



THE PREMIER
GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

January 19, 2023

The Right Honourable Justin Trudeau, P.C., M.P.
Office of the Prime Minister of Canada
80 Wellington Street
Ottawa, ON K1A 0A2

Dear Prime Minister:

Canada's Equalization Program seeks to help narrow the fiscal disparities between provinces; ensuring provincial governments have adequate revenues to provide comparable levels of public services at comparable levels of taxation. Despite our economic and fiscal challenges, Newfoundland and Labrador has not received any equalization payout for the last 16 years, while other jurisdictions with similar challenges have continued to receive equalization - like New Brunswick for example, that has received \$29.5 billion in equalization payments over that same period.

Your government undertook a status-quo, five-year renewal of the equalization formula to keep it in its current form to 2024. As consultations with provinces and territories on Canada's Equalization Program are now underway in the lead up to 2024, I am writing you today to identify two of the weaknesses in the formula used to determine who receives equalization in our country. Newfoundland and Labrador is seeking consideration of these issues as worthwhile changes that will help improve Equalization.

First, one of the key weaknesses of the current Equalization Program is that it does not consider levels of service and the expenditure required to provide those services. This can vary significantly between jurisdictions based on geography, demographics and other issues that affect service delivery costs. This of course is particularly true for Newfoundland and Labrador - a large land mass with a small, widely dispersed and aging population. Newfoundland and Labrador is geographically three times the size of the Maritime Provinces, but with roughly one-third of the population. We suggest the goal of the Program should be to equalize capacity to provide services as opposed to equalizing revenue.

Given this, I respectfully ask that expenditure requirement be reflected in the Equalization formula to allow the Government of Newfoundland and Labrador the

opportunity to provide a level of public services comparable to those across the country. Integrating the variable cost of delivering public services is feasible; other countries have already included it in their 'equalization' programs. A first step toward this could be to adjust only for key significant sources of public service delivery cost differences that are out of a province's control and thereafter, over time incorporating a full expenditure need aspect to the program.

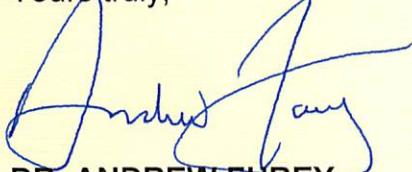
Second, under the current formula a province's entitlement to Equalization is subject to the Fiscal Capacity Cap (FCC) – a measure introduced in 2007 under the Harper government. As you would know, a 2016 report by an *Expert Panel on Equalization and Territorial Formula Financing*, established by the federal Minister of Finance, indicated very strong reasons why natural resource revenue should be excluded from the Equalization formula. The intention of the FCC is to ensure that any province receiving Equalization does not have a higher fiscal capacity than any non-receiving province. However, the FCC is applied based on the inclusion of all natural resource revenues. In contrast, prior to applying the FCC, the calculation of Equalization entitlements is based on either 50 per cent of natural resource revenues or fully excluding those revenues – whichever is to a province's advantage. We suggest this approach is not well justified and results in the effective natural resource revenue inclusion rate to vary between provinces.

Newfoundland and Labrador is fortunate to be rich in natural resources, however, volatility in commodity markets can have a significant impact on province's fiscal capacity. Excluding the FCC, the province would have benefitted from the Equalization program in recent years. Instead, the FCC systematically disadvantaged our province. We are concerned with this inequitable treatment of natural resource revenue and in particular, its impact on the program's policy neutrality and its potential impact on our capacity to develop critical minerals.

Newfoundland and Labrador is on a path to a net-zero economy, lessening our dependence on non-renewable resources. However, at present we are unique nationally in our reliance on resource revenue - revenue required to invest in our clean transition; revenue needed for the delivery of programs and services. I respectfully ask that entitlement to Equalization not be subject the Fiscal Capacity Cap. Removal of the FCC is central to ensuring natural resource revenue is treated equitably across provinces.

As the Government of Canada works to determine renewal parameters for the Equalization Program, I hope that improvements to the program can be realized. I look forward to your response.

Yours truly,



DR. ANDREW FUREY

Premier

c.c. Honourable Siobhan Coady, Minister of Finance and President of Treasury Board, Government of Newfoundland and Labrador.

Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, Government of Canada

Honourable Dominic LeBlanc, Minister, Intergovernmental Affairs, Infrastructure and Communities, Government of Canada

Honourable Seamus O'Regan, Minister of Labour, Government of Canada

Honourable Gudie Hutchings, Minister of Rural Economic Development, Government of Canada