Politics of Pinot in Nova Scotia: Bacchus to the future?

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Our title was chosen for alliteration, but a couple of wineries in Nova Scotia are actually planting pinot noir, as well as sauvignon blanc and chardonnay, grapes once held to be too delicate for Nova Scotia but benefiting from skilled viticulture and climate change. Equally surprising is the cultivation of four private wine and specialty stores (PWSS), granted five-year licenses by the Nova Scotia Liquor Corporation in 2003, two of whom are thriving despite some challenges from the organizational environment and culture of the NSLC. Policies supporting the production and retail of wine are rooted in a generally liberalizing alcohol policy environment. Changes in wine production and retailing in Nova Scotia reflects the intersection of NSLC revenue imperatives with the often varied interests of provincial government departments in a policy network with private entrepreneurs in agriculture, the restaurant trade and the PWSS. In this paper we outline the policy community which has shaped wine policy, especially since the conversion of the NS Liquor Commission into the crown corporation in 2001. We describe and discuss changes in the marketing of alcohol both inside and outside the NSLC and show how this is reinforcing the growth of the wine industry in the province while falling far short of true privatization.

Wine policy flows from a number of social, economic and political interests. Depending on one's perspective a bottle of wine represents a tourist attraction, agricultural and rural development, a pillar of the restaurant trade, a government revenue source, or an addictive toxin leading to costly health and social problems. The policy community is thus a complex one, with divisions inside the government as well as among organized groups representing those making wine, growing grapes, retailing and running licensed establishments. Public opinion seems to have moved away from temperance issues, with prohibition a distant memory, even though NS was the last province to repeal this legislation.

The winds of change have been blowing strongly through the NSLC since the late 1990s. Long gone are the outlets where alcoholic beverages were stocked on shelves behind bars and handed to consumers in brown paper bags. Today the NSLC sells products in colourful modernized stores, with sophisticated point of sale advertising and a flagship Bayers Lake store even trying fragrances as a marketing tool.[1] The NSLC 2007 annual report celebrates the marketing innovations of the corporation and in April 2008 the corporate website noted that the NSLC was the only Canadian retailer to become a finalist in the World Retail Awards.

In stark contrast to the flamboyant marketing efforts of the NSLC, regulation of alcohol sale and consumption in Nova Scotia remains a very bureaucratic and conservative regime, with detailed and sometimes archaic rules concerning conditions for acquiring

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[1] But the coconut scent was not conducive to wine sales, according to a private store competitor!

and holding a license, age of serving personnel, and penalties for serving alcohol to intoxicated persons. The policies of marketing the fruits of Bacchus contrast with an abiding caution toward an addictive drug. Like Janus (or a many-headed Hydra?) government looks forward to increased alcohol revenues while harking back to a legacy of regulation and control, as the Department of Labour and Workforce Development oversees the activities of the Alcohol and Gaming Division. The Department of Agriculture encourages the growth of provincial wineries, as does the Department of Tourism. Yet parts of the government retain the view that alcohol is a dangerous substance whose sale and consumption must be regulated for the public good. The newly created Department of Health Promotion and Protection published in 2007 a strategy to reduce alcohol use, especially among minors and others at risk of addiction. This department is skeptical that the NSLC will encourage responsible rather than excessive consumption. We do not explore in the present paper the ethics of government deriving revenue from the sale of a medically acknowledged hazardous substance. There is however a practical cost-benefit consideration for government, since the Canadian Centre for Substance Abuse reports annual alcohol related problems cost Nova Scotia around $430m in 2007, which is more than double the $195m revenues reported by the NSLC that year.

Public health analysts note that

> Monopoly systems fall on a continuum, with some systems actively promoting alcohol sales while others do not. In a given jurisdiction, a monopoly system may exist for one type of alcoholic beverage (e.g., distilled spirits), and a license system for others (e.g., wine and beer), and these systems may vary at the wholesale or retail levels.[2]

While not a full monopoly, Nova Scotia is still close to that end of the continuum. There are now roughly fifty agency stores (permitted to sell a limited range of NSLC products) and the four PWSS, but the NSLC still retains power over both wine retail and production. It is the lead agency in a diverse and organized policy network.

Policy community

The concept of policy community is well established in the study of Canadian public policy. Paul Pross used the model to explain the importance of institutionalization to effective action by pressure groups.[3] He suggested that there are zones of influence in any given area of public policy within which agencies, groups and individuals interact to form a policy community. In the central zone of each policy community is a sub-government where agendas are set and decisions taken. The sub-government in each policy area includes a lead agency of the state, as well as certain political institutions that play a role in every policy community—in provincial government the Department of

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[2] Traci L. Toomey and Alexander C. Wagenaar "Policy Options for Prevention: The Case of Alcohol," *Journal of Public Health Policy*, Vol. 20, No. 2. (1999) 213.

[3] Paul Pross, *Group Politics and Public Policy,* 2nd ed., Toronto: Oxford University Press, 1992, 118-130.

Finance and cabinet. Major institutionalized pressure groups, and an array of provincial government agencies, may also play a role in shaping policy. In the outer zones of the policy community one finds less institutionalized pressure groups with fewer financial resources, but often important technical expertise. This outer zone includes what Pross termed the "attentive public" and may comprise prominent individuals (journalists, academics and opinion leaders) as well as departments of government with less vital interests in the policy issue at hand. A defining feature of the policy community as outlined above is the frequent and patterned interaction of participants in the policy process. While not sharing the same policy views or interests in specific outcomes, participants come to recognize and expect each other's presence in forums, workshops, committee hearings, and the like. The arena of the state provides much of the structure for this interaction in the policy community. Budget deadlines, committee structures, Canada Customs Revenue Agency procedures, for example, all become part of the parameters for interaction in the policy community. The further away from the centre of the policy community and the lead agency structures, the less likely a group or organization is to influence policy outcomes.

Others have refined the discussion of policy community by analyzing policy networks that are formed during the interactions among and between groups and the state in a policy community. Coleman and Skogstad, for example, note various kinds of state officials' behaviour in pluralistic networks. 'Clientele pluralism' prevails where

> state officials are unable to differentiate themselves from organized interests. They become dependent on interest associations to supply information and expertise and to ensure member compliance and offer them an opportunity to participate in the policy process in exchange. [4]

In the case of 'state-directed pluralism' Coleman and Skogstad suggest one will find

> highly autonomous, coordinated state agencies and sectoral interests with a very weak associational system …. State officials dominate policy making and are able to impose their solutions, often without even consulting organized interests.[5]

In our study of wine policy in Nova Scotia we found that the policy network is close to the state-directed model. State officials (in particular the executives in the NSLC) maintain control over the reform process and policy outcomes. There were apparently some broad consultations around policy options in the late 1990s which aired discontent with the quality of NSLC stores and wine selections, but the policy community was dominated by the overriding imperative to maintain revenue flows. The policy outcome was the limited privatization experiment to appease critics. There was no replication in Nova Scotia of the highly politicized privatization debate in Quebec, where unions and

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[4] William Coleman and Grace Skogstad, "Policy communities and policy networks," in William Coleman and Grace Skogstad, eds., *Policy Communities and Public Policy in Canada,* Mississauga: Copp Clark Pittman, 1990, 27.

[5] Coleman and Skogstad, 29.

SAQ managers joined forces to oppose successfully the selling of SAQ outlets to private entrepreneurs, interaction which approximates more to the clientele pluralism network.

The Nova Scotian wine policy network sees frequent meetings between NSLC executives and the Restaurant Association of NS (RANS), the four independent PWSS and the Winery Association of NS (WANS). The recently formed NSLC has changed bureaucratic culture and organizational mandate to win marketing awards and to maintain steady sales growth while keeping the monopoly power to set wholesale prices at retail levels. There have been two recent policy changes which indicate only some responsiveness to RANS and WANS – a special surcharge on sales to licensees has been halved to 3.25 percent and the mark up on Nova Scotian wines has been cut from the standard 113 percent to 43 percent. RANS was far from mollified by the reduced surcharge, which they allege was illegal from the outset and their main issue is to achieve true wholesale discounts. WANS members appreciate the reduced mark up which is consistent with efforts by the Department of Agriculture to promote the grape industry and associated wineries.

Nova Scotia Liquor Corporation

The first incarnation of the "NSLC" was the Nova Scotia Liquor Commission, created through the *Liquor Control Act* in 1930. The Commission controlled the sale and distribution of all legally-sold alcoholic beverages in the province and did so unilaterally until 1946, when the Tavern License Committee (later the Liquor License Board) took responsibility for licensing bars, restaurants, and other venues to sell alcohol. Not much changed until 1995, when the Nova Scotia Gaming Control Commission was established and took over the Board's duties regarding licensing, administration, and inspection. The new Gaming Control Commission could be described as an "umbrella organization" in that its regulatory mandate extended to alcohol sales, lotteries, and all forms of legal gambling and gaming. To reflect its diverse portfolio, it was renamed the Nova Scotia Alcohol and Gaming Authority in 1997. After three years, the 7-member board of the Authority was disbanded. Its adjudicative responsibilities were reassigned to the province's Utility and Review Board and licensing and inspection of compliance went to the Department of Environment and Labour, which set up an internal Alcohol and Gaming Division to attend to its new responsibilities. The Division's quite extensive mandate includes regulating and studying the effects of gaming in Nova Scotia; classifying, licensing, and regulating film; and, with respect to the *Liquor Control Act*, issuing alcohol sales licenses and monitoring compliance with laws.[6]

From its inception the NSLC held the statutory authority to buy, import and sell liquor and to regulate its possession, sale and transportation. The Commission reserved the final word on what – and where – Nova Scotians drank. Up until the recent emergence of private wine retailers, the board had unilateral control over product selection, which meant that bars and eateries had access to only those wines, cocktails and spirits that the

[6] "History of the Alcohol and Gaming Division," Nova Scotia Department of Environment and Labour, December 19, 2006. Available at: http://www.gov.ns.ca/lwd/agd/history.asp.

NSLC had on order. Searching the NSLC's shelves for rare vintages was a wholly futile exercise; the Commission was catering to the masses.

Disgruntlement with the NSLC's approach came to a head in the 1990s – the "new public management" era. All government departments and agencies were encouraged to act more "like businesses" and faced pressure to waste less, produce more, and concentrate more intently on service delivery. Citizens were re-conceptualized as customers and clients. In October of 2000, then Minister of Tourism and Culture, Rodney MacDonald told his colleagues in the House of Assembly that major change was afoot regarding the province's approach to alcohol policy. In fact, as part of the budget package released in April of that year, the government announced that it would "get out of the retail and wholesale liquor business, provided such a move makes good sense for taxpayers."[7] The province had been under pressure from organized industry groups and licensees to reconsider its monopoly over alcohol sales and to contemplate the implications of more private sector involvement. Critics accused the NSLC of being slow, inefficient, and unresponsive – a familiar refrain among bureaucracy bashers. In particular, the Tourism Industry Association disparaged the NSLC's unfair treatment of restaurant licensees. The province applied a 9.3% surcharge on all alcohol sold to them – a discriminatory measure that undermined the spirit of entrepreneurship. In his address to the House, Minister MacDonald conceded somewhat implicitly that the NSLC's monopoly status might have contributed to its stagnancy. Nova Scotia was the only province that did not allow any sort of private involvement in retail alcohol sales.

In response to these factors, the government embarked on a six-month comprehensive review of alternatives to the status quo. A team of 8 officials from NSLC, the Department of Finance, the Priorities and Planning Secretariat and Business and Consumer Services was assembled to oversee the review process, which included identifying and evaluating different business models. Impact assessments gave consideration to how each model would affect government finances, Commission employees, service delivery, and government control over alcohol retail and distribution. In May of 2000, at the request of the review committee, the government contracted the services of PricewaterhouseCoopers to conduct a financial analysis of what privatization, either in whole or in part, could mean for the province's annual revenues, to which the NSLC had been contributing substantially. The province, quite simply, did not have the luxury of entertaining any option for increased privatization that would diminish its own profit from alcohol sales. The report found that from a purely financial perspective, the option that made the most sense was for the NSLC to close the stores that ranked below average profitability and replace them with agency stores. This would mean that convenience stores, gas stations and corner stores in select areas could start selling alcohol.

Officials also gathered input from organized pressure groups with a stake in alcohol sales and regulation. Internet discussions with the general public helped the government to understand how voters would respond to a change in the focus of alcohol policy from

[7] "Budget 2000-2001," Nova Scotia House of Assembly, April 11, 2001.

regulation to retail. Participants' responses ranged from support for the status quo to calls for full privatization, and covered everything in between. After consulting consultants, pressure groups, and ordinary citizens, the message that the government heard was that things had to change.

Citing a commitment to "growing the Nova Scotia economy and removing needless government barriers to economic growth," Minister MacDonald announced in October of 2000 that the NSLC would become a Crown corporation within the year.[8] He reasoned that the goal of maximizing profit from alcohol sales would be more feasible under a corporate model. He admitted that the NSLC in its current form was unable to satisfy all customers and that some private sector involvement was necessary to fill the gaps. New liquor stores could be operated, either privately or by the NSLC, depending on individual case business viability assessments. No existing liquor stores would be closed as a result of the review process and at least 8 agency stores would be in business within the calendar year to give previously-underserved communities convenient access to retail alcohol. The government committed to placing an NSLC outlet or agency store within 15 kilometers of every Nova Scotian, a goal which strikes health and addictions services officials as at odds with government's duty to regulate safe and responsible alcohol use. To end griping from wine connoisseurs, the province agreed to accept applications for permits to operate private wine and specialty liquor stores. Finally, to assuage the concerns of licensees, the government agreed to allow them to use credit cards for their NSLC purchases (with an estimated annual cost to the province of $800,000) and to halve the 9.3% sales charge applied to alcohol sold to them. In the end, the province retained its authority to regulate and control alcohol sales and distribution but let go of its monopoly on the retail aspect of alcohol sales. Based on the PricewaterhouseCoopers report, the changes were expected to preserve or increase the government's cash flow from the sale of beverage alcohol.[9]

The initial plan for eight agency stores was later formally expanded to thirty-two and the number is now over fifty, according to our interviews with Health Promotion critics of the program. In response to criticism concerning product selection the NSLC agreed to establish, on a five year trial basis, four private wine and specialty stores (PWSS). This "experiment" was clearly an expedient measure to mollify some of the critics of the NSLC selections and to give the appearance of liberalizing alcohol retailing policy without actually surrendering any significant government control over alcohol retailing or reducing direct government revenue from alcohol sales. For although two of the four PWSS are thriving, their business still represents a small percentage of overall alcohol sales in the province – just two percent, according to our NSLC contact. So this element of the province's liberalization of alcohol policy gave the appearance of conforming to the "new public management" without actually creating a serious private sector rival to the NSLC. In fact the PWSS stores are not operating independently of government as all

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8 "Hansard," Province of Nova Scotia (Available online); Friday, Oct 27, 2000: http://www.gov.ns.ca/legislature/hansard/han58-1/h00oct27.htm.

9 Nova Scotia Liquor Commission – Government Review of Alternative Service Options, Auditor General's Report, 2000, 207-213.

use the NSLC shipments (to varying degrees) so as to cut their transportation costs and one at least has been relying on implicit support from the NSLC by using free warehousing of inventory long over the agreed maximum of 30 days. At first glance the PWSS "experiment" thus seems to be one that the NSLC has a vested interest in supporting. If one or more of the PWSS were to fail, then there might be renewed pressure on the corporation to defend its marketing role and the restaurateurs and opinion leaders in the wine appreciation might campaign for an enhanced "experiment" including more PWSS outside of HRM or satellites of the existing stores. But the NSLC rejected a recommendation in a 2007 consultants report that the PWSS program be expanded to include other regions of the province than the "saturated" HRM.[10] The NSLC has clearly much policy discretion at the centre of the wine policy community so it is useful to consider briefly the internal structure and culture of the corporation.

A crown corporation is an organization that is entirely government-owned but runs like a business. Cabinet appoints board members, directors and managers to handle operations, but political involvement is supposed to stop there. The appointments themselves can be exploited as tools of political patronage and favouritism, and the NSLC has been no exception. In 2005, the Nova Scotia Government Employees Union (NSGEU) criticized the province's decision to raise NSLC board members' monthly stipends from $600 to $1000. The chairman's stipend was doubled to $2000. This happened despite the government's insistence that it could not manage a 2% wage increase for NSLC employees, who are represented by the NSGEU. Union president Joan Jessome sized up the stipend increases as a part of an already sweet package for the provincial government's political allies who had been appointed to serve the Corporation: "It makes no sense to us that a group of political appointees can lay claim for all the hard work and dedicated service of our members who do the real work for the corporation."[11] At the time, Ernie Fage was the minister responsible for the NSLC. The stipend increases were justified in his view because the time commitment required to oversee the corporation was significantly more than its directors had bargained for originally. And, judging by the NSLC's profit margin following its transformation to corporate status, its board members deserved some recognition and reward. By 2005, the NSLC was contributing $30 million more annually than it had been in 2001, due in no small part to major changes in the NSLC's approach to marketing, customer service, product selection and management.[12]

Even before the NSLC became a corporation, the Auditor General's audit in 2000 found that it was performing well in terms of revenue generation and efficiency.

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[10] Gardner-Pinfold Consulting Economists, "Economic Impact Study of the Private Wine and Specialty Store Program", April 2007, iv.

[11] "NSGEU condemns NSLC Board compensation raises," Available Online; National Union of Public and General Employees January 25, 2005: < http://www.nupge.ca/news_2005/n25ja05b.htm>.

[12] "NSLC Board Compensation Increased," Available Online; Government of Nova Scotia January 21, 2005: http://www.gov.ns.ca/news/details.asp?id=20050121002.

> We observed that the Commission addresses many economy and efficiency issues in its business and operational plans. The primary focus of most plans is to improve the "bottom line" of the Commission through controlling costs and increasing sales. The Commission has reported considerable success in this area. Since 1991, net income has risen from $109 million to $135 million (for the year ended March 31, 2000), an increase of 23.9%. During the same period, store operating expenses, expressed as a percentage of sales, declined from 9.2% to 9.1%. Administration expenses declined from 5.1% of sales to 2.3%.[13]

Revenues have grown under the crown corporation, but it is hard to know with what efficiency the reformed NSLC is conducting its modernized retailing operations. Annual Reports from the NSLC now simply contain statements of revenues and expenses with no commentary on efficiency from the private auditor retained to examine the accounts. Several of our interviewees, in different parts of the policy community, noted that the NSLC extracted "usurious" profits from the wholesale and retail of alcohol. Another indication of the NSLC escaping normal efficiency criteria is a provincial decision in May 2008 to change the calculation of property tax on NSLC outlets from one based on inventory to one based on the value of the property. In the case of NSLC stores located in malls, all property tax will be cancelled as the mall owners already pay tax on the property. The Union of Nova Scotia Municipalities is upset at the lost revenue and at the process which has left them scrambling collectively to find almost $2 million.[14] The NSLC could be accused of maintaining a larger staff than necessary and of spending without restraint in the modernization of its retail outlets around the province. Nevertheless, the main client of the NSLC is the Department of Finance, and there are no complaints from that department concerning the bottom line performance of the NSLC. Indeed, although a crown corporation with operational autonomy, the NSLC still marches to the beat of the annual fiscal requirements of the Department of Finance.

Private Wine and Specialty Stores (PWSS)

Four PWSS were created in 2003 as a result of the policy changes began with the review of alcohol policy. The operating agreement with the NSLC describes the PWSS as partners, and at least two of the four have become stable players in the provinces wine retail business and one a major supplier of restaurant licensees. In this respect they could be considered as major groups interacting with the lead agency on wine policy in a state directed pluralist network. Yet the PWSS license remains "experimental" with a new five-year operating agreement being negotiated but not yet signed as of May 2008. The NSLC retains control over many of the day-to-day operations of the PWSS who use the corporation's warehouses and share shipping containers. Although free for the most part to select and import wines, the PWSS operating agreement symbolizes the ability of the NSLC to retain control over retail of wine and other alcoholic beverages. For example, their profitability is greatly contingent on the discount which the NSLC awards them in

[13] Office of Auditor General of Nova Scotia, Chapter 11, NSLC, 194.

[14] "Municipalities left to cover $2.1 million shortfall in NSLC taxes," Chronicle Herald, 3 May 2008.

their purchase of products handled by the government system. As described in the consultant's report, the NSLC is "regulator, wholesaler and potential competitor" to the PWSS.[15]

The NSLC and PWSS are wary partners in a program which offers both support and obstacles to the private operators. But as might be expected from a government monopoly not used to sharing its mandate, there was obstructive behaviour and violation of the operating agreement, including the construction of new stores within two km of a PWSS. One PWSS owner believed that initially the NSLC did not want the PWSS to succeed. He reported extensive negotiations around the original operating agreement, which ended up with 28 pages of amendments, and noted that six days before the agreement was signed, the NSLC shifted two hundred items stocked at the NSLC specialty Port of Wine stores to regular outlets, thus prohibiting the PWSS from carrying them. Each of the initial contracts with the private stores was different with each having a different discount margin from day one. This is described as a "Divide & Conquer" strategy by one PWSS owner. The discounts were later raised to a uniform five percent after it became clear that some PWSS stores would fail without some concession. The operating agreement called for an Agent Stocking Program with 250 brands, but actually only ten brands were handled in this way as agents were scared that if they cooperated with the PWSS they would lose the larger NSLC market.

Although the NSLC has become less obstructive toward the end of the five year experiment, the partnership with the PWSS remains troubled especially by pricing constraints and by slow distribution of products sourced by the private owners and co-shipped with NSLC imports. Two of the PWSS are in financial difficulty and one made an attempt to buy out their licenses, but the private operators set the price too high and the potential buy-out failed. Subsequently the NSLC chair told the bidder that he would have needed NSLC approval to transfer the license.

More positive signs of a partnership with the PWSS are shared shipping and warehousing benefits. Indeed the NSLC was subsidizing the PWSS by carrying warehoused inventory over long time periods without charge. One of our interviewees admitted to deliberately leaving large amounts of inventory unpaid, but explained this was a deliberate policy to protest the chronic errors in invoices (confirmed by another PWSS owner).

In 2007 the NSLC hired the Halifax-based firm of Gardner-Pinfold Consulting Economists to review the impact of the five-year experiment with Private Wine and Specialty Stores (PWSS) and to make recommendations on whether the experiment should be stopped, maintained or expanded. A private owner reported that the PWSS "forced the NSLC to have the PWSS sit with them to determine the scope and criteria for the review as it was to be a 'go forward document' however in the end the corporation set their own scope and criteria and changed the entire review dynamics."

[15] Gardner-Pinfold, "Economic Impact Study," 7.

Whatever its origins, the Gardner-Pinfold study was largely positive about the PWSS program. The consultants found that the PWSS made an incremental impact on wine sales, noting a 4.1 percent increase in the period in 2005 compared to 3.7 percent over the 1995-2005 average.[16] In addition there were possible but unquantifiable impacts concerning the education of consumers with possible incremental consumption in restaurants and in the NSLC's own stores. Based on regional income and employment data as well as the NSLC's own revenue data, Gardner-Pinfold recommended that the four PWSS outlets continue in HRM and that there be careful expansion to serve other areas of the province. Yet the NSLC decided against any expansion of the PWSS experiment and merely agreed to continue the existing experiment for a further five years

One mandate of the PWSS program was to bring new products to the Nova Scotian market, and this has been achieved. But perhaps the more important goal of the program was to deflect demands for genuine privatization, and to the extent that consumers in HRM accept this alternative to the government monopoly, this has been achieved as well. However, one PWSS owner is still committed to expanding his business and believes that he has a social responsibility in challenging the government monopoly, so the PWSS cannot be relied on as "sleeping partners" in the NSLC-controlled experiment.

Nova Scotia Government Employees Union (NSGEU)

The Nova Scotia Government Employees Union (NSGEU) has a direct interest in a robust and profitable NSLC. It represents approximately 500 workers employed in retail sales, clerical work, maintenance and warehousing. The union has had mixed feelings about recent changes in alcohol policy in the province. On the positive side, the NSLC's new approach to marketing and service delivery seems to have increased its revenues, which is good news for current and prospective employees. The NSGEU lobbied for Sunday shopping and longer hours for years before the government moved forward on these initiatives, as both mean more money in employees' pockets. Predictably though, the NSGEU has been one of the loudest critics of privatization of any sort. In fact, the union published at least one press release, in the summer of 2005, urging members not to shop at any of the four private wine stores or agency stores, but to patronize only the NSLC outlets that employ their colleagues.[17] Resistance to privatization stems from personal and social concerns. First, a shift toward privately-run stores obviously poses a threat to NSLC workers' job security. Second, the devolution of power from government to private retailers compromises the government's ability to promote socially responsible drinking, deter drunk driving, and prevent alcohol sales to minors. Sales personnel in NSLC outlets have no incentive to sell irresponsibly, but some people fear that the thirst for profit might put undue pressure on private retailers to sell to minors. In June of 2000, during the government's review of alcohol policy, the NSGEU collected signatures from

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[16] Gardner-Pinfold, "Economic Impact Study," 28.

[17] "A message to NSGEU members: Support Unionized NSLC Stores," Nova Scotia Government Employees Union," June 29, 2005: http://action.web.ca/home/nsgeu/news.shtml?x=78862.

approximately 10,000 Nova Scotians opposed to the privatization of alcohol sales.[18] Ten percent of them were constituents of Rodney MacDonald, the minister responsible for the NSLC at the time. The opposition parties tabled the petitions in the House of Assembly and could have had some influence on the government's ultimate decision to restrict private activity in alcohol sales. Since then however, the government has increased private retail quietly by allowing more agency stores to open, prompting NSGEU condemnation of "back door" privatization.

Department of Agriculture

In most agricultural commodities, the Department of Agriculture would naturally be the lead agency, but in wine policy it cedes some control to the NSLC. Indeed, the Corporation's cooperation is required in order for the production of wine to find any market outlet in the province. One key policy document is the Farm Winery Policy released by the Department of Agriculture in April 2007.[19] This policy lays out technical requirements for alcohol levels and local content of wines and sets the overall goal of increasing investment to develop a viable industry enjoying contracts with the NSLC. Although the policy has multiple goals of job creation, industrial development, and tourism promotion, the NSLC is essential to the Department's wine policy and it has a seat on the Farm Winery Industry Development Board. The corporation is charged with administering the policy, including supervising quality control in exchange for the Retail Sales Markup Allocation which allows farm wineries to sell directly to customers, submitting five percent of wholesale prices to the government instead of the regular NSLC store markup. While the policy is a positive development for the wine industry, it clearly does not erode NSLC control over wine retail in the province. A glance at the requirements for obtaining a winery permit shows a highly bureaucratic process with applicants submitting all details of their proposed operation directly to the NSLC in addition to getting approval and certification from the Department of Agriculture. The role of the department has been to facilitate the development of standards for grape production and to encourage, without direct subsidies, the conversion of land to viticulture from less profitable uses such as ageing orchards.[20] The role of government in the future may be to enhance quality by monitoring crop yield/hectare, as is the practice in Europe.

Winery owners and association

The Winery Association of Nova Scotia (WANS) is a well organized and professionally staffed group advocating for policy in the NSLC and Departments of Agriculture and

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[18] "10,000 sign petition to oppose privatization of sale and distribution of liquor," Nova Scotia Government Employees Union, June 7, 2000: <http://action.web.ca/home/nsgeu/news.shtml?x=34467>.

[19] Nova Scotia Department of Agriculture, "Nova Scotia Farm Winery Policy" April 2007. Available at http://gov.ns.ca/agri/mbd/WineryPolicy.pdf

[20] NSLC "Farm Winery Requirements" checklist. Available at http://nslcweb.thenslc.com/pls/portal/docs/PAGE/WEBSITE/ABOUT_NSLC/LEGISLATION/PERMITS/WINERY%20CHECKLIST.PDF

Tourism. Winery policy in Nova Scotia is marked by fewer fundamental disagreements than the broader issues of alcohol retail promotion. Both provincial and municipal governments are inclined to support the growth of the industry. There are synergies between rural development, tourism promotion and the fact that the product is alcoholic seems very much of secondary importance.

Given the widespread benefits from growth of the local wine industry, it is interesting that WANS had to campaign for seven years to achieve a reduction of markup in the NSLC stores from 113 to 43 percent which made the growth of a viable industry much more likely. This policy came into effect in January 2008. Our interviews with two leading winery owners in the province showed both frustration with the slow pace of change and appreciation that the new mark-up policy reflects a new culture inside the NSLC. The lead agency is no longer obstructing the efforts of the Departments of Agriculture and Tourism to promote a viable wine industry in the province. [21] In singling out wine producers from other alcohol producers, we see an echo in Nova Scotia of Californian government support for the wine industry, after lobbying kept the excise tax on wine to only seven cents per gallon of absolute alcohol.[22] The change was slow in coming partly because of reluctance to recognize the special agricultural challenges of the wine industry compared to the brewing of beer. The markup before January 2008 was too high to compensate NS wine growers for the difficulties of developing a business based on locally grown grapes. The industry found it hard to compete, except in producing wines partly using imported concentrate, as in the case of the Jost "Comtessa" and "Chablis" brands. Another winery owner reported that one of his more popular wines was being sold at $14.50 in the NSLC stores, while he was paid $5.10 with a break-even point of $7.25. WANS members want to see growth in the industry measured in terms of acreage under cultivation, number of wineries and litres produced. They hope that the province's wine industry will achieve a critical mass needed to draw tourists and to improve product through research and competition. Reducing the NSLC markup provides an impetus to achieving these goals and it is expected that there will be twenty wineries in the province by 2020. For the time being though, the NSLC role in wine industry development is regulatory rather than developmental – the Farm Winery policy contains several clauses regarding punishment for failing to meet the 85 percent NS content requirement. As the lead agency in the wine policy community, the NSLC reserves the right to inspect premises and to audit accounts.

Restaurant Association of NS

In addition to their high importance in the province's hospitality industry, restaurants are acknowledged as important in the education of consumers and in the development of markets for local and imported wines. RANS is a well-organized and professional organization with ongoing research programs and regular participation in wine policy

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[21] The reduction in the mark up was justifiable under NAFTA and WTO rules because NS can be classified as a developing region as far as the wine industry is concerned. Product from other suppliers enjoying "developing" status, such as England or New York State must also enjoy the reduced rate.

[22] Patricia A. Morgan, **"**Power, Politics and Public Health: The Political Power of the Alcohol Beverage Industry," *Journal of Public Health Policy,* Vol. 9, No. 2. (Summer, 1988), 195.

discussions. Our interviewees reported participating in an alcohol regulatory review in the fall of 2007 and making 60 recommendations, of which 13 were accepted.

RANS members include all those with a license to serve food, except for the larger chains. The key policy issue for RANS is the prices that the NSLC charges to licensees, which they note are the highest average prices in Canada. (This was echoed in discussions with restaurateurs who commented to us that they found identical wines on the menu of New England restaurants at less than the NSLC "wholesale" price.) RANS notes that the for the NSLC the concept of "wholesale" means "in bulk with no discount" and the challenge to profitability is putting added pressure on a sector of Nova Scotian business which now leads accommodation and other elements of the hospitality industry in overall sales. RANS is planning constituency level lobbying to alter this policy in the months leading up to the next provincial election. RANS also believes that its members are under serviced by the NSLC, which devotes 18 percent of operating expenses to retail operations but only two percent to restaurants, even though restaurants account for 28% of the NSLC sales, according to its research. While some observers hold that the NSLC has transformed its culture and become more sensitive to customer needs, RANS felt that the corporation was still controlled by political appointees with little or no experience in the industry. Members of RANS are explicitly banned from holding positions at the NSLC.

Above and beyond concerns with the management of the NSLC, RANS analysts realize that the corporation's pricing is in large part out of the corporation's control. The first factor shaping pricing is Department of Finance requirements, secondly come changes in costs, and thirdly suppliers' price changes. Thus the annual government budget line for the NSLC is one that fills RANS with apprehension. Having said this, RANS also feels that there are inefficiencies in the NSLC and a bureaucratic arrogance toward customers, symbolized by the reservation of convenient parking at NSLC headquarters for executive staff while visitors are relegated to the periphery!

With respect to privatization, while NSLC contacts reported to us that only two percent of total sales pass through the PWSS, RANS believes that the PWSS have taken a "huge share" of NSLC business with licensees, thanks to reliable deliveries of even small orders and to discounted pricing. (This was confirmed by one of the PWSS operators who reported growth of over 150 percent in the licensee side of his business in 2007. He plans to introduce an inventory monitoring service for customers to make sure that they do not run out of popular menu items.) RANS' disappointment with NSLC service is related in part to an experiment in centralizing all drop-off and deliveries at NSLC headquarters presenting an inconvenience which was magnified by a defective computer inventory system. The resulting shortages of supply led to a 40-60 percent drop off in NSLC business over the short term and to continued opportunities for the PWSS afterwards.

Media and journalists

As in any issue, journalists play an important role in the attentive public of the wine policy community. News coverage of the wine industry is of course of high value to the tourism industry and the Department of Tourism now regularly uses photos of vineyards in its promotional material. One long-time observer of the wine industry with a weekly newspaper column is Sean Wood. He has shown a lot of support with tasting notes on the PWSS offerings and is also a friend of the NSLC having published with the corporation's sponsorship a book on the wines and wineries of the province.[23] In 2008 an article discussed Benjamin Bridge, a winery in development in the Gaspereau valley which will build viticultural facilities in 2008 and a new winery beginning in 2009. The sommelier is already impressed with wines produced from sauvignon blanc and pinot noir grown at Benjamin Bridge– reinforcing the potential of the province in the cultivation of vitis vinifera wines, begun on a small sale at Jost vineyards on the northern shore.[24] An article in Nova Scotia Business chronicles the development of the industry, the awards won by Grand Pre and Jost wines and the increasing prices for grape-friendly slopes in the Gaspereau valley.[25] This type of media coverage is clearly positive for the development of both agriculture and tourism. We must thus segregate this sommelier style reporting of wine issues from the occasional negative media coverage of alcohol abuse.

Dept of Health Promotion and Protection

Alcohol use is a major concern of the NS Dept of Health Promotion and Protection, created in Feb 2006. In August 2007 the Addiction Services branch of DHPP released an alcohol strategy which aimed "to lead a major cultural shift so that Nova Scotians who choose to drink do so without harm to themselves, their families, or their communities, reflecting a culture of moderation."[26] One component of the strategy was to promote "healthy public policy": But as noted in the major study of Canadian alcohol policy, "Sober Reflections" alcohol is a policy area where research is consistently marginalized in the development of policy.[27]

Members of Addiction Services who are tasked with implementing a policy to change the culture of alcohol use in the province are frustrated by the crown corporation's advertising campaign to encourage the use of alcohol to celebrate everyday events. They are also worried about the marketing strategy which is directly focused on altering the perception of health conscious youth toward alcohol. Representatives of Addiction Services were confident in the research backing for their position against increasing the

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[23] Sean P. Wood, Wineries and Wine Country of Nova Scotia, Halifax, Nimbus Publishing, 2006.

[24] Craig Pinhey, "A bridge not too far," Appelation America.com, 11 April 2008. Available at http://wine.appellationamerica.com/wine-review/557/Benjamin-Bridge.html

[25] Carol Moreira, "Time on the vine," Nova Scotia: Open to the World, Summer 2006, pp. 17-20. Available at http://www.novascotiabusiness.com/site-nsbi/media/NovaScotiaBusinessInc/otw-summer2006.pdf

[26] Nova Scotia Department of Health Promotion and Protection, "Changing the Culture of Alcohol Use in Nova Scotia: An Alcohol Strategy to Prevent and Reduce the Burden of Alcohol-Related Harm in Nova Scotia," available at http://www.gov.ns.ca/hpp/repPub/Alcohol_Strategy.pdf

[27] Norman Giesbrecht, et al., eds. Sober Reflections: Commerce, Public Health and the Evolution of Alcohol Policy in Canada 1980-2000, Montreal and Kingston: McGill-Queens University Press, 2006

availability of alcohol in the co-location of NSLC stores with supermarkets and in the Agency Stores program, but were skeptical of their ability to influence the behaviour of the NSLC. Interestingly, soon after the publication of the "Changing Culture" document, the director of marketing at NSLC called a meeting with DHPP to discuss how the mandates of the two organizations might be harmonized. The meeting was contentious and demonstrated that government health professionals are effectively outside the alcohol policy community – the Deputy Minister of Health commented on feeling "very alone" at the meeting.

Responsible beverage use is consistent with the licensing of the private specialty stores, but not with the policy of locating agency stores so that no Nova Scotian is more than 15 km away from an alcohol purchase opportunity. While it is of course possible to abuse the consumption of any alcoholic beverage, there seems to be less chance of this with higher prices per unit of alcohol. (Hence perhaps the NSLC policy that no bottle of wine can be sold in the province if priced at less than $9.00.)

Conclusion

Nova Scotian wine consumption rose at a rate of 71.6 percent from 1995 to 2005, the fastest growth rate in Canada, where the average growth was 37.percent.) Average prices of wine consumed also rose and sales of wines at prices over $20 are expected to increase by 35 percent from 2001-2010. [28] The PWSS experiment is a success in terms of contributing to increased quantity and quality of wine consumption. RANS is also supportive of the PWSS program and restaurants have moved 25 percent of their business to the PWSS. RANS remains embittered by NSLC pricing policy and would welcome further privatization. Because of employment and social and health problems, the NSGEU and Department of Health are negative about the results of even the gradual privatization of the NSLC. But these critics are in the margins, or "attentive public" of the retail wine policy community where discourse is dominated by revenue distribution issues. Wineries had to lobby long for the reduced markup on their products in NSLC stores and while welcoming the added interest in wine which the PWSS bring to the province, also value the one-stop distribution convenience of the NSLC. With the support of the Department of Agriculture and their organization in WANS, winery owners will remain closer to the centre of the policy community than the critics. Media attention to wine policy is confined largely to supportive critical evaluation of winery products. Public consultations prior to the 2000 reforms of the Liquor Control Act, yielded no clear consensus and thus enabled the partial privatization policy outcome. In the end, the image of a state directed policy network seems to capture the role of the NSLC, albeit that they have to absorb vociferous complaints from some members of the policy network.

[28] Gardner-Pinfold Consulting Economists, Economic Impact Study of the Private Wine and Specialty Store Program, Final report submitted to NSLC April 2007, 27-29, 37.