitimate case to be made for further additional offset payments under the Accord legislation.

Figure 1: Pre- and Post-Cap Equalization Calculations for Nova Scotia: 2010-2011



Finally, in years in which the cap does not bite, there is no claw back of offset payments. In those years, then, “double equalization” is indeed on the table. It seems odd as a principle of federalism that total fiscal capacities can differ among Equalization-receiving provinces, but that Equalization payments to any province cannot cause total fiscal capacity to exceed that of the lowest non-receiving province.

Newfoundland and Labrador

Table 2 and Appendix Tables 4 through 6 provide estimates for Newfoundland and Labrador under each of the Fixed Framework and New Equalization programs. Under the Fixed Framework, the estimates show that Newfoundland and Labrador will cease to be an Equalization-receiving province by 2009-10. As such, it would be eligible only for transitional payments under the terms of the 1985 Accord; under the 2005 Accord, the Province would not qualify for an additional offset payment, since it does not qualify to receive Equalization. For 2007-08, the Province’s combined Equalization and offset payment would amount to \$972 million; for 2008-09 it would be \$1,000 million.

Table 2: Newfoundland and Labrador Equalization Plus Accord Estimates (Millions of Dollars)

| Year | Fixed Framework | New Program | Difference |
|---------|-----------------|-------------|------------|
| 2007-08 | \$972 | \$732 | -\$239 |
| 2008-09 | \$1,000 | \$585 | -\$415 |
| 2009-10 | \$465 | \$488 | \$22 |
| 2010-11 | \$389 | \$171 | -\$217 |

| Year | Fixed Framework | New Program | Difference |
|------------|-----------------|----------------|-----------------|
| 2011-12 | \$325 | \$156 | -\$169 |
| 2012-13 | \$0 | \$0 | \$0 |
| 2013-14 | \$0 | \$0 | \$0 |
| 2014-15 | \$0 | \$0 | \$0 |
| 2015-16 | \$0 | \$0 | \$0 |
| 2016-17 | \$0 | \$0 | \$0 |
| 2017-18 | \$45 | \$0 | -\$45 |
| 2018-19 | \$245 | \$73 | -\$172 |
| 2019-20 | \$466 | \$279 | -\$186 |
| Sum | \$3,907 | \$2,485 | -\$1,422 |

Under the New Equalization Program, Newfoundland and Labrador would qualify for Equalization pre-cap in every fiscal year through 2019-20. In each year beginning 2010-11 through 2017-18, however, the Province's own-source total fiscal capacity (non-resource fiscal capacity plus resource fiscal capacity with 100% inclusion) would exceed that of the lowest non-receiving province. Under the changes to the Accord in the Budget Implementation Bill, this would render the Province ineligible to receive an additional offset payment under the Nova Scotia and Newfoundland and Labrador Additional Fiscal Equalization Offset Payments Act. And, since the Province would not qualify for an additional offset in either of fiscal 2010-2011 or 2011-2012, it would fail the condition for renewal of the Accord. Finally, we note the somewhat anomalous case for 2009-10 where the Province in fact qualifies for an additional offset payment even though it does not qualify for an Equalization payment.

As mentioned above, Budget 2007 did allow Newfoundland and Labrador the option of receiving \$520 million (as determined by the O'Brien formula) in Equalization in 2007-08. Although this would represent an increased Equalization payment over the Fixed Framework (\$447 million), that increase is negated by reduced payments under the Accord (\$212 million versus \$494 million).

For 2007-08, under the New Equalization Program, the Province's combined Equalization and offset payment would amount to \$732 million, compared to \$972 million under the Fixed Framework. For 2008-09, it would amount to \$585 million, compared to \$1,000 million under the Fixed Framework. Moreover, remaining under the Fixed Framework would yield the Province an additional \$1,422 billion between 2007-08 and 2019-20. It should be said that remaining under the Fixed Framework would not be an option for Newfoundland and Labrador beyond 2011-12, since, once out of the Accord, the New Equalization Program becomes the only option.

Unlike Nova Scotia, for Newfoundland and Labrador remaining within the Fixed Framework is all that was really on offer under Budget 2007.

New Brunswick

Budget 2007 places New Brunswick under the New Equalization Program, ostensibly because it yields a higher Equalization payment. Indeed, as shown in Table 3, this is the

case in 2007-08 and 2008-09. For 2007-08, the Province receives an additional \$41 million in Equalization payments (relative to what would have been received under the Fixed Framework) and for 2008-09 it receives an additional \$27 million. In subsequent years, however the Province receives less Equalization than under the Fixed Framework. Projected through to 2019-20, the Province would be worse off by \$1,085 million.

**Table 3: New Brunswick Equalization Estimates
(Millions of Dollars)**

| Year | Fixed Framework | New Program | Difference |
|----------------|------------------------|--------------------|-------------------|
| 2007-08 | \$1,435 | \$1,477 | \$41 |
| 2008-09 | \$1,486 | \$1,513 | \$27 |
| 2009-10 | \$1,543 | \$1,539 | -\$4 |
| 2010-11 | \$1,600 | \$1,549 | -\$51 |
| 2011-12 | \$1,638 | \$1,573 | -\$66 |
| 2012-13 | \$1,670 | \$1,595 | -\$76 |
| 2013-14 | \$1,707 | \$1,615 | -\$92 |
| 2014-15 | \$1,743 | \$1,637 | -\$106 |
| 2015-16 | \$1,782 | \$1,658 | -\$124 |
| 2016-17 | \$1,819 | \$1,680 | -\$139 |
| 2017-18 | \$1,854 | \$1,702 | -\$152 |
| 2018-19 | \$1,888 | \$1,723 | -\$165 |
| 2019-20 | \$1,924 | \$1,744 | -\$179 |
| Sum | \$22,090 | \$21,005 | -\$1,085 |

Prince Edward Island

As with New Brunswick, Budget 2007 places Prince Edward Island under the New Equalization Program, again ostensibly because it yields a higher Equalization payment. As shown in Table 4, this is the case in 2007-08 and 2008-09. For 2007-08, the Province receives an additional \$3 million in Equalization payments (relative to what would have been received under the Fixed Framework) and for 2008-09 it receives an additional \$4 million. In subsequent years, however the Province receives less Equalization than under the Fixed Framework. Projected through to 2019-20, the Province would be worse off by \$196 million.

**Table 4: Prince Edward Island Equalization Estimates
(Millions of Dollars)**

| Year | Fixed Framework | New Program | Difference |
|----------------|------------------------|--------------------|-------------------|
| 2007-08 | \$291 | \$294 | \$3 |
| 2008-09 | \$301 | \$305 | \$4 |
| 2009-10 | \$312 | \$311 | -\$1 |
| 2010-11 | \$323 | \$314 | -\$9 |
| 2011-12 | \$330 | \$319 | -\$11 |
| 2012-13 | \$336 | \$323 | -\$13 |
| 2013-14 | \$344 | \$328 | -\$16 |

| Year | Fixed Framework | New Program | Difference |
|----------------|------------------------|--------------------|-------------------|
| 2014-15 | \$351 | \$332 | -\$19 |
| 2015-16 | \$358 | \$336 | -\$22 |
| 2016-17 | \$365 | \$341 | -\$25 |
| 2017-18 | \$372 | \$345 | -\$27 |
| 2018-19 | \$379 | \$350 | -\$29 |
| 2019-20 | \$386 | \$354 | -\$32 |
| Sum | \$4,448 | \$4,253 | -\$196 |

Conclusion

The point of our calculations has not been to present definitive numerical forecasts of the impact of the New Equalization Program relative to the Fixed Framework, rather it has been to illustrate the questions which must be addressed in both Newfoundland and Labrador and Nova Scotia in making the choices with which they were presented in Budget 2007. For New Brunswick and Prince Edward Island, no choices had to be made, but, had they been treated equally with their companion provinces, they too might have opted to remain under the Fixed Framework. In particular, we have tried to give some context to the notion that no province should be made worse off under the New Equalization Program presented in Budget 2007. Clearly this is not the case over the time horizon identified in this study.

Budget 2007 raises very different issues for Newfoundland and Labrador and Nova Scotia. For Newfoundland and Labrador, it's all about Equalization. Only a formula based on 0% resource revenue inclusion (and no total fiscal capacity cap) would have kept the Province in Equalization. A pre-cap trigger on Additional Offset payments would, however, have kept the Province in the Accord. None of this was on offer, however.

For Nova Scotia, on the other hand, it's all about the Accord. As we understand the Nova Scotia government's position, it is that the receipt of its offshore revenues is projected to cause the Province to exceed the cap and thereby reduce the Province's Equalization payment. It is then argued that the 2005 Agreement protects the Province from any such reduction by requiring that Ottawa make additional offset payments. This argument appears to us to be entirely valid.

It may, however, be more than just about the Accord: As we have illustrated, the Province may well be better off remaining under the Fixed Framework. If it were to do so, there would be two Equalization programs in operation. It is hard to imagine such a system being allowed to continue under subsequent budgets. It would, for example, be simple to restrict growth in Equalization payments under the Fixed Framework to be no greater than what they would have been under the New Equalization Program.

Generally, under Budget 2007, respecting the Accords would have required a positive pre-cap Equalization eligibility trigger for Accord payments. Further, provision should have been made that any Equalization reductions resulting from the application of the fiscal capacity cap would be compensated for through additional offset payments.

For New Brunswick and Prince Edward Island, a fixed framework option would have been in their financial interest, but was not an option. Yet, it was presented as an option for Nova Scotia (and Newfoundland and Labrador), so why not for these provinces too? Is a system with two Equalization programs sustainable?

When all is said and done, Newfoundland and Labrador was faced with no choice at all—in effect, they were locked into a Hobson’s choice. The total fiscal capacity cap under the New Equalization Program coupled with reduced Offset Payments, neutralizes any gains in pre-cap Equalization payments relative to the Fixed Framework for 2007-08 and 2008-09. Beyond 2008-09, the Province would be out of Equalization. Only the option of a formula based on 0% resource revenue inclusion (and no total fiscal capacity cap) would have kept Newfoundland and Labrador in Equalization.

Beyond 2007-08, Nova Scotia, on the other hand, is faced with a real choice—remaining under the Fixed Framework or opting into the New Equalization Program. To do so in 2008-09, however, would lose the Province the potential benefit of the Fixed Framework in future years. It is difficult to imagine that Equalization payments on a significantly greater growth track under the Fixed Framework relative to the New Equalization Program would be allowed to persist under future budgets. Simply put, a system with two Equalization programs is not sustainable within a principle of equal treatment of provinces. Perhaps, then, Nova Scotia is also locked into a Hobson’s choice.

Appendix A

**Table A1: Nova Scotia: Fixed Framework
(Millions of Dollars)**

| Year | Gas Revenue | Offset Payments | Equalization | Total |
|------------|----------------|-----------------|-----------------|-----------------|
| 2007-08 | \$483 | \$130 | \$1,308 | \$1,921 |
| 2008-09 | \$386 | \$274 | \$1,240 | \$1,900 |
| 2009-10 | \$309 | \$329 | \$1,236 | \$1,874 |
| 2010-11 | \$247 | \$360 | \$1,270 | \$1,878 |
| 2011-12 | \$198 | \$288 | \$1,392 | \$1,877 |
| 2012-13 | \$158 | \$230 | \$1,490 | \$1,878 |
| 2013-14 | \$127 | \$184 | \$1,581 | \$1,892 |
| 2014-15 | \$101 | \$147 | \$1,661 | \$1,909 |
| 2015-16 | \$0 | \$118 | \$1,737 | \$1,855 |
| 2016-17 | \$0 | \$70 | \$1,831 | \$1,900 |
| 2017-18 | \$0 | \$31 | \$1,911 | \$1,942 |
| 2018-19 | \$0 | \$0 | \$1,982 | \$1,982 |
| 2019-20 | \$0 | \$0 | \$2,022 | \$2,022 |
| Sum | \$2,010 | \$2,161 | \$20,660 | \$24,831 |

**Table A2: Nova Scotia: New Equalization Framework (50%)
(Millions of Dollars)**

| Year | Gas Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|------------|----------------|-----------------|-----------------------|-----------------|------------------------|
| 2007-08 | \$483 | \$68 | \$1,465 | \$2,016 | \$0 |
| 2008-09 | \$386 | \$88 | \$1,490 | \$1,965 | \$0 |
| 2009-10 | \$309 | \$167 | \$1,301 | \$1,778 | \$142 |
| 2010-11 | \$247 | \$178 | \$1,277 | \$1,701 | \$167 |
| 2011-12 | \$198 | \$181 | \$1,293 | \$1,671 | \$173 |
| 2012-13 | \$158 | \$144 | \$1,429 | \$1,732 | \$97 |
| 2013-14 | \$127 | \$116 | \$1,544 | \$1,786 | \$33 |
| 2014-15 | \$101 | \$92 | \$1,623 | \$1,817 | \$0 |
| 2015-16 | \$0 | \$74 | \$1,664 | \$1,738 | \$0 |
| 2016-17 | \$0 | \$59 | \$1,703 | \$1,762 | \$0 |
| 2017-18 | \$0 | \$28 | \$1,757 | \$1,785 | \$0 |
| 2018-19 | \$0 | \$12 | \$1,795 | \$1,807 | \$0 |
| 2019-20 | \$0 | \$0 | \$1,830 | \$1,830 | \$0 |
| Sum | \$2,010 | \$1,208 | \$20,170 | \$23,388 | \$611 |

**Table A3: Nova Scotia: New Equalization Framework (0%)
(Millions of Dollars)**

| Year | Gas Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|---------|-------------|-----------------|-----------------------|---------|------------------------|
| 2007-08 | \$483 | \$0 | \$1,219 | \$1,702 | \$0 |
| 2008-09 | \$386 | \$0 | \$1,238 | \$1,624 | \$0 |

| Year | Gas Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|------------|----------------|-----------------|-----------------------|-----------------|------------------------|
| 2009-10 | \$309 | \$0 | \$1,244 | \$1,553 | \$0 |
| 2010-11 | \$247 | \$0 | \$1,245 | \$1,492 | \$0 |
| 2011-12 | \$198 | \$0 | \$1,262 | \$1,460 | \$0 |
| 2012-13 | \$158 | \$0 | \$1,280 | \$1,438 | \$0 |
| 2013-14 | \$127 | \$0 | \$1,298 | \$1,425 | \$0 |
| 2014-15 | \$101 | \$0 | \$1,316 | \$1,417 | \$0 |
| 2015-16 | \$0 | \$0 | \$1,335 | \$1,335 | \$0 |
| 2016-17 | \$0 | \$0 | \$1,353 | \$1,353 | \$0 |
| 2017-18 | \$0 | \$0 | \$1,372 | \$1,372 | \$0 |
| 2018-19 | \$0 | \$0 | \$1,391 | \$1,391 | \$0 |
| 2019-20 | \$0 | \$0 | \$1,411 | \$1,411 | \$0 |
| Sum | \$2,010 | \$0 | \$16,965 | \$18,975 | \$0 |

**Table A4: Newfoundland and Labrador: Fixed Framework
(Millions of Dollars)**

| Year | Oil Revenue | Offset Payments | Equalization | Total |
|------------|-----------------|-----------------|----------------|-----------------|
| 2007-08 | \$1,367 | \$494 | \$477 | \$2,339 |
| 2008-09 | \$1,583 | \$826 | \$174 | \$2,583 |
| 2009-10 | \$1,435 | \$465 | \$0 | \$1,900 |
| 2010-11 | \$1,533 | \$389 | \$0 | \$1,922 |
| 2011-12 | \$1,382 | \$325 | \$0 | \$1,706 |
| 2012-13 | \$1,344 | \$0 | \$0 | \$1,344 |
| 2013-14 | \$1,319 | \$0 | \$0 | \$1,319 |
| 2014-15 | \$1,253 | \$0 | \$0 | \$1,253 |
| 2015-16 | \$1,090 | \$0 | \$0 | \$1,090 |
| 2016-17 | \$892 | \$0 | \$0 | \$892 |
| 2017-18 | \$690 | \$0 | \$45 | \$736 |
| 2018-19 | \$470 | \$0 | \$245 | \$715 |
| 2019-20 | \$307 | \$0 | \$466 | \$773 |
| Sum | \$14,665 | \$2,499 | \$1,407 | \$18,571 |

**Table A5: Newfoundland and Labrador: New Equalization Framework (50%)
(Millions of Dollars)**

| Year | Oil Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|---------|-------------|-----------------|-----------------------|---------|------------------------|
| 2007-08 | \$1,367 | \$212 | \$520 | \$2,100 | \$301 |
| 2008-09 | \$1,583 | \$269 | \$316 | \$2,168 | \$458 |
| 2009-10 | \$1,435 | \$488 | \$0 | \$1,922 | \$578 |
| 2010-11 | \$1,533 | \$171 | \$0 | \$1,704 | \$392 |
| 2011-12 | \$1,382 | \$156 | \$0 | \$1,538 | \$307 |
| 2012-13 | \$1,344 | \$0 | \$0 | \$1,344 | \$270 |
| 2013-14 | \$1,319 | \$0 | \$0 | \$1,319 | \$327 |
| 2014-15 | \$1,253 | \$0 | \$0 | \$1,253 | \$357 |
| 2015-16 | \$1,090 | \$0 | \$0 | \$1,090 | \$401 |

| Year | Oil Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|------------|-----------------|-----------------|-----------------------|-----------------|------------------------|
| 2016-17 | \$892 | \$0 | \$0 | \$892 | \$439 |
| 2017-18 | \$690 | \$0 | \$0 | \$690 | \$505 |
| 2018-19 | \$470 | \$0 | \$73 | \$542 | \$524 |
| 2019-20 | \$307 | \$0 | \$279 | \$587 | \$427 |
| Sum | \$14,665 | \$1,296 | \$1,188 | \$17,149 | \$5,286 |

**Table A6: Newfoundland and Labrador: New Equalization Framework (0%)
(Millions of Dollars)**

| Year | Oil Revenue | Offset Payments | Post-Cap Equalization | Total | Equalization Reduction |
|------------|---------------|-----------------|-----------------------|---------------|------------------------|
| 2007-08 | \$1,367 | \$0 | \$732 | \$2,100 | \$167 |
| 2008-09 | \$1,583 | \$0 | \$585 | \$2,168 | \$315 |
| 2009-10 | \$1,435 | \$0 | \$148 | \$1,583 | \$764 |
| 2010-11 | \$1,533 | \$0 | \$0 | \$1,533 | \$911 |
| 2011-12 | \$1,382 | \$0 | \$0 | \$1,382 | \$923 |
| 2012-13 | \$1,344 | \$0 | \$0 | \$1,344 | \$936 |
| 2013-14 | \$1,319 | \$0 | \$0 | \$1,319 | \$949 |
| 2014-15 | \$1,253 | \$0 | \$0 | \$1,253 | \$963 |
| 2015-16 | \$1,090 | \$0 | \$0 | \$1,090 | \$976 |
| 2016-17 | \$892 | \$0 | \$0 | \$892 | \$990 |
| 2017-18 | \$690 | \$0 | \$0 | \$690 | \$1,004 |
| 2018-19 | \$470 | \$0 | \$73 | \$542 | \$73 |
| 2019-20 | \$307 | \$0 | \$279 | \$587 | \$753 |
| Sum | 14,665 | 0 | 1,818 | 16,482 | 9,724 |

Appendix B

**Table 4.1 - A New Equalization Program Provides Significant Benefits to Equalization-Receiving Provinces
(Millions of Dollars)**

| | N.L. ¹ | P.E.I. | N.S. ¹ | N.B. | Que. | Man. | Sask. | B.C. | Total |
|---|-----------------------|--------|-------------------|-------|-------|-------|-------|------|---------------|
| | (millions of dollars) | | | | | | | | |
| 2006–07 legislated payments | 632 | 291 | 1,386 | 1,451 | 5,539 | 1,709 | 13 | 260 | 11,282 |
| Offshore offsets | 329 | | 57 | | | | | | 386 |
| 2007–08 guaranteed minimum allocation | 477 | 291 | 1,308 | 1,435 | 6,462 | 1,703 | – | – | 11,676 |
| Offshore offsets | 494 | | 130 | | | | | | 624 |
| 2007–08 renewed Equalization | 477 | 294 | 1,308 | 1,477 | 7,160 | 1,826 | 226 | – | 12,768 |
| Offshore offsets | 494 | | 130 | | | | | | 624 |
| Change From Guaranteed Minimum Allocation | | | | | | | | | |
| millions of dollars | – | 3 | – | 42 | 698 | 123 | 226 | – | 1,092 |
| dollars per capita | – | 22 | – | 56 | 91 | 104 | 230 | – | |
| <i>Note: Totals may not add due to rounding.</i> | | | | | | | | | |
| ¹ If Newfoundland and Labrador and Nova Scotia were to opt to move into the new program, Newfoundland and Labrador would be entitled to \$521 million in Equalization and \$212 million in offset amounts while Nova Scotia would be entitled to \$1,465 million in Equalization and \$68 million in offset amounts. | | | | | | | | | |

Source: Budget Plan, Chapter 4 (Budget 2007)