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A new day for the Atlantic Accord

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On February 14, 2005, the former Premier Danny Williams and the former Prime Minister Paul Martin announced the execution of a new revenue-sharing agreement between the Province of Newfoundland and Labrador and the Government of Canada.[1] Pursuant to the 2005 agreement, the Government of Canada and the Province agreed to review the arrangement no later than March 31, 2019.[2]

On April 1, 2019, the Province executed a new agreement with the Government of Canada, with revenue and collaboration as the major themes of the announced agreement.

Revenue

Pursuant to the Hibernia Dividend Backed Annuity Agreement,[3] the Province will receive a revenue stream of approximately $3.3 billion over the next 38 years, commencing this year. In consideration for receiving these payments from Canada, the Province shall pay Canada eight annual payments of $100 million, beginning in 2045. As the payments to the Province are frontloaded, the Province will receive approximately $1.9 billion by the year 2030. However, during the years that the Province is obligated to make payments to the federal government, the payments being received by the Province will only be approximately $40 million per year.

The revenue stream that will be paid to the Province will be derived from the working interest in the Hibernia Development Project and the Hibernia Southern Extension Project held by Canada Hibernia Holding Corporation (CHHC), an indirect wholly owned federal Crown corporation. Interestingly, the payments to be made to the Province are not dependent on the revenue or profit generated by CHHC. If CHHC's profits in a year exceed the amount required to be paid to the Province, then the federal government shall be entitled to retain the difference; likewise, if CHHC's profits are less than the amount of the required payment for a year, then the federal government will be required to make up the shortfall.

Also worth noting is that the federal government's expressed long-term goals for CHHC include managing the "8.5% interest in the Hibernia offshore oil development project to achieve optimum return, while ensuring that the financial and other obligations associated with the 8.5% ownership are satisfied" and to "have the 8.5% interest in the Hibernia project ready for divestiture when so instructed by the shareholder."[4]

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Collaboration

The Province has announced that the new agreement includes a “dispute settlement clause that ensures Newfoundland and Labrador’s rights are respected” as well as commitments by the federal government to “strengthen the joint management of Newfoundland and Labrador’s offshore development” and to “examine the finances of the Muskrat Falls project to achieve rate mitigation.”[5] It is expected that the Federal Minister of Finance will meet with the Province to advance this matter in an attempt to avoid a potential doubling of electricity rates in the Province as a result of significant cost overruns at the Muskrat Falls hydro project.[6]

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[1] Government of Newfoundland & Labrador, News Release, “Prime Minister Paul Martin And Premier Danny Williams Celebrate New Revenue Sharing Arrangement,” February 14, 2005, online

[2] Government of Newfoundland & Labrador, “Arrangement between the Government of Canada and the Government of Newfoundland and Labrador on Offshore Revenues,” February 14, 2005, online

[3] Government of Newfoundland & Labrador, “Hibernia Dividend Backed Annuity Agreement,” April 1, 2019 [PDF]

[4] Government of Canada, Canada Development Investment Corporation, “Canada Hibernia Holding Corporation,” online

[5] Government of Newfoundland & Labrador, “2019 Atlantic Accord Review,” April 1, 2019, online [PDF]

[6] Ross Lord, Global News, “Renewed Atlantic Accord provides big boost to N.L. Liberals ahead of possible election,” April 2, 2019, online