



NOVA SCOTIA

Finance

Office of the Minister

PO Box 187, Halifax, Nova Scotia, Canada B3J 2N3 • Telephone 902 424-5720 Fax 902 424-0635 • www.gov.ns.ca

Docs.#52187

October 10, 2007

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance
Government of Canada
140 O'Connor Street
Ottawa, ON K1A 0G5

Dear Minister Flaherty:

I was pleased to receive your letter which sets out a mutually acceptable conclusion to our positive discussions regarding the implementation of Budget 2007 measures relating to Equalization and our 2005 Offshore Accord, and secures the Government of Canada's commitment to recognize Nova Scotia as the principal beneficiary of its offshore resources. As you know, these are important issues for our government and for the people of Nova Scotia as we work toward enhancing the province's economic prospects.

One of the concerns my government had expressed is that the choice between the Expert Panel Equalization formula and the status quo formula posed significant risks, as the future entitlements under these formulas could not be forecasted with certainty, and our province could face losses in the future if we choose the wrong formula. Your commitment to facilitate the transition to the new program by providing our province a cumulative-best-of guarantee will allow us to opt into the Expert Panel formula with the certainty of knowing that we will be guaranteed to receive at least the benefits provided by the Equalization Program in place when we signed the Accord. This will help ensure that we do not risk the benefits of our 2005 Accord in moving forward.

As part of our discussions, I am also pleased that the federal government accepts our request that the status quo formula used for the cumulative-best-of guarantee should be the formula which was in place at the time the 2005 Accord was signed. As part of the discussion around Budget 2007, the federal government offered us the ability to choose between the Expert Panel formula and a status quo formula. Thanks to our productive discussion, we both agree now that, the formula that was actually legislated was consistent with, but not exactly the same as, the formula in place in 2005. Your agreement to make the necessary technical amendments demonstrates your intention to respect the Accords.

.../2

I am satisfied that the combination of these two measures will protect the benefits our province expected to receive under the 2005 Accord at the time it was signed.

I agree that it is time to find a solution to our outstanding issues concerning Crown Share, which previous governments were unable to resolve. I recognize the complexity involved and I agree with the proposal that we each appoint one member to a joint, independent panel which will report back to us by March 15, 2008 with recommendations concerning the calculation of the value of federal CSAP obligations.

Yours truly,

A handwritten signature in cursive script that reads "Michael G. Baker".

Michael G. Baker, Q.C.
Minister