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| *July 23, 2004* |

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**1. Diageo Takes Risk by Raising Prices**

By Christopher Lawton, Staff Reporter – *The Wall Street Journal*

July 16, 2004

**Profit and Revenue Sparkle, But Volume Growth Fizzles As Some Drinkers Back Off**

The strategy is paying off for now, but it could end up flopping like a cocktail invented by somebody who had imbibed in one too many.

[Diageo](http://interactive.wsj.com/pj/q-quote.cgi?sym=deo&type=company) PLC, the leading spirits company, has been aggressively raising prices across a range of its brands. The move is boosting the bottom line but isn't going over well with some drinkers.

Until recently, a fragmented spirits market prevented big companies from being too aggressive on prices. Spirits makers traditionally raise prices on only one or two of their top brands each year. But last year, Diageo, whose acquisition of part of Seagram Co. in 2001 made it the dominant spirits company in the U.S., broke with tradition, raising wholesale prices on at least 19 of its top 25 brands, including Smirnoff, Baileys Original Irish Cream and Captain Morgan Original Spiced rum, according to Impact Databank's 2004 Annual Spirits Study.

Retail prices are hard to gauge, but data from tracker ACNielsen obtained from an ACNielsen client show that Diageo products' retail prices started rising in July last year. In the 26 weeks ending this June 19, Diageo's average retail price per case in supermarkets, drug stores and liquor stores rose 2.1%.

Diageo's price increases come as the liquor market enjoys a resurgence in sales and the beer market is suffering a slowdown. Last year, industrywide liquor volume rose 3.5%, according to Impact Databank, the highest growth rate since 1974. Diageo, which controls 21% of the U.S. market, gets credit for much of the sales boom. In the past couple of years, the London-based company has begun marketing more aggressively and pushing for legal changes to allow liquor sales on Sundays. But the price boosts could hurt that upward trend in liquor sales, at least for Diageo. Sure enough, ACNielsen data show that Diageo's volume in the distribution outlets it monitors rose only 0.1% in the first half of this year, well below the 1.7% growth rate recorded for the distilled-spirits category overall.

![[Numbers Charts]]()The impact on sales varied by brand. The price of a case of Baileys Original Irish Cream rose 2.1% for the 13 weeks ended June 5, but volume growth slowed to 2% from 6.6% growth for the same period in 2003. Smirnoff vodka's price jumped nearly $4 a case to $112.36 in the 13 weeks ended June 5, coinciding with a 9.2% drop in volume, and compared with a 0.5% decline in volume a year earlier. Flavored Smirnoff volume grew in the same period, as flavored vodkas are popular now.

To be sure, the higher prices have boosted Diageo's bottom line. It reported last week that "robust pricing on an increasing number of brands" has led to growth in revenue "substantially above" volume growth. For the first half of fiscal 2004, ended Dec. 31, 2003, Diageo posted 5% higher North American operating profit.

In an interview in May, Ivan Menezes, president and chief executive of Diageo North America, the Diageo unit responsible for U.S. sales, confirmed that raising prices steadily market by market was part of Diageo's strategy for developing individual brands.

"When a brand is on a roll -- Captain Morgan, Baileys, Johnnie Walker -- you invest more, grow share, take pricing and keep working that cycle," he said. "Consumers want better products. The upgrading you see is an opportunity to set ourselves up for sustained, steady pricing."

A Diageo spokesman this week amplified Mr. Menezes comments, saying Diageo is "constantly reinvesting into our brands."

Diageo is hardly the first liquor company to raise prices in recent years. [Brown-Forman](http://interactive.wsj.com/pj/q-quote.cgi?sym=bfa&type=company) Corp. has been raising the price of its iconic Jack Daniel's whiskey between 2% to 3% annually since 1999 without taking a hit to its sales, says Phil Lynch, a Brown-Forman spokesman. [Fortune Brands](http://interactive.wsj.com/pj/q-quote.cgi?sym=FO&type=company) Inc.'s Jim Beam Brands Co. has raised prices on Jim Beam every year since before 2000, according to Impact. However, both Jack Daniel's and Jim Beam have a strong brand image and consistent demand, perhaps insulating them from the impact of price increases.

Brewers, led by [Anheuser-Busch](http://interactive.wsj.com/pj/q-quote.cgi?sym=BUD&type=company) Cos., have also been ratcheting up their prices gradually, but the liquor business is different, and analysts caution that it may find it harder to sustain steady price increases. Unlike the beer industry, where one player owns half the volume and therefore has more power to raise prices, the spirits industry is fragmented. After Diageo's 21% share, the second-biggest liquor concern, Future Brands LLC, has only a 12% share, according to Impact Databank. Future Brands is a joint-distribution venture between Absolut and Fortune Brands' Jim Beam Brands.

The U.S. spirits industry also is less efficient than its cousins in the beer sector. With many smaller private distilleries operating at lower capacities, the spirits industry overall uses only half its manufacturing capacity, compared with more than 80% for the beer industry, according to Banc of America. That much excess capacity can argue for price discounting.

Nevertheless, Diageo will likely press on with its aggressive pricing strategy, predicts Bryan Spillane, an analyst with Banc of America. And Credit Suisse First Boston's Andrew Conway points out that a 1% price increase is more than three times as profitable as a 1% increase in volume in the spirits industry.

**2. British Worry That Drinking Has Gotten Out of Hand**

**By: Sarah Lyall – *The New York Times***



Anita Maric

Revelers in Birmingham on a Saturday night. Sometimes partying goes too far, angering the neighbors.

**July 22, 2004**


LONDON – Britain has always been a place where people enjoy a drink or two (or more) at the local pub, and where football hooligans and so-called lager louts represent the public face of overconsumption. But lately the country’s growing inability to hold its liquor has taken on the scope of a national crisis.

Even Prime Minister Tony Blair is worried. “There is a clear and growing problem in our town and city centers up and down the country on Friday and Saturday nights,” said Mr. Blair, whose son, then 16, was found vomiting and incoherent on a London street four years ago after an evening of drinking. “As a society we have ot make sure that this form of what we often call binge drinking doesn’t become the new British disease.”

By some measures it already has. Cheaper and more readily available alcohol, changing drinking patterns, a steep increase in drinking among young women and a decline in old standards of civility have turned what was once a manageable part of life into a problem that costs society, according to government estimates, $35 billion a year.

The government, saying it wanted to make problem spots in city centers safe for the sober on weekends, recently presented an ambitious plan to tackle the violence and mayhem that follow when too many people drink too much too quickly in too small an area. Among its proposals are granting wider powers to the authorities to control hooliganism, imposing greater penalties for drunken behavior, and forcing pubs and clubs to help pay for extra police officers.

But the most widely debated change is to allow some pubs to stay open past the current closing time of 11:20 p.m., starting in the autumn of next year. The change, allowing the pubs to set their own closing times, with approval, is meant to dissuade rushed binge drinking at "last orders."

Some have their doubts and worry that more time at the pub will, well, simply allow people to drink still more.

"It's hard to see how it could help," said Michael Marmot, professor of epidemiology and public health at University College London. "The evidence suggests that the longer the opening hours and the easier it is to have access to alcohol, the higher the consumption."

Professor Marmot presided over a recent report from the Academy of Medical Sciences that urged the government to work to reduce alcohol consumption in general. Britain has historically been a hard-drinking place, but the current trends are alarming.

In contrast to many countries in Western Europe, where drinking has declined, in Britain, where the minimum legal drinking age is 18, people are starting younger and drinking more. Although some researchers say the figures are actually higher, government statistics show that Britons on average drank the equivalent of 8.6 liters of pure alcohol each in 2001, nearly double the rate of 1951. That translates into more than 86 bottles of wine, or 350 pints of beer. Young women on average now consume about 12.6 drinks a week, an increase of 66 percent since 1992.

While people in a number of countries still drink more overall, Britons (and the Irish, as well) are likelier to go on drinking binges, consuming five, six, seven or more drinks in a single session. "Binge drinking is now so routine that young people find it difficult to explain why they do it," a recent Home Office report said.

The related costs are ballooning. While crime overall has declined, alcohol-related crime is increasing: in 1999, half of the 2.4 million violent crimes reported were linked to alcohol misuse. On weekends, 70 percent of emergency-room patients are involved in drink-related incidents. Deaths from chronic liver disease in England, a crucial indicator of alcohol-related harm, have shot up more than fivefold since 1950.

At Addenbrooke's Hospital in Cambridge, Dr. Paul Atkinson, a consultant in the emergency department, sees the effects of drinking when the late-night casualties roll in. Workers in the emergency room try fruitlessly to separate the drunks from the other patients.

"There's no social group that's immune to binge drinking, except the elderly," Dr. Atkinson said, "although we recently had a 90-year-old who drank five pints and fell down as he tried to leave his local pub. It's very common to have head injuries - dental injuries, facial injuries. I've had people who've inhaled their teeth into their lungs."

Some 125,000 young people have suffered serious facial injury or disfigurement as a result of excessive drinking, either their own or someone else's, according to the Facial Surgery Research Foundation.

Dr. Atkinson said he did not know why Britons tended toward violence and accidents after drinking.

"I think it has a lot to do with social conditioning," he said. "Personally, too, I think it's because we've become a much more aggressive society. We are not at the top of the league in drinking, but what it brings out in us isn't always good."

Indeed, why young Britons have trouble controlling themselves when drunk, while people in many European countries do not, is a complicated question. While southern wine-drinking countries like Italy and France favor convivial consumption with meals, the northern countries, including Britain, Ireland and Scandinavia, are more ambivalent about alcohol, relying on it as a crucial social lubricant while also treating it as something that needs to be tightly controlled lest it spin out of control.

The result, in Britain, is a culture that celebrates drinking even as it condemns it. In June, in the midst of its own earnest anti-alcohol campaign, the government issued an advertisement urging apathetic young people to vote in the European elections by pointing out that the European regulations affect when and where they can drink. The Times of London published a front-page article about the problems of binge drinking, while its travel section offered tips on the best places in Eastern Europe for drink-fueled stag parties.

Kate Fox, a social anthropologist who is co-director of the Social Issues Research Center at Oxford, said the British used alcohol to justify unacceptable behavior: they act like idiots and then blame the alcohol.

"One thing that is common to ambivalent drinking cultures is the belief that alcohol is a disinhibitor and makes us violent," said Ms. Fox, the author of "Watching the English," a book exploring the nation's habits and quirks. The reality, she said, is more complicated: "It certainly interferes with your motor functions and your ability to speak rationally, but it doesn't cause you to go up to people, say 'Oy, what are looking at?' and start punching them."

The effects of binge drinking are all too obvious to anyone brave enough to take certain trains late at night, or to stand outside certain pubs at closing time, or to venture into town and city centers across the country at midnight on a Saturday.

Many older people simply stay away from "no go" areas so as not to be "the victim of a drunken yob beating them up, kicking them or headbutting them," as Ian McCartney, chairman of the Labor Party, said in a recent speech. Most such areas have had to hire extra police officers; some smaller communities have banned alcohol altogether. Even genteel Cambridge has had so many problems with street drunkenness that it is debating whether to forbid outdoor drinking.

"Youth culture is just drink, drink, drink," said Eleanor Smith, a 57-year-old retired secretary who lives off Mill Road, one of the rowdiest drinking spots in Cambridge. Weekend nights find her firmly indoors.

"I sleep at the front, so I hear them," Mrs. Smith said, meaning the drinkers who roll out of the pubs on Mill Road and start their merry journeys to the late-night clubs a few blocks away - often, the police say, stopping on the way to smash a car mirror, urinate on a doorstep or provoke a fight.

Writing in The Daily Telegraph, Dr. Theodore Dalrymple, a general practitioner, said the relative cheapness of alcohol, the introduction of fruity "alcopops" aimed at teenagers and the rise of happy hours and all-you-can-drink deals were partly to blame for the problem.

"It seems that the acme of modern British experience is oblivion preceded by nastiness," he wrote.

The overnight Saturday train from London to Aberdeen, a favorite for men on stag nights, was canceled recently because no guards would agree to work on it, The Guardian reported.

"It was like an alcoholic bullet flying through the night," one guard told the newspaper. "The buffet car was a cesspool. They were climbing into the berths with Christ knows who. It was madness. They'd pull the emergency cord. They'd vomit. Break guitars over each other's heads. You can't be having that on a nice train."



Whether the relaxation in licensing laws and closing times will help is anyone's guess. The government, with one eye firmly on local economies and the $55-billion-a-year alcohol industry, says it will, taken in tandem with increased public awareness and the stricter anti-alcohol measures.

"We want to create some of our cities to be leading European cities of the future," Richard Caborn, the government minister for sport and tourism, said recently. "As tourism minister, I'm out there saying: 'Come and visit this great country of ours. Oh, by the way, you can't have a drink after 11 o'clock.' That's crazy."

**3. Lawyers Set Sights on Alcohol Producers**

By Doug Bandow / Japan

July 19, 2004

WASHINGTON -- There's nothing new about lawyers, especially in the United States, attempting to profit from tragedy. When an individual dies after behaving irresponsibly, an attorney always can be found to blame someone with deep pockets.

Today many lawyers are as interested in regulating behavior as in making money. So it is with a raft of lawsuits against alcohol producers for having the temerity to advertise their products.

The multibillion dollar American tobacco suits were the mother of abusive litigation. Lawsuits have since proliferated against the fast-food industry.

Now attorneys are targeting the alcohol industry. The suits "wholeheartedly" borrow from the tobacco litigation, admits lawyer Steve Berman, handling a Los Angeles case. Leading the legal assault are David Boies II, hired by the Clinton Justice Department to sue Microsoft, and his son, who heads a separate law firm. Their target list includes Bacardi, Coors, Diageo and Heineken, as well as the Beer Institute.

The plaintiffs claim that alcohol producers are "deliberately and recklessly" targeting underage consumers by advertising in publications "disproportionately read" by young people. Reliance on cartoon characters, use of such youthful themes as video games, reference to college activities such as Spring Break, placement of products in movies and TV shows watched by minors, introduction of sexual imagery appealing to young males and creation of Web sites accessible to teens are supposed to prove that the alcohol producers are attempting to hook the young.

The plaintiffs assume that advertising is spurring underage drinking. "This is extremely sophisticated marketing that's making an awful lot of money," argues David Boies III, a lawyer hoping to make an awful lot of money with his lawsuit.

Along with these class actions are individual suits, such as the one filed by the family of 19-year-old Ryan Pisco against Coors. Pisco drank, drove while drunk, and recklessly exceeded the speed limit. He crashed and died. Which, his family claimed, was Coors' fault because of its sponsorship of sporting events that Ryan allegedly attended.

These lawsuits constitute gross judicial abuse. Countless people drink without undue effect. The problem is drinking irresponsibly and sometimes illegally, not drinking. But foolish behavior cannot be blamed on advertising. Most alcohol consumed around the world isn't even advertised.

Changes in advertising in America and other nations have had no measurable impact on total consumption. When kids explain why they drink, they cite their parents and peers, not ads.

Why, then, do companies advertise? To win market share. People are going to drink. But which brand they drink is not foreordained.

In its 2003 Report on Alcohol Marketing and Advertising the U.S. Federal Trade Commission discovered "no reliable basis to conclude that alcohol advertising significantly affects consumption, let alone abuse." Moreover, the Commission "found no evidence of targeting underage consumers."

The Department of Health and Human Services recommended against restrictions on alcohol advertising in a report to Congress. The agency observed no significant relationship between advertising and consumption.

Private studies reach the same result. Explains John Calfee of the American Enterprise Institute: "Invariably, empirical research finds no effect of advertising on the total amount of alcohol consumption."

Certainly nothing suggests that advertising encourages irresponsible drinking. People who abuse alcohol don't need to be encouraged to do so.

But all of this evidence is really irrelevant. Freedom of speech is an important right, possessed even by alcohol producers. We punish brewers and distillers for selling their legal products at our peril: The paternalists will soon find another unpopular vice to penalize.

Moreover, controlling publications mostly read by adults because some teens also see them sets an extraordinarily dangerous precedent. Surely we do not all want to be treated as kids.

If there seems to be a convincing reason to sacrifice free speech rights, it should be done by the Congress, after a full debate, and not by a judge in a tort case. The political process is imperfect, but better includes diverse interest groups and better balances diverse interests than does a lawsuit.

Even some trial attorneys realize that they are operating on shaky legal ground. After Coors threatened to seek sanctions for frivolous litigation against Kenneth McKenna, the lawyer for Ryan Pisco, McKenna dismissed the lawsuit "with prejudice," which means that it cannot be refiled.

America is becoming a society of victims. No one is responsible for anything; everyone is liable for something. Now the trial bar has set its sights on the alcohol industry.

A democratic society must reject regulation by lawyers. Most people who drink do so responsibly; those who do not, have only themselves to blame. The only way to deal with alcohol abuse is to hold drinkers -- not brewers or distillers or sellers -- accountable.

Doug Bandow is a senior fellow at the Cato Institute and the author of "Tripwire: Korea and U.S. Foreign Policy in a Changed World."

**4. A Nightclub Far From the Downtowning Crowd**

By Traci Finch - *The Daily Iowan*

[Monday, July 19, 2004](http://www.dailyiowan.com/main.cfm/include/displayIssueArticles/issue_date/20040719.html)

IOWA CITY, IA -- Iowa City residents tired of rowdy downtown bars may soon find solace in a new entertainment venue.

Dave Moore, the owner of McInnerny's, 161 Highway 1, hopes to open a new nightclub and pool hall to attract the 25- to 50-year-old crowd. "There's not a whole lot to do once you're over 25," he said.

That's why he and business partner Kevin Grimm Jr. applied for a building permit last week, with plans of constructing an 8,000-square-foot entertainment center in the vacant building next to McInnerny's, located in Gateway One Plaza (formerly the Wardway Plaza). The renovation is expected to be complete by late fall 2004.

The venture, if approved by a city building inspector this week, will transform the space into a pool hall with six to eight pool tables, a pizza kitchen offering dine-in and take-out, an outdoor volleyball court, and a nightclub with space for DJs, bands, and special events.

Moore compared the venue with Charlie's Bar & Grill in Coralville, which, he said, is just a "little too far" for Iowa City residents. Charlie's acting manager, Rob Strabala, said the venue offers seven pool tables and the occasional band.

"It's not overrun with college kids," he said.

 Moore also said that an older-crowd atmosphere was a must for his new business.

"There's no place to go dance, no place to go play pool - unless you want to battle downtown," Moore said. He expects the crowd will be grateful for a place to "relax and have a good time."

He said the "entertainment center" will not be geared toward students, "but in Iowa City, any place that has a liquor license, with 30,000 students - you can expect them. It will be student-friendly."

Moore said the makeover, which will include renovations to the exterior and interior of the building, will cost "well over $300,000." The unnamed space will be a separate entity from McInnerny's, and Moore will hire approximately 30 new employees.

**5. France's Wine Industry Deals With its Crisis (France)**

*The Taipei Times*

July 20, 2004

 A new marketing gimmick is evidence that vintners have mounting problems.

The new wine is called Permis de Conduire, or Driving license, and will be marketed with a pink label which is the same color as the document that permits French people to sit behind the wheel of a car.

 The wine in the 25cl bottle, the label claims, "corresponds to a concentration of alcohol not greater than 0.25mg per liter of exhaled air or 0.5 parts of alcohol to each 1,000 parts of blood, if two people share the bottle."

 In other words, two people drinking one bottle of this wine will be able to drive a car without worrying about surpassing the legal limit of blood-alcohol content.

 The wine will be launched later this month with the slogan "Keep your license."

This product is more than a clever marketing gimmick, it is evidence of an industry in deep crisis. Just like another new wrinkle in French dining -- the wine doggie bag.

Several hundred restaurants throughout the country now give their customers glossy white shopping bags with wine-colored ribbons to take their unfinished wine bottles home to "prolong their pleasure," as promotional fliers urge.

The bags are provided free of charge to restaurants by the Wine Council of Bordeaux, in response to a vigorous government program to cut down road fatalities and other alcohol-related deaths.

The objective of the program is to reduce the use of alcohol in France by 20 percent by the year 2007, and it has led to an acceleration in the decades-long decrease of wine consumption in the country.

Nowadays, the average French man and woman over the age of 15 consumes about 68l of wine per year, exactly half the amount drank in 1960, when French society considered wine a staple like bread, and considerably below the 77l per year consumed in 1990.

In addition, French wines are being squeezed on foreign markets by the so-called "new age" wines, made in South Africa, Australia, Chile and the US. As a result, exports of wines from the Bordeaux and Burgundy regions were down about 8 per cent in 2003.

The resulting accumulation of wine reserves has led to a steep drop in the barrel price of all but the most prestigious wines, which has many French vintners worried about their future.

"Today, I am earning zero," one Bordeaux winemaker said. "If that continues, I will stop."

His problem, he said, was that he can not repay bank loans taken out in the 1990s when Bordeaux wine sold for more than 1,500 euros (currently about US$1,820) per 900l barrel. Today, the price has sunk below 750 euros per barrel.

To emerge from the crisis, French winemakers have gone on the offensive, beginning with a concerted effort to reduce the amount of wine they produce.

Instead of the 7 million hectoliters they are capable of producing this year, vintners in Bordeaux have decided to destroy some of their vines and commercialize only 5 million hectoliters, hoping to force prices up.

In addition, and perhaps more important, French winemakers have embarked on a political and media campaign to change the status of their product.

A so-called "White Book" to be presented to Prime Minister Jean-Pierre Raffarin later this month declares that wine should be classified as a nutriment rather than an alcoholic beverage.

The consequence of such a change would be to exempt wine from limitations on advertising that forbid regional vintners from publicizing anything about their products but its name, alcohol content and place of sale, as prescribed by a 1991 law.

It would also permit winemakers to sponsor public events, another form of public relations currently forbidden to producers of alcoholic beverages.

Relying on a number of scientific studies, the authors of the "White Book" maintain that wine is "a food, not a drug," and that regular and moderate consumption has a number of health benefits, particularly for the cardiovascular system and in combating Alzheimer's disease.

The editor of the White Book is Alain Suguenot, a representative in the National Assembly from the city of Beaune, in the wine region of Burgundy. He charges that French wine is being victimized by "a prohibitionist lobby that demonizes it."

"Wine," he declared, "is a product of civilization and public health that must be defended in France and abroad.

