



BOARD OF DIRECTORS APPROVED POLICY

SUPPLY CHAIN

6.6 NSLC Beer Distribution Policy

February 7, 2018

1. POLICY STATEMENT

It is the policy of the Corporation to treat beer manufactured within, imported into, or sold within Nova Scotia as outlined below.

2. PURPOSE/OBJECTIVE

To provide clear and consistent treatment of beer sold in Nova Scotia

To provide flexibility within the policy framework to accommodate trade agreements with other provinces or regions

To provide beer manufacturers with options when conducting business with the NSLC, while allowing the NSLC to operate within a consistent policy framework.

3. POLICY SCOPE

The Nova Scotia Liquor Corporation (NSLC) retains the right as sole importer of beverage alcohol into Nova Scotia as per the Commercial Importation of Intoxicating Liquors Act. All Canadian liquor jurisdictions retain this right, with some differences in practice due to provincial distribution structures and policies.

Beverage alcohol entering Nova Scotia is subject to inspection, audit, quality control and testing, quantity measurement, and other practices which are intended to ensure that provincial rights are maintained. In the case of manufacturers permitted by the NSLC to produce beverage alcohol products in Nova Scotia, the ability of the NSLC to carry out these practices is a condition of the permit. Therefore it is possible for manufacturers to receive shipments of beverage alcohol products directly via their plant with the understanding that NSLC rights of first receipt are still being maintained.

Subject to the above, the policy of the Nova Scotia Liquor Corporation for the sale of beer in the Province will be as outlined below. This policy is consistent with pre-existing treatment

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prior to its adoption and documents the rights of, and limitations upon, manufacturers and importers. It supersedes all previous policies relating to sale, distribution, and warehousing of beer in Nova Scotia. Business practices and privileges enjoyed by manufacturers under previous policies shall be respected, and any existing business arrangements may remain in place. However, all future decisions shall be guided by this policy. Changes to this policy are at the sole discretion of the Nova Scotia Liquor Corporation. All previous beer policies are superseded by this policy, effective immediately.

4. DEFINITIONS

Beer

As per section 2(a) of the Liquor Control Act, "beer" means any alcoholic liquor obtained by the fermentation of an infusion or decoction of barley, malt and hops or of any similar products in drinkable water.

Manufacturer

For the purposes of this policy and its application, "manufacturer" status will apply to those manufacturers who operate a brewery in Nova Scotia. As per the Regulations under the *Liquor Control Act*, a "brewery" means any place or premises duly licensed by the Government of Canada and permitted by the Corporation, where beer or other related and approved products are manufactured for sale to the Corporation or export.

Brewery Stores

Manufacturers as per the definition above will be allowed a retail store under the terms of the Nova Scotia Liquor Corporation Regulations on Manufacturer's Retail Stores, Section 50.

5. DIRECTIVES

5.1 Distribution by Manufacturers

Manufacturers as per the definition above have the option to utilize the NSLC Distribution Center, or to self-distribute, on a corporate basis. If the NSLC Distribution Center is used, a Cost of Service of \$1.32 per 12-pack case will apply to cover the costs of warehousing, handling, and distribution.

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Self-distribution permits the manufacturer to maintain a wholly owned and operated warehouse in Nova Scotia, or to contract through the NSLC Distribution Center at commercial rates for these purposes. The decision of the manufacturer to self-distribute must be made on the basis of distributing all their brands to all NSLC outlets. Once the decision to self-distribute has been made by the manufacturer, any change will be subject to NSLC approval. Self distribution of the brands produced at the manufacturer's plant does not attract the Cost of Service, and all warehousing charges, freight-in, and costs of distribution are borne by the manufacturer.

Manufacturers may import non-Canadian beer brands into Nova Scotia that they as a corporate entity represent in Canada. These import brands may at the manufacturer's option go through their self-distribution network and will attract an NSLC right of first receipt fee of \$1.00 per equivalent dozen.

5.2 Pricing

A Social Reference Price will be in effect as defined by the NSLC Pricing Policy, as amended from time to time. No product will be sold below the Social Reference Price.

5.3 Promotion

Periodic price reduction and other promotional activity will be available to all brewers under the terms of the NSLC's Merchandising Programs. Promotional price reductions approved under the terms of these programs will be calculated according to the methods described in the NSLC Promotional Policies and Guidelines, as amended from time to time.

5.4 Reciprocity

Manufacturers in Nova Scotia may receive, via direct plant-to-plant shipment, beer brewed elsewhere in Canada from a facility that is wholly-owned and operated by the manufacturer. In order to qualify for this treatment, these shipments must abide by respective provincial First Receipt rules and be shipped plant to plant. Under this arrangement, product must be shipped

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into Nova Scotia from the plant where it was brewed. Volumes imported into Nova Scotia in excess of the amount shipped outside of Nova Scotia will be subject to the NSLC Cost of Service.

The total volume eligible under Reciprocity will be approved by the NSLC annually at the end of its fiscal year and accounted for on a hectolitre basis. The audit process for this reconciliation will be based on NSLC accounting form #L10A. At the end of the NSLC fiscal year, the NSLC will determine if there is an outstanding balance owing for the Cost of Service on any excess volumes imported into Nova Scotia. The outstanding balance owed to the NSLC cannot be less than zero. The NSLC reserves the right of audit and access to all relevant corporate records in respect to any such claims for Reciprocity prior to any settlement of claim.

5.5 Right to Self Distribute

The NSLC Board will consider, on a business case basis, granting the privilege to self- distribute to high volume brewers not manufacturing in the province.

The criteria to be considered before granting a permit/contract to self distribute will be:

- (1) sales within Nova Scotia of 1M equivalent dozen including both import and domestic brands that a corporate entity represents in Canada, and a demonstrated ability to maintain this minimum threshold; or privileges as granted as a result of bi-lateral agreements between

Nova Scotia and another province;

- (2) impact on NSLC administration and operations;
- (3) requirement to ensure the NSLC right of audit and monitoring the distribution system is respected;
- (4) warehouse to be fully owned, or leased and operated by the supplier in Nova Scotia, as opposed to a 3rd party warehouse; or alternatively, services contracted through the NSLC;
- (5) the right to self distribute does not include the ability to set up a manufacturers' retail store;
- (6) annual permit/contract to be issued at the discretion of the NSLC;
- (7) annual permit fee of \$2,000 + \$1.00/equivalent dozen for product shipped into Nova Scotia, or an alternative fee determined on a business case basis as established by the NSLC;

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(8) changes to the annual permit fee will be at the sole discretion of the NSLC.

6. REFERENCES

Other NSLC policies referenced in this policy are considered an integral part of this policy and shall be made available upon request.

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