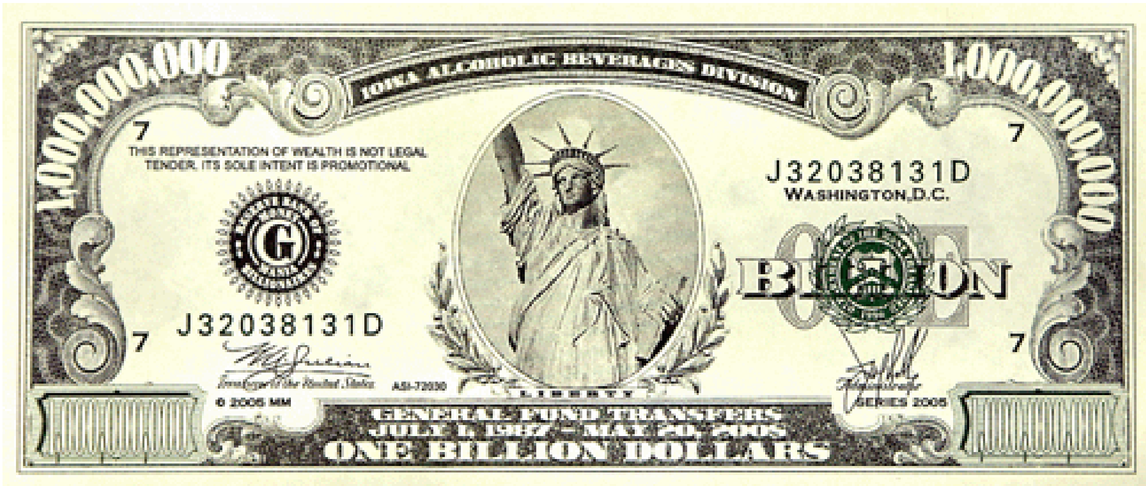
State of Iowa
ALCOHOLIC BEVERAGES DIVISION

www.IowaABD.com Lynn M. Walding, Administrator

ABD e-NEWS

May 20, 2005

1. "A Billion Here, A Billion There"



Press Release – *Iowa Alcoholic Beverages Division*
May 20, 2005

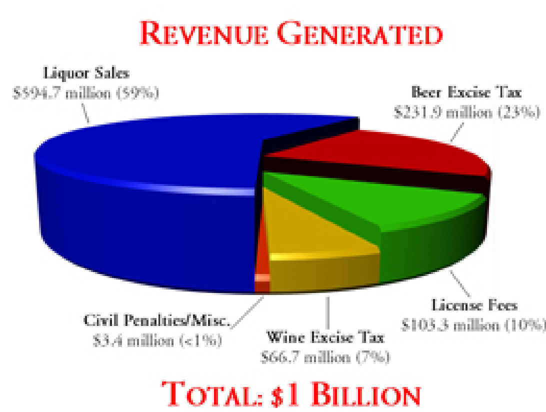
"A billion here, a billion there, and pretty soon you're talking about real money."

- Senator Everett Dirksen

ANKENY, IA (May 20, 2005) – The Iowa Alcoholic Beverages Division reached a major milestone in the agency's history today. Administrator Lynn Walding announced that the Division topped the $1 Billion mark with this morning's May transfer to the general fund. Reorganized on July 1, 1987, when the last state liquor store was closed and the state became the exclusive wholesaler of distilled spirits, the Division generated that revenue contribution in a span of less than 18 years.

"Senator Dirksen's (R-Illinois) famous adage, 'A billion here, a billion there and pretty soon you're talking about real money,' may have referred to excessive government spending," Lynn Walding noted, "but his words seem equally applicable to the Division's revenue contribution." "The 'billion here' generated by the Division, for instance, translates into $342 for every man, woman and child in the state. In terms of taxpayer services, a billion dollars is equivalent to a thousand miles of new paved four-lane Iowa highways or, alternatively, three-and-a-half years of state appropriations to the University of Iowa."

The revenue generated by the Division was derived chiefly from liquor sales, accounting for $594.7 million or 59 percent of the total revenue transfer. Beer and wine excise taxes accounted for $231.9 million (23 percent) and $ 66.7 million (7 percent), respectively. License fees added $103.3 million (10 percent), with civil penalties contributing less than 1 percent of the total at $3.4 million.



"Liquor sales, in particular, have become increasingly robust over the past decade," Walding noted, citing ten straight years of annual growth. "Judging by the market trend, it doesn't appear that spirit sales will decline any time soon."

Walding attributed several variables for the increase. "A primary factor has been consumer trade-up as 'top-shelf' premium goods continue to do well in the Iowa marketplace," he added. "Dollar sales are up 9 percent thus far this fiscal year (July 1, 2004 to present), while gallonage sales trail with only a 5 percent increase."

The explosion of flavors is another contributing factor. "New flavored spirits – primarily in the vodka and rum categories – are expanding consumers' horizons while, at the same time, appealing to a broader audience," Walding explained. "The martini's return to fashion, for example, has been aided by the growth of the flavored vodka category and the resulting explosion of drink menus."

Sales have also been fueled by demographics. "The 21-to-29-year-old age group, the largest consuming segment, has been growing at the rate of 2 percent per year and is expected to continue to do so until 2010," observed Walding.

Finally, the liquor industry has made inroads into the dominant U.S. beer market. (The average *per capita* consumption of beer in Iowa is 33 gallons of beer versus 1 gallon of spirits.) "While the shift is slight, aggressive advertising campaigns by the principle liquor suppliers have had an influence on consumer preference," Walding said. "At the same time liquor sales have been on the rise, beer sales in Iowa have been flat throughout the current fiscal year."

While the majority of liquor profits are transferred directly to the general fund, Iowa Code mandates that the greater amount of $9 million per year or 7 percent of annual liquor sales be set aside for substance abuse programs, subject to appropriation. "When dealing with a product that carries the potential for adverse societal costs, it is important that sufficient funds be earmarked to redress and even prevent those problems," Walding added.

While a 50 percent mark-up is applied to the wholesale price of spirits, a flat gallonage tax of 19 cents and $1.75 is levied on beer and wine, respectively. The trend line for wine in Iowa has been on a steeper incline than that of beer in recent years. Beer sales this fiscal year have increased less than 1 percent, while wine sales have exceeded 7 percent during the same period. Those numbers are consistent with national trends for each category. The slight growth in the beer market has been aided chiefly by imports and the emergence of new low-carb beverages.

Nine different categories of licenses for liquor, wine and beer are available in Iowa. The Division collects an annual fee for more than 10,000 licenses and permits for the various types of alcohol sales – both on- and off-premises. The majority of the license fee, however, remains with the local licensing authority.

If licensees are caught violating the terms of their permits or engaging in illegal sales, the Division receives money from civil penalties collected from violators. Civil penalties, however, account for less than 1 percent of the Division's revenue. The civil penalty fund is transferred to the state's general fund, while license fees are divided between the state and local governments.

A billion dollars, by anyone's accounting is no small sum. Today's milestone – 'a billion here' – was reached in just under 18 years. "Judging by the current sales trend, the Division will likely reach the second billion – 'a billion there' – in less than half the time it took to reach the first billion," Walding said, conservatively estimating a 5 percent annual growth rate. "Knowing that, the Iowa Alcoholic Beverages Division is certainly 'talking about real money.'"

2. Supreme Court Clears Way for Direct Sale of Wines

By Ira Teinowitz - *QwikFIND ID: AAQ57I*
May 16, 2005

Ruling a Boon to Small Wineries and Wine Tourism

WASHINGTON (AdAge.com) -- New York and Michigan laws limiting state residents from buying directly from out-of-state wineries were overturned by a sharply divided U.S. Supreme Court today, in a case that will likely lead to stepped up national marketing of smaller wines and beers.

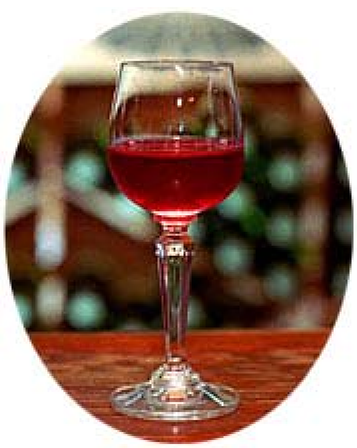


Photo: AP

The Supreme Court ruling allows small wineries to ship their product across state lines.

"It will have a huge impact for really small wineries but a very minor impact on the large producers," said Eileen Fredrikson, a principal in Gomberg Fredrikson Associates, which consults in the wine industry. "The biggest benefit is for wine tourism. It's a very big deal for people who don't want to carry around a case or two [and can now ship wine home]."

Could spur online sales efforts

Ms. Fredrikson said the decision will prompt smaller vintners to expand their efforts through the Web and to reach out to "wine club" members with additional promotions "and ways to tie [consumers] closer to their brands."

Although both small and large vintners sell wines directly in the 27 states that had allowed sales, she said the Internet and direct mail would likely be the biggest focus because the relatively small volume would never support a large advertising budget. She suggested an ad or two in the *Wine Spectator* would cost more than the profit for a year of some of the wineries.

A spokeswoman for the Wine Institute said any impact would be felt most on wines that sell at more than $20 a bottle because shipping of less expensive products isn't cost efficient.

2% ship direct

Currently about 2% of wines are directly shipped to consumers, and Ms. Fredrickson said that percentage could ultimately increase to 5%.

The wine industry is a $20 billion-a-year business, and the popularity of wine and spirits has transformed the cultural landscape and marketplace. Hard liquor is surpassing beer as the drink of choice among young adults, and the Oscar-nominated movie *Sideways* had a direct impact on the surge in sales of pinot noir and a growing disinterest in merlots.

Wholesale system

Wine is currently sold in most states through a traditional three-tier system --

from a wholesaler to a retailer to a consumer. (Liquor wholesalers can be affected by the ruling if retailers decide to order wine directly from the wineries.)

Photo: AP

Wine tourism, already gaining in popularity, was given a huge boost by the movie 'Sideways.'

Still unclear is exactly when the court decision takes practical effect. The court left it to states to work out the procedures for licensing, taxing and regulating out-of-state wineries and any setting of high licensing fees could yet deter interstate shipments.

The high court's 5 to 4 decision said laws that allow state wineries to ship directly to consumers but limit shipping by out-of-state wineries "discriminate against interstate commerce" and are unconstitutional.

'Emerging and significant business'

"This discrimination substantially limits the direct sale of wine to consumers, an otherwise emerging and significant business," wrote Justice Anthony M. Kennedy, delivering the opinion on behalf of the court's four-justice majority. Joining the majority were Justices Antonin Scalia, David Souter, Ruth Bader Ginsburg and Stephen G. Breyer

He also said the states provide "little concrete evidence for the sweeping assertion that they cannot police direct shipments by out–of-state wineries."

The court minority was vocal, issuing two strong dissents.

"The Court does this nation no service by ignoring the textual commands of the Constitution and acts of Congress," wrote Justice Clarence Thomas in dissent that was endorsed by Justices John Paul Stevens, Sandra Day O'Connor, and Chief Justice William Rehnquist.

Justice Stevens in a second dissent that was joined by Justice O'Connor argued the decision ignored the special position that sales of alcohol retained after their sale was prohibited with the 18th Amendment and then restored with the 21st Amendment.

Conflicting statutes

The court's case was brought by several consumers and some small wineries that have seen conflicting decisions from appellate courts as to what states can do. Michigan's law banning out-of-state wineries from shipping to consumers at all but allowing in-state wineries with a special license to ship was overturned in the appellate courts. However, New York's law, which allowed out-of-state wineries to ship only if they first established a state distribution system, was upheld.

3. Polk Attorney to Push for Local Keg Law

By Kevin Dobbs, staff writer – *Des Moines Register*
May 17, 2005

A similar keg registration bill died at the state level.

Polk County's top prosecutor said he will push for a local beer-keg registration law even though a similar measure failed at the state level.

County Attorney John Sarcone said the law would help fight underage drinking. A statewide proposal died under lobbying from the Iowa Wholesale Beer Distributors Association and other industry groups, which argued that no comprehensive study has shown that keg registration laws curtail underage drinking.

A 2003 state study estimated that 43 percent of Iowa's high school juniors have drunk alcohol at least once.

"Underage drinkers and keg parties are a problem," Sarcone said. "You have drinking and driving, and you have kids just getting drunk. And when kids get messed up, bad things happen."

Sarcone said keg registration - buyers provide photo identification and store clerks record purchases - would also deter adults who host parties for people younger than 21.

Opponents argue that registration laws - at least 24 states and three Iowa counties, Keokuk, Palo Alto and Poweshiek, have enacted them - cause unnecessary hassles for consumers.

Sarcone had hoped for a state law so people would be unable to simply rent kegs in nearby counties to avoid the requirements.

Story County Attorney Stephen Holmes this year called for a keg registration ordinance, but it fizzled when Iowa State University students protested. Debate was delayed until fall, when students return for classes.

A Polk County registration law would need support from the Board of Supervisors. It would require kegs to have ID numbers that police could use to track buyers in cases that involve underage drinkers.

4. Miller to Boost Marketing Effort For Low-End Beer
By Dan Bilefsky in London and Christopher Lawton in New York, Staff Reporters
The Wall Street Journal
May 12, 2005; Page B6

Miller Brewing Co. plans an unusual marketing push for its inexpensive Milwaukee's Best brew -- nicknamed "the Beast" by penny-pinching college students -- despite industry wisdom that favors high-end, high-profit brews.

While rivals such as Anheuser-Busch Cos. and Heineken NV diligently push their premium brands, the Milwaukee brewer hopes to improve its market share by targeting the subpremium, or economy, beer market. For the first time in 10 years, it plans to use television advertisements to push Milwaukee's Best -- one of the least expensive beers in the U.S. -- as well as its other low-priced brew, Miller High Life. The company will boost its spending for subpremium marketing this year by 35% over last year.

Graham Mackay, chief executive of SABMiller PLC, the London-listed parent of Miller Brewing, said in an interview that despite a recent surge in sales of company's flagship Miller Lite -- the fastest-growing beer in the U.S. last year -- Miller shouldn't become too dependent on one brand. "We cannot afford to be a one-trick pony."

Some beer analysts warn that the downmarket strategy could be risky for Miller, which is the No. 2 U.S. brewer after Anheuser-Busch. Upmarket brews typically cost the same to produce as the lower-end beers but sell for as much as five times the price. U.S. retailers and distributors typically prefer to de-emphasize low-end brews out of fear that consumers may trade down from more profitable brands. On a recent day in Milwaukee, a 12-pack of Milwaukee's Best sold for $5.49 compared with $11.99 for a 12-pack of premium import Corona.

Market leader Anheuser-Busch has traditionally played down its economy beers such as Busch and Busch Light for fear of drawing drinkers away from more expensive premium beers such as Budweiser. In recent weeks, St. Louis-based Anheuser also has been discounting its economy brews, making it more difficult for Miller to gain an edge.

"Long term you don't want your growth coming from the low end," said Brian Sudano of Beverage Marketing Corp., a beverage consulting firm based in New York.

But SABMiller, which owns Miller Genuine Draft beer and Miller Lite as well as the Pilsner Urquell and Peroni brands, argues that the economy segment accounts for 27% of sales by the case, and that bulk sales can more than offset the lower profit margins.

Anheuser Busch accounted for 34% of the economy category in 2004, up from 30% in 1999, according to Impact Databank, a market-research firm. During that period, Miller's share of the category fell to 27% from 28%. Analysts say Anheuser was able to dominate the subpremium beer segment in the past while giving it scant attention because the brewer has a vast distribution network and Miller's was less developed. Miller estimates that it lost out on nearly $250 million in potential profits during the past five years because it failed to emphasize this category. Miller Brewing's overall U.S. market share slipped to about 19% in 2004 from 23% in 1995, while Anheuser-Busch's grew to 51% from 45%.

Miller said it hopes that targeting downmarket drinkers will help narrow the gap. "We want to reach out to the working-class hero types, who listen to Springsteen, read Playboy magazine and don't want to spend a lot of money on beer," said Peter J. Marino, a Miller spokesman.

Miller said one of its first priorities will be to rid Milwaukee's Best of the "Beast" nickname, which it has had for decades. In the coming months, it will push Milwaukee's Best with a television and print advertising campaign. One print ad shows a woman in a cut-off T-shirt with a tattoo of a bass on her back. "The perfect Milwaukee's Best woman because she drinks beer and likes to fish," Mr. Marino explains. A spot for Milwaukee's Best Light will say, "Men should act like men, and light beer should taste like beer."

5. Diageo Earmarks £1bn for Allied Domecq Battle

By Martin Flanagan, City Editor – *Scotsman*

DIAGEO, the world's biggest spirits company, has identified a £1 billion war chest to try and row itself into the fast-developing auction for Allied Domecq, The Scotsman has learnt.

It is understood Diageo chief executive Paul Walsh is prepared to back either France's Pernod Ricard and US partner Fortune Brands - who have made a recommended £7.4 billion takeover bid for Allied - or the rival consortium led by Constellation Brands which threw down the gauntlet yesterday.

One industry source said: "It is in Allied Domecq shareholders' interests to get an auction going, and Diageo is prepared to give either party a leg-up over the fence in return for some assets.

"It knows it cannot hope for more than this because, being the dominant group in the sector, there are very few Allied assets that the company could get past the regulators.

"Diageo could easily afford £1bn of funding for a bid. It is less than one year's cash flow for the group."

It is believed Walsh has identified some of Allied's wines and Tia Maria liqueur as the prizes Diageo would seek for providing extra firepower if an expected bidding war develops.

Walsh was previously skeptical about the high premiums the likes of Philip Bowman at Allied had shelled out for wine brands in recent years, but appears to have had a change of heart. Diageo last year paid $250m for the Chalone wines company.

Last month Allied, maker of Ballantine's whisky, Beefeater gin and Sauza tequila, said it was recommending an offer from Pernod and Fortune Brands of 545p a share in cash and 0.0158 Pernod shares making a total of 670p per share.

However, the City now believes the new consortium's entry into the fray means the bidding will go above £7 a share. Allied's shares closed yesterday up 1p at 692p.

Constellation is being backed by Brown-Forman, maker of Jack Daniel's, and venture capitalist giants Blackstone and Lion's Capital.

One source said: "There are weaknesses in Pernod's bid, even though it is a decent price.

"For one thing, it includes French paper and British institutions don't tend to like that because those shares tend to flow back to France once the deal is done.

"It is known there are also a lot of hedge funds holding huge chunks of Allied, and they want nothing more than for an auction to develop. It is an open secret Walsh has talked to all the main players or their advisers. The situation is fluid."

Diageo refused to comment last night. However, drinks industry executives suggest that even before Constellation's formal move yesterday, the cash-rich venture capitalists were considered less likely to seek Diageo's financial firepower than Pernod in any auction.

One insider at the talks said: "With the VC boys, it would not be so much a case of the money. They have already got so much money they have got to put it to work.

"It would be more a case of Diageo reducing their risk, providing some certainty for a home for some of the [Allied] assets. Diageo could provide them with a very good perspective on the spirits industry and help them achieve their 'flip' [quick profit].

"But if the bidding goes above £7 [a share] Pernod's balance sheet will be stretched and will need financial help."

Diageo and Pernod have previously been major business partners, jointly paying £5.5bn to buy the Seagram drinks business.

6. Councilor: Consult Groups on Alcohol Use

By Elaine Fabian - *The Daily Iowan*
May 13, 2005

IOWA CITY, IA -- Iowa City City Councilor Bob Elliott is requesting that the council meet personally with several organizations in the community, especially the UI, to discuss the alcohol issue.

Although the council has heard separately from local organizations such as the university, police, and bar owners, he said, he would like the council to sit down with representatives from all the organizations to discuss ways they could work together to solve the problem.

"Everyone says, 'We have a problem here. What are you going to do about it?' But it is not a problem the council has to address unilaterally," Elliott said. "This is the only reasonable way to address the problem."

In a memo to the council earlier this week, he listed a number of potential ordinances that the council could discuss with the state, county, and university.

He said he would like the council to ask the university to ensure that Thursday and Friday classes have the same importance as other classes throughout the week to keep students from going to bars before the weekend begins.

"I get the feeling it would be difficult to do," said Jeremy Schreiber, the UI student liaison to the council. "Students make their own schedules. I have the same number of classes available for any given day, and it is up to me to decide when to have class."

Elliott said the city should also discuss requiring one- to three-day alcohol-education sessions for incoming freshmen before the fall semester.

Phillip Jones, the UI vice president for Student Services, said the university already works with the city to resolve the alcohol issue, citing the work of the Stepping Up Project. But he said he would be open to any suggestions from the council.

"The city would need to present suggestions based on knowledge of what the university already does," he said. "During Orientation, we send home a letter about alcohol to incoming freshmen."

Stepping Up provides information and seminars on the issue for the city. It also conducts research on how well ordinances being considered would do if implemented. The organization supports the 21-ordinance and said in a memo to the council earlier this week that reducing access to and availability of alcohol is the best resolution.

If councilors were to meet with Johnson County representatives, Elliott recommended they consider requiring people with alcohol offenses to help clean up downtown.

"Downtown, particularly on Sunday morning, is atrocious," he said.

7. PRESS RELEASE: Hip-Hop Superstar Nelly and Anheuser-Busch Put a Fresh Mix on Underage-Drinking Prevention
Anheuser-Busch
May 17, 2005

ST. LOUIS, May 17 /PRNewswire/ -- Anheuser-Busch (NYSE: BUD - News) is striking a chord with parents on underage-drinking prevention by collaborating with hip- hop artist Nelly on a new ad that emphasizes the important role parents play in helping teens make smart, responsible choices about not drinking.

In the :30 ad titled "Who Am I?", Nelly admits that, at first glance, some of the parents watching may not recognize him as a hip-hop icon, so he helps them eliminate what his profession might be by humorously pretending to be a chef, a boxer, and a golfer. After failing in those roles, he notes that contemporary adult fans know him as one of America's hottest music stars, but when it comes to teens, he reminds parents, "Your kids are your biggest fans, so talk with them about underage drinking." Created by DDB Chicago, "Who Am I?" will debut Wednesday, May 18 during Law and Order on NBC.

"Underage drinking is a serious issue, and working with parents to address this problem is the responsible thing to do," says Nelly in response to why he teamed up with Anheuser-Busch on this project. "It's very important for parents to talk with their children about everything, and underage-drinking prevention is definitely one of those things you need to jump on early."

According to the 2004 Roper Youth Report, a nationally representative survey of teens (ages 13-17), 75 percent reported their parents are the primary influence in their decisions about whether or not they drink alcohol.

"We're very excited to work with a music star like Nelly to help focus attention on the power parents have in preventing teens from drinking," states John Kaestner, vice president of Consumer Affairs for Anheuser-Busch Companies, Inc. "Responsibility matters, and we want to encourage parents to remind their teens that underage drinking is not only wrong, it's against the law."

The good news is that most teens are heeding the message. The U.S. Department of Health and Human Services reports that 71 percent of underage youth (ages 12-20) -- more than 26 million -- are doing the right thing by not drinking. According to a study recently released by the Partnership for a Drug-Free America, all measures of teen alcohol use have dropped significantly from 1998 to 2004. Additionally, the number of fatalities in teen drunk- driving crashes has declined by 60 percent since 1982, according to the U.S. Department of Transportation.

The spot with Nelly marks the debut of Anheuser-Busch's third responsibility ad this year, following an underage-drinking prevention spot featuring company Chairman August A. Busch III that debuted in January and a designated driver spot with Cedric "The Entertainer" that aired on the Super Bowl in February.

This latest commercial continues Anheuser-Busch's 20-year tradition of promoting responsibility through television advertising. In 1985, Anheuser- Busch was the first alcohol beverage company to air a responsibility ad on network television. In that spot, Los Angeles Dodger Steve Garvey reminded individuals to "Know When to Say When." And for the past two decades, Anheuser-Busch has continued to integrate creative messaging with celebrities in television ads featuring such spokespeople as John Schneider, Patrick Ewing, Dan Marino, George Strait, Oscar de la Hoya, Wayne Gretzky, Dale Earnhardt Jr., *NSYNC, and Tim McGraw to promote responsibility, encourage the use of designated drivers, and help parents prevent underage drinking.

8. Senate OKs Ban on 'Power Hour' Drinking

Associated Press
May 18, 2005

People turning 21 would have to wait eight hours before they could legally drink under a bill the Senate passed 48 to 15 that's aimed at preventing binge drinking.

The legislation to combat the so-called "power hour," between midnight and closing time on a person's 21st birthday, was included as part of a Senate bill making a number of changes to regulations governing the liquor sales.

"This issue is real; we have had a number of young people die from alcohol poisoning under these circumstances," said Sen. Rod Skoe, DFL-Clearbrook.

Last year, 21-year-old Jason Reinhardt died of alcohol poisoning on his birthday after leaving a Moorhead bar with his fraternity brothers. His blood-alcohol content was 0.36 percent.

The North Dakota Legislature approved a similar provision earlier this year.

Opponents said the change would have little effect on young people who are determined to get drunk on their 21st birthday.

A companion bill has been moving through the House, and its sponsor, Rep. Morrie Lanning, R-Moorhead, said he expected it will be included in that body's liquor omnibus bill.

9. Retired CEO to Take the Helm at Bacardi
By Elaine Walker - *Miami Herald*
May 16, 2005

Bacardi Ltd. is expected to announce the appointment today of Andreas Gembler, a former Philip Morris executive and current Bacardi board member, as its new president and chief executive, according to industry sources close to the company.

Gembler, 62, retired in 1999 as president and chief executive of Philip Morris International. He spent 30 years with the world's largest cigarette company, including overseeing Philip Morris' entry into Eastern Europe as president of Europe, the Middle East and Africa.

Bacardi's board of directors unanimously approved Gembler's hiring at a meeting Thursday at the company's headquarters in Hamilton, Bermuda, according to industry sources close to the company. He is expected to take over on June 1 and will be based in Bermuda.

Bacardi Ltd. spokeswoman Patricia Neal declined to discuss the appointment Sunday of a new chief executive. ''We plan to have an announcement regarding our top management on Monday,'' Neal said.

A new chief executive arrives at Bacardi as the liquor industry is in a state of flux with many of the company's competitors, including groups led by Pernod Ricard and possibly Constellation Brands, vying for the purchase of Allied Domecq. As the industry continues to consolidate, Bacardi's shareholders have taken preliminary steps toward a possible public offering but have refrained from moving forward.

Gembler will replace Chairman and acting Chief Executive Ruben Rodriguez, who surprised many when he announced last month that he intends to step down completely from Bacardi management.

For the past five years, Rodriguez has held one or both of the top jobs at the liquor company, whose U.S. subsidiary is based in Miami. After handing off the chief executive's duties in June 2003, Rodriguez was pressed back into temporary service late last year with the sudden departure of Javier Ferrán after less than two years on the job.

Rodriguez has said he intends to step down as of the company's annual meeting on June 23 or after an appropriate transition period with a new chief executive.

It hasn't been decided who will take Rodriguez's job as chairman, but a decision is expected by the annual meeting, sources said.

With Gembler, Bacardi gets someone who brings an outsider's view to the company but also has some inside knowledge.

Since June 2003, Gembler has been a member of Bacardi's board of directors. He was one of three outside directors elected to the board in June 2003, which marked the first time in Bacardi's history that the family had agreed to elect outsiders to its board. During his tenure, Gembler has served on both the audit and compensation committees for Bacardi.

Gembler, who lives in Switzerland, also is chairman of Bertolucci, a luxury watchmaker based in Neuchatel, Switzerland. He was part of a private investment group that bought the family-run watchmaker in 2001 in order to help grow the brand in the international market.

10. Alcohol Merchandise Encourages Underage Drinking

By Alan Mozes -*HealthDay*
May 17, 2005

May 17 (HealthDay News) -- Adolescents who collect and brandish promotional hats, shirts, bags and other merchandise displaying popular alcohol logos are far more likely to start drinking while still underage, according to a new study.

Researchers from the Dartmouth-Hitchcock Medical Center in Lebanon, N.H., were to present the finding Tuesday at the annual meeting of the Pediatric Academic Societies in Washington, D.C.

In light of the apparent connection, the authors of the study recommended that the alcohol industry officially halt the practice of distributing and selling alcohol-related paraphernalia -- much as the tobacco industry did with tobacco-related items in 1998.

"This study shows that promotional items are related to early onset drinking, and I think the responsible thing to do would be for these industries to quit distributing them," said Dr. James D. Sargent, study co-author from Dartmouth's department of pediatrics.

According to the study authors, the alcohol industry currently spends more than $1 billion a year on all aspects of marketing -- a figure that includes expenditures for such youth-oriented promotional items as baseball caps, backpacks and t-shirts.

Such teen-targeted branding flies in the face of the 1984 federal National Minimum Drinking Age Act, which set the drinking age in the United States at 21 years -- the highest in the world. The legislation mandated that all 50 states prohibit the selling of alcohol to minors under the age of 21. Public possession of alcohol by minors was similarly made illegal.

However, the law did not actually outlaw underage drinking -- allowing those under 21 to legally consume alcohol in private settings or for either religious or medicinal purposes.

According to 2003 figures issued by the National Institute on Alcohol Abuse and Alcoholism, almost half of all adolescents have had at least one drink -- and more than one-fifth have been drunk -- by the time they enter the eighth grade.

Beginning in 1999, Sargent and his colleagues examined the drinking behavior of this age group by focusing on more than 2,400 middle school students in Vermont and New Hampshire.

The adolescents ranged in age from 9 to 15 years -- attending grades five through eight. The research team established that none of the children had ever had a drink at the onset of the study.

During follow-up telephone interviews conducted one to two years later, Sargent and his team found that 14 percent of the students said they now owned at least one alcohol-related promotional item. Of the 32 students who mentioned the particular branding of their promotional possession, 29 had beer-related ones.

The researchers further found that 15 percent of the students said they now drank alcohol to some degree.

Those students who owned alcohol merchandise were significantly more likely to start drinking alcohol than those who did not. More than 24 percent of those who owned promotional items said they consumed alcohol, compared with the slightly more than 12 percent of non-owners who said they drank.

The researchers noted that ownership of alcohol promotional items was associated with being at the older range of the student group, having peers who drank, having tried smoking, "sensation-seeking," and doing less well in school.

"I think the beverage industry needs to take this seriously," said Sargent. "There's a tremendous amount of research showing that branded merchandise that the tobacco industry distributed clearly contributed to the teen smoking problem. There's just no doubt about it. Looking at the branded merchandise distributed by the alcohol industry is a relatively new topic, but it's such a similar situation that I would be surprised if multiple studies won't show that this is true in this case as well."

Sargent said the findings were a wake-up call for parents as well as the alcohol industry.

"For parents, you really shouldn't allow your kids to have these things," he cautioned. "Firstly, it increases the chance they will take up drinking at an early age. And secondly, when they wear them, they are a walking billboard. And you don't want your kid to advertise Budweiser beer to kids."

"For the wine and liquor industry," he added, "the point is that these kind of promotional things related to smoking were shown to lead to increased smoking among teens. And the tobacco industry gave up putting out the items."

Sargent said the alcohol industry should pick up on big tobacco's cue -- noting that he expects a larger national study of teens he is currently conducting to further underline the urgency for such action.

David Jernigan, research director at the Center on Alcohol Marketing and Youth at Georgetown University in Washington, D.C., echoes the sentiment that the alcohol industry must take responsibility for its influence on underage drinking.

"The bottom line is that even the industry agrees that peer pressure is critical in a kid's decision to drink," he said. "So it creates a whole set of walking billboards among the peer group at risk -- among the underage peers. And that's not helpful to efforts to reduce underage drinking."

Attempts by HealthDay to reach representatives of the beer industry for comment were unsuccessful.