



Canada-Nova Scotia Clarifying Agreement

October 10, 2007

In a Nutshell

- Nova Scotia's right as principal beneficiary of our offshore resources has been confirmed.
- In dollar terms, all money expected to come to Nova Scotia over the life of the Accord is protected. In fact, we expect to gain significantly (\$229 million more by 2019-20)
- Dollars will now flow at different rates in different years, meaning we will get more some years, and less in others than what was anticipated when the Accord was signed. For those years we receive less, we will have to budget accordingly. Crown share payments - also a part of this clarifying agreement and expected to be worth hundreds of millions of dollars - are expected to help in this regard.

The Detail

This clarifying agreement has three components:

- the equalization formula in place when the 2005 Accord was negotiated is now available as a choice for Nova Scotia
- an "insurance policy" - calculated on a "cumulative best of" principle - is in place
- a panel is being struck to recommend on Crown share payments guaranteed to Nova Scotia

The Accord Equalization Formula

- The federal government based its equalization payments within the 2007 budget on recommendations from the O'Brien expert panel.
- The federal government gave Nova Scotia a choice between the new expert panel equalization formula or the existing equalization formula.
- Much of the discussions with the federal government have focused on the difficulties this choice presented to Nova Scotia. The federal government has now agreed to the province's request to choose the formula in place at the time the 2005 Accord was negotiated. Based on estimates we have today, this formula will generate \$72 million more to Nova Scotia in 2008-09 than the option presented in the federal budget in February or \$12 million more than the expert panel formula.

The "Insurance Policy"

- Nova Scotia is being provided a "cumulative-best-of guarantee" so that "Nova Scotia will do at least as well under the formula in place at the time the 2005 Accord was negotiated. Nova Scotians are guaranteed full protection for the life time of the 2005 Accord..." (to 2019-20).



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- “Cumulative-best-of” is calculated annually. If, in 2008-09, a gap remains between what Nova Scotia would have gained from the expert panel formula and our chosen formula, the federal government will pay us the dollars lost.
- In future years, the calculation is cumulative. Gaps will still be filled - but if we are overpaid on a cumulative basis, that amount will be deducted from our equalization payment in that year.

Crown Share and The Panel Appointment

- The three-member panel will hear presentations from both levels of government on the value of Crown share. They will make recommendations to both levels of government by March 15, 2008.
- Both the federal and provincial governments will select one panel member. The first job of these two panel members will be to select a third.
- See separate backgrounder for more details

The Numbers

Dollar amounts are estimates only. Actual amounts can only be determined based on future realities, such as the economies (“fiscal capacities”) of other provinces, and Nova Scotia’s offshore revenues. The following numbers are best estimates based on data and projections available at this time, and presented to show the relative merits of the available options.

Equalization Formula Options	2008-2009	2011-2012 (cumulative)	2019-2020 (cumulative)
O’Brien Expert Panel	\$1.579 B	\$11.442 B	\$24.314 B
Formula Option in 2007 Federal Budget	\$1.520 B	\$11.742 B	\$25.280 B
New Alternative (Oct. 10, 2007)	\$1.592 B	\$12.043 B	\$25.840 B
Compared to the 2005 Accord	\$1.634 B	\$12.349 B	\$25.611 B

The Bottom Line: What the Numbers Tell Us

- While Accord dollars are fully protected over the life of the agreement, the cash flows at different rates in different years.
- The greatest benefits of the formula in place when the Accord was negotiated kick in, in the later years of the Accord. Nova Scotia could gain **\$229 million** by 2019-20, compared to what was expected at that time.
- Even in the short-term, the province gains significantly from where we were on federal budget day. In 2008-09, the insurance policy puts us ahead of where we were by \$72 million, or \$12 million more compared to the expert panel. However, in 2008-09, we will still receive \$42 million less than what we would have received, based on the 2005 Accord.