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| *May 6, 2005* | |

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**1. U.S. Beer Business Continues Decline**

By James B. Arndorfer – *AdAge.com*

May 5, 2005

**More Consumers Drift From Brew to Spirits**

CHICAGO (AdAge.com) -- The American beer business is in serious decline and 26-year-old Christian Ryan is one of the reasons for that. When he started going out to bars he ordered cold beer, like generations of young men before him. But a few years ago, he began pounding back whiskey-based mixed drinks like Jack Daniels and Coke instead.

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| http://www.adage.com/images/random/beer050505.jpg |
| Much of the story of the U.S. beer business can be found in this fact: From 1990 to 2004, 60% of Chicago's neighborhood tap rooms closed. |

“If I’m going to drink, I want something substantial,” Mr. Ryan said while sipping a Manhattan at Simon’s, a hipster bar in Chicago’s trendy Andersonville neighborhood.

The bar calls of young men like Mr. Ryan are benefiting hard liquor distributors like Diageo and Brown-Forman while damaging brewers’ bottom lines. And the shift from beer to spirits is grounded in cultural factors that make it more than a passing fad.

**Down from 1999**

Beer sales, at $25.6 billion, were 53.2% of the alcohol beverage market in 2004, down from 56% in 1999, according to the Distilled Spirits Council of the U.S. The spirits segment improved to $15.1 billion in 2004, or 31.3% of market, up from 28.2% five years earlier.

The factors driving this seachange in alcoholic beverage consumption habits range from a blurred image for beer brands to shrewd moves by distillers, from consumer affection for luxury goods to the withering away of blue-collar institutions where beer was part of the social fabric.

Beer marketers are fighting back, spending more on bar promotions and rolling out sweeter products to compete with cocktails. Bob Lachky, vice president for brand management at Anheuser-Busch, said that hard liquor and wine “clearly . . . have affected our industry.” But, he added, “It’s important to remember that beer continues to be America’s favorite beverage.”

**Brewers helpless**

That may be true, but others say there’s little chance brewers can stem their slide. There’s “not much” they can do, said John Greening, former account director for Anheuser-Busch at DDB Worldwide, Chicago. “All you can do with a trend is adjust your sails.”

Generational dynamics have played a role. Baby boomers’ parents drank wine and spirits while their kids picked up beer. Now it’s going in the other direction.

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| http://www.adage.com/images/random/beer050505b.jpg |
| Photo: AP |
| Wine and liquor -- not beer -- have become the most popular drink in the 21- to 27-year-old demographic that is critical to beer marketing. |

“Drink what your parents don’t drink,” said Mr. Greening, now director of the Advertising-Sales Promotion sequence in the Medill Graduate School of Integrated Marketing Communications at Northwestern University.

The depth of the dilemma was highlighted in a recent survey by Morgan Stanley that found spirits were the most popular drink choice among 21- to 27-year-olds -- the sweet spot for brewers. Among that group, 40% said spirits were their favorite drink compared to less than 30% in 2003.

**Twentysomethings**

Spirits also enjoyed a stronger image among twentysomethings, beating beer on taste, quality and sophistication.

Other studies held similar grim portents, showing that men as well as women are taking a pass on suds. A survey by Simmons Research showed 44.4% of white males 21 to 29 said they drank regular domestic beer in fall 2004, down from 48.8% in fall 1999. Just over 39% said they drank light beers, down more than a point from fall 1999.

That age group “is [brewers’] bread and butter,” said Benj Steinman, publisher of industry newsletter *Beer Marketer’s Insights.* “Any shift in that would be alarming.”

Sales of the top 25 spirits brands, which represent about 45% of industry volume, increased by 5% last year, according to Impact Databank. Diageo’s Captain Morgan rum surged by 14%, and Crown Royal Canadian Whisky jumped 11%. Grey Goose, the super-premium vodka created by Sidney Frank Importing Co. and sold to Bacardi last year, soared 21%.

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| http://www.adage.com/images/random/beer050505c.jpg |
| Photo: AP |
| Five years ago the big brewers didn't believe spirits would ever catch on among younger drinkers. They were wrong. Anheuser-Busch and Molson Coors now report declines in earnings due to decreasing beer consumption. |

**Feeling the pain**

Publicly traded brewers, whose stock price is tied to their ability to increase share, have felt the pain. Last week, shares of Molson Coors Brewing Co. nosedived after the brewer shocked analysts by posting a loss. Industry leader Anheuser-Busch posted a decline in earnings as well. Both cited the decline in beer consumption as factors.

And there’s no sign of relief. Beer volume is expected to grow at a 0.5% annual clip from 2004 to 2009, less than the 0.9% pace forecast for all alcoholic beverages, according to the Morgan Stanley survey. Spirits are expected to grow by 2.0%, wine by 3.5%.

This grim outlook marks a sharp reversal for the beer industry. Beer sales grew at 3% to 4% clip during the 1970s. Beer continued to outperform the market after per capita alcohol consumption declined during the early 1980s. Spirits nose dived.

As recently as five years ago the big brewers didn’t worry about competition from spirits. “We felt that distilled spirits would never catch on,” said one former beer industry executive.

**Lack of brand differentiation**

So the brewers competed against each other. And as they did, their marketing became homogenous. Following the lead of Anheuser-Busch's powerhouse Bud Light, brewers served a steady stream of humorous ads where entertainment value frequently overshadowed any effort to build or differentiate brands.

“There’s nothing intriguing about” beer, said Darrell Jursa, managing partner of the consultancy Liquid Intelligence. “It’s like water and soft drinks, and it’s advertised like water or soft drinks.”

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| http://www.adage.com/images/random/beer050505d.jpg |
| For years, brewers like Anheuser-Busch employed entertaining ads rather than ads designed to offset competition from spirits marketers. Analysts suggest that Budweiser's frogs and lizards evoked a lot of smiles -- but not brand loyalty -- over the years. |

Norman Adami, CEO of SABMiller’s Miller Brewing Co., offered a similar diagnosis in a speech last spring. “The net effect of all that emulation [of Anheuser-Busch marketing] across the industry was that it caused consumer excitement to fade and allowed for successful attack … from outside the industry, particularly from the wine and spirits industry,” he said.

The spirits industry mounted its attack in the late 1990s. Spirits marketers broke into cable and radio, media they had avoided before, and increased their on-premise marketing. Spirits marketers spent $440 million on advertising in 2004, up nearly 12% from 2003, according to TNS Media Intelligence. Beer marketers spent $1.2 billion, up 7%.

**'Sex and the City'**

The goal of the spirits marketer’s marketing efforts -- from TV advertising to new flavors and unusual bottle shapes -- was to make their products less intimidating and more fun. And they succeeded, with a little help from the brightly hued cosmopolitans on *Sex and the City.*

The push by spirits coincided with a broader trend of consumers trading up in purchases ranging from fast food to home appliances. Marketers who pushed $30 vodkas benefited; mass brewers suffered.

“The cosmopolitan and the Manhattan have become statements of sophistication, taste and experience,” said Michael J. Silverstein, author of *Trading Up: The New American Luxury.* “Women, in particular, have been drawn to the cocktail as an alternative to beer.”

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| http://www.adage.com/images/random/beer050505e.jpg |
| Spirits and wine have enjoyed leading roles in TV shows, movies and the music business in recent years. Everything from the cosmopolitans consumed on 'Sex and the City' to movies like 'Sideways' have brought glamour and high cultural status to wine and cocktails. |

And while spirits had a number of societal factors going their way, beer was undermined by changes. Many college campuses cracked down on drinking during the late 1980s.

**Blue-collar institutions fade**

Another factor was the fading of blue-collar social institutions, from corner taverns to union halls, where young men were “taught” to drink beer.

The decline in bar and tavern-going was documented by Robert D. Putnam, a Harvard University professor of public policy, who wrote *Bowling Alone: The Collapse and Revival of American Community.*

“Americans are staying home in the evening, and *Cheers* has become a period piece,” he wrote.

**Chicago taverns down 60%**

In Chicago, one-time hog butcher of the world, the number of taverns dropped by about 60% to 1,320 between 1990 and 2004, according to the *Chicago Tribune.* The city hit a peak of nearly 7,000 in 1947.

“Ten years ago when a guy had a beer, the lady he was with might have a glass of wine,” said Arthur Shapiro, an industry consultant who as a senior marketing executive at Seagram led the spirits industry drive into TV advertising. “Now if she’s going to have a cosmopolitan, he’s going to have a martini.”



**2. This is High Season for Bourbon**

By Stephen Smith - *Knight Ridder Newspapers*

May 3, 2005

As spirits go, it is among the most spirited: bourbon, smooth as a Southern gentleman, fresh as the morning dew. It drawls into a glass, an elixir seared with the amber hue of the dwindling sun swaddling the twin spires of Churchill Downs.

These days, it's hitched a ride on the uptown express. Forget down home. Think swimming pools, movie stars. Moonshine with bouquet.

Today, the cognoscente sip rather than swill, letting bourbon settle upon the palate like aged wine, which is not such a preposterous proposition, for there are bourbons on the market so old THEY could drink.

Their names ring redolent of their native bluegrass: Woodford Reserve, Knob Creek, Elmer T. Lee.

This is bourbon high season, the week when the eyes of the sporting world fall upon an oval dirt track where hooves thunder for two minutes and captivate an entire athletic endeavor. That most iconic of bourbon concoctions, the mint julep, sweats in silver cups at Kentucky Derby soirees around the globe, because bourbon has found a high-proof embrace the world over, aficionados savoring a liquor alternatingly sweet and woody but never dull.

It is history in a shot glass, liquor with a legend.

"I always thought whiskey was for rough cowboys and gunslingers," says Omar Montejo, a Coral Gables bourbon connoisseur who counts 60 bottles in his home collection. "I was really surprised that I found bourbon to be such a pleasant, civilized drink. That's the beauty of bourbon."

That rhapsodic rumination is a remnant of the rollicking '90s, which saw appreciation anew for potable and edible classics once tossed on the slag heap of cultural irrelevancy. Remember cigar salons?

Just as tequila has been rescued from the obscurity of the margarita glass, so it is with bourbon as Americans consume 30 million gallons a year.

"There's a revitalization of interest in bourbon. I think it's the emphasis on better quality, the taste experience that people are looking for now," says Ed O'Daniel, president of the Kentucky Distillers' Association, the trade group for nine major distillers, all of which have an old Kentucky home.

"Now, people are buying a nice bottle of bourbon and pouring it in a wine glass and enjoying the fragrance, the aroma, sipping it for the taste and just enjoying the unique character of it."

That character has attracted an international audience. In fact, the domestic resurgence of bourbon is riding a tsunami of popularity spawned in spots like Japan and Australia.

In the 1980s and '90s, bourbon emerged in Japan as a premier libation, the chosen lubricant whether you were plying a business partner or a love interest. From there, the passion for Kentucky brew spread to Europe and Australia, with the land down under now eclipsing Japan as the largest export market.

The timing couldn't have been better: U.S. sales of bourbon plunged in the 1970s as Americans' taste for hard liquor began to go soft. By the 1990s, the overseas market had grown so robust that it was single-handedly keeping some distilleries alive.

"It was a very pleasant surprise for everyone in the bourbon industry when that happened because up until that point, bourbon consumption had been dropping 2 to 3 percent a year since the late 60s," says John Rhea, operations superintendent at Four Roses Distillery, in Lawrenceburg, Ky.

"The Japanese decided somehow, someway that bourbon was the drink of choice, especially the premium drink of choice. If you were going to show someone a good time, bourbon was how you did it."

All of which coincided with the birth of ultrapremium bourbons, distillations branded with monikers meant to convey cachet. Call them small-batch and single-barrel, the companies figured, and slap on the name of a grizzled whiskey maker. Thus, the arrival of a brand such as Booker's, from the house of Beam. That's Jim Beam Brands, to be specific, big daddy of bourbon land.

Booker is Booker Noe, grandson of Jim Beam. His eponymous bourbon could put hair on your chest, as any self-respecting Kentuckian might say. It's 125 proof, which means roughly 63 percent alcohol.

To get a sense of just how sophisticated bourbon quaffing has become, listen to this description of Booker's, provided by "The Bourbon Companion" (Running Press, $19.95):

"A deep, rich nose with a complex mix of sweet vanilla, rich butter, oak, honey, caramel, leather, cloves, and wonderful organdy backdrop .T.T. the finish is very long, rich, and spicy."

In other words, this ain't some cheap buzz anymore. A single-barrel bourbon is precisely what the name would imply bourbon that's collected from a lone container. And a small-batch, according to "The Bourbon Companion", mingles select barrels of whiskey that have matured into a distinctive style.

Elmer T. Lee, both the man and the single-barrel bourbon, is nothing if not distinctive. Lee spent 37 years distilling bourbon before his bosses asked him to cook up a drink of his own in the mid-1980s.

"It's a classic, all right," says Lee from his home in Frankfort, Ky., his words as thick and languid as kudzu. "Certainly, when folks drink bourbon, they're expecting a good pleasant taste, but the history, the mystique, the romance surrounding the product add to its enjoyment."

It is a case of good taste and smart marketing united in a marriage of convenience. The result: After years of declining sales in the United States, bourbon has rebounded the past few years, with sales growing 2 to 5 percent annually. Five or six years ago, when the Kentucky Bourbon Circle, a fan club that's part of the Jim Beam marketing operation, threw a tasting, sometimes only a dozen people would show up. Earlier this year, a tasting in Tampa drew 250 bourbon partisans.

"The affluence of the past decade has influenced the buying habits of higher-end products you might not be able to afford the Mercedes, but you still might want to treat yourself to a $25 bottle of Knob Creek," says Jim Kokoris, executive director of the Bourbon Circle.

"I think marketers would like to take all the credit, but I think it was also the mood of the moment in America. We saw an obsession with single-malt scotches. Scotch really more or less blazed a trail for us, opened the door for people to be more adventurous."

The premium lines, increasingly, have found a home on bar shelves once the exclusive province of cognacs and ports. At Azul, the signature restaurant at the Mandarin Oriental Miami, bourbon is just as likely to be paired with dessert as it is to be thrown back at the bar.

"When you sense people want to try something as an after-dinner drink, this is a chance to introduce them to something new," Azul sommelier Bjorn Noldner says.

With a vista of Biscayne Bay and the Miami skyline, the sleek bar at Azul serves bourbons neat that's straight up or on the rocks, even mixed with water or a soft drink. Depending on the label, it sells for $9 to $16 a glass.

"It's better than all these crazy prices for French cognacs," Azul manager Alain Ricci says. "The vintage bourbon is very similar to a cognac."

For Montejo, a publicist with the University of Miami medical school, it all began a year and a half ago with a Jack on the rocks, Jack Daniels mixed with Coca-Cola. (While almost all bourbon is produced in Kentucky, Jack Daniels whiskey hails from Tennessee. Kentucky bourbon and Tennessee whiskey consist of the same ingredients corn, rye or wheat, malted barley, yeast and water but the Tennessee variety is processed differently.)

He was never much of a drinker, still isn't, really. But there's something about a snifter of bourbon, almost like inhaling the sweet smell of history. It's an appreciation of the craftsmanship, Montejo says, the skill of blending those five raw materials, storing the resulting clear liquid in a white oak barrel the only kind that can be used when making bourbon and allowing it to acquire that amber cast as it sits for years.

"It is," Montejo says, "like you're sipping history."



**3. Young Drinkers Face Changes**

By Jeff Eckhoff and Abby Simons, Staff Writers – *Des Moines Register*

May 6, 2005

### Ankeny police will begin offering alternative to having a rap sheet

Starting in Ankeny, from this weekend, the rules change.

Ankeny police officers, as part of a pilot project that is expected to spread throughout Polk County, say they plan this weekend to stop making arrests for possession of alcohol by people who are less than legal age.

Instead of going to court, minors caught with an alcoholic beverage will be offered an alternative: five hours of face-to-face discussions and a contract of tasks they will perform to make up for the consequences of their drinking.

It's called "restorative justice," and Iowa officials say this is the first time it will be used, anywhere, in connection with illegal drinking. Authorities hope the program will reinforce the dangers associated with teenage drinking and stop young adults from tarnishing their futures.

"By turning them into public health issues, at least for first-time offenders, what we can do is avoid any consequences or any stigma associated with a criminal record," said Ankeny Police Chief Gary Mikulec, who sparked the new law enforcement approach.

"This is a quantum leap," Mikulec said. "This goes way off the page in the way we're going to do our work."

The approach will mean less paperwork for police and more deep thought for any minor caught with a beer during the expected parties this weekend to celebrate the Des Moines Area Community College graduation.

From now on, instead of filling out individual complaints, Ankeny police who find underage drinkers will send county prosecutors a one-page form with space for the names of up to 12 people who need to be referred to the restorative justice program.

Polk County prosecutors will offer each participant the option of court or the program, which will include two 21/2-hour sessions led by trained facilitators.

Paul Hedquist, CEO of Employee & Family Resources, which designed the program, said drinkers will have to discuss the harm they've caused to society, to themselves and to their families.

The second night's session will involve sitting down with parents and community leaders to develop a contract on how violators can make good on the harm they've done.

Hedquist said contracts for the offenders will vary but might involve something like this: A teenager agrees to make dinner for his or her family several nights a month, to write a letter of apology to a police officer and to pick up litter for several hours a week at a park prone to beer-can litter.

Officials stress that the program, partly modeled after a Colorado offering for shoplifters, will not be easy.

"It actually holds people to a much higher standard than simply paying a fine and never having a face put on the impact of what they've done," Hedquist said.

Added Mikulec: "I can tell you, I wouldn't want to attend a class with my dad for something that I did that was stupid."

Under the current system, minors caught with alcohol face a possible $100 fine, plus nearly $60 in court costs, plus a misdemeanor criminal record.

Participating in the restorative justice program will cost offenders roughly $100.

The new system "might work, and it might not," said Nick Goering, a 16-year-old sophomore at Ankeny High School. "It just depends on what your parents would have to say. If you have parents that are really strict and you get caught drinking, you're probably gonna be screwed."

Kyle Peterson disagrees.

"It wouldn't reduce drinking any," said Peterson, a 20-year-old Des Moines Area Community College student. "It's just being a little more lenient if you don't issue a ticket or make them pay a penalty. I think they'll think of this counseling as a joke and not take it too seriously."

Assistant Polk County Attorney Fred Gay said prosecutors don't necessarily care if their message gets misinterpreted as leniency because signs show that current punishments aren't scaring teens away from alcohol.

In 2002, a state-financed survey of Iowa youth found that 38 percent of 11th-graders had been on a drinking binge - five or more drinks within a few hours - within the previous month.

"Sometimes, in order to effect positive change you have to do something different," Gay said.

Mikulec estimates that the program will pull roughly 300 Ankeny cases a year out of the court system, saving at least some of those 300 from their own mistakes.

"Let's face it," the chief said. "They may not be able to get jobs because of a criminal record. Who thinks of that when you're being offered a beer bottle that's being passed down the row?"

Polk County's 11 other law enforcement chiefs all have agreed to adopt the new approach after checking Ankeny's results. The new rules could go countywide within two or three months.

"We've all said we like the concept," said Des Moines Police Chief William McCarthy. "Right now, you go and pay your fine and you walk away. Well, what was that doing to stop the problem? What we're looking for is a way to change behavior."



**4. Bar Owners Study Control of Alcohol in Iowa City Clubs**

By Erin Jordan, *Register Iowa City Bureau*

May 3, 2005

**Alternatives are available besides banning those younger than 21, a group tells the City Council.**

IOWA CITY, IA -- Restricting bar crawls and cracking down on high-capacity bars are the best options for controlling excessive drinking, Iowa City bar owners said Monday night.

These steps are better than banning minors from Iowa City's bars and nightclubs, a committee of mostly bar owners told the City Council.

"It's size and capacity," said Leah Cohen, co-leader of the committee and owner of Bo-James bar in downtown. That's where we seem to have the most problems."

The council, which decided against an age 21-and-up ordinance last fall, requested the bar owners' report on what has been done in the last six months to control excessive and underage drinking. Efforts include reducing advertising of drink specials and providing staff monitors in some bars for problem drinking.

Several council members said they were impressed with changes, but others pointed out the committee's efforts have not reduced alcohol-related citations so far this year.

Charges for underage possession of alcohol for Jan. 1 through March 31 were at a three-year high without an increase in compliance checks by police, Sgt. Troy Kelsay said. Iowa City police cited 314 people with underage possession in the first quarter, compared with 220 for the same period in 2004 and 284 in 2003, Kelsay said.

Police wrote tickets for underage possession during 85 percent of their bar checks from Jan. 1 to March 31, compared to 44 percent in the first quarter of 2004. Public intoxication charges to people younger than age 21 went from 66 percent of bar visits in the first part of 2004 to 89 percent in 2005, Kelsay reported to the council.

"There really has been very little measurable change, and the numbers we can show are not favorable," Kelsay said.

The bar committee suggested zoning changes that would restrict new or high-capacity bars downtown. It also proposed bans on drink deals for bar crawls, which are groups of people, ranging from academic classes to fraternity pledge classes, who travel together from bar to bar. Cohen said the committee would like to prohibit bar crawl participants from bringing their own, larger cups into the bars.

Ross Wilburn, a council member who supports a minimum age of 21, said the committee's actions may help the problem, but there are no sanctions for bars that don't comply.

"These aren't new ideas," he said. "They came up two or three years ago."

Council member Mike O'Donnell said the committee has made good progress in six months and would like to give them more time.

"I don't think I expected immediate results," he said. "The problem didn't happen overnight and the solution won't either."



**5. Council has Sharp Queries for Alcohol Board Official**

By Elaine Fabian – *The Daily Iowan*

May 3, 2005

The Iowa City Alcohol Advisory Board told the Iowa City City Council on Monday night that it has increased awareness of underage and excessive drinking in local bars since its creation six months ago, an assertion that provoked skepticism in some city councilors.

"We had several meetings [before the board was created] and saw very little camaraderie between the bar owners," said Leah Cohen, a co-chairwoman of the board. "We set up a trust system and camaraderie."

Mayor Ernie Lehman, however, asked Cohen for an explanation of the increased number of citations for possession of alcohol under the legal age during the past few months. Iowa City police Sgt. Troy Kelsay reported to the council that the "number of PAULAs being charged in bar checks hit a rate of 83 percent in the first three months of this year." Last year, that number was 44 percent, but Kelsay added that "statistics can tell you very little" and a number of factors can account for the increase.

Although alcohol-board members feel they have made some progress on Iowa City's alcohol problems by talking to bar owners, Cohen admitted that the panel needs help from the city because there is no force behind its recommendations, which include asking bar owners to not advertise drink specials and having a monitor walk through the bars, looking for cases of excessive drinking or legal-age violations.

"We really need, we feel, to start working more closely with the police," Cohen said.

Councilor Dee Vanderhoef said the board has put all of its energy into nonalcoholic issues, such as keeping businesses open late during a local festival. She said she is left with even more questions about the board's goals.

"We didn't get a response when we asked how to measure your objectives," Vanderhoef said.

In response to some of Vanderhoef's remarks, Councilor Regenia Bailey said the board should work to improve the community instead of only trying to regulate bar activities.

"If you can change the culture of the community, you are working against excessive drinking," she said.

Jeremy Schreiber, the new UI student liaison, sat with the council for the first time Monday night. Although he made only one comment during the discussion, he said he would have much more to say when the council considers the issue next, which will probably be May 16.

"I don't think it was my place to speak," he said. "It was the Alcohol Advisory Board's turn to speak tonight."

Schreiber also said after the meeting that he likes that the board is trying to increase the responsibility of bars and that he wants to see a decrease in the number of fake IDs. He doesn't, however, want to see the 21-ordinance take a lead in the council's options.

"I don't think the 21-ordinance is a working solution to the problem," he said. "I think the board will come up with a working solution, and we need to give it enough time to do that."

In other business, the council voted 4-3 not to add bow-hunting to sharpshooting as a method to manage the deer population in Iowa City because of safety concerns, despite a recommendation to do so by the Iowa City Deer Task Force.



**6. Diageo Set to Support Rival US Offer for Allied Domecq**

*Forbes.com*

May 1, 2005

LONDON (AFX) - Diageo PLC is set to support the counter-bid for Allied Domecq PLC by US groups Constellation Brands and Brown-Forman Corp, The Observer newspaper reported, citing UK analysts.

Analysts say that Diageo chief executive Paul Walsh wants to be certain that the Americans are prepared to carry through their threat to trump an agreed 670 pence a share offer for Allied Domecq by French group Pernod Ricard SA, which is being backed by Fortune Brands Inc.

But if the Constellation consortium pushes ahead, Walsh is prepared to offer it support -- and considerable financial firepower -- in the hope of securing control of a number of Allied brands, including Courvoisier brandy, Maker's Mark bourbon and a clutch of wine labels, the newspaper said.

'Constellation and its allies have a better chance of winning Allied with Diageo on board, as it provides the consortium with the financial muscle it badly needs,' one analyst is reported as saying.

Constellation and Brown-Forman made a preliminary approach to Allied Domecq last week and are now conducting due diligence before making a final decision on whether to table a formal offer.

If they do make a move, Diageo will almost certainly be on board. It could furnish the consortium with several billion pounds, allowing it to put in a higher bid than Pernod's, and one all in cash, the newspaper said.

Meantime, Bacardi chairman and chief executive Ruben Rodriguez has suddenly resigned, according to The Business.

His resignation came just as Diageo approached Bacardi in search of a partner to launch a possible bid for Allied Domecq. Some of Bacardi's 600 family shareholders were believed to be considering a counter-bid to Pernod Ricard's agreed 7.4 bln stg offer.

A Bacardi spokesman said his departure was not connected with any dispute within the Bacardi family or any disagreement about whether to pursue an Allied bid.



**7. TTB Considers Changing Vintage Date Rules for Wine Labels**

**April 29, 2005**

The Alcohol and Tobacco Tax and Trade Bureau intends to initiate a rulemaking to consider changing the vintage date rules for wine labels. This action is in response to an April 12, 2005, petition from the Wine Institute, a trade association representing California wineries. The rulemaking will offer interested parties the opportunity to provide TTB with views on the proposed change. The Bureau plans to publish a formal notice of proposed rulemaking in the near future. We request that interested persons wait for the publication of that notice so that their comments may be considered as part of the official rulemaking record.



**8. Allied Domecq Investors Should Play Waiting Game**

*Bloomberg*

May 3, 2005

A year ago, when Allied Domecq Plc's shares were worth about 450 pence, shareholders in the British drinks company would have rushed to accept an offer of more than 670 pence a share.

And now? They will sit tight as the offers pile up.

Allied Domecq is fast becoming the subject of the kind of ego- fuelled takeover battle that Europe has yet to witness this decade. Plenty of people may get hurt along the way, though Allied Domecq's shareholders won't be among them.

The company is a valuable prize, perhaps the only real strategic asset in the global drinks industry that is still up for grabs. It is being sought at a time when there is a lot of money chasing stable, cash-generating assets.

That is a recipe for a rich prize.

The company run by Chief Executive Officer Philip Bowman is the second-largest drinks business in the world. It owns brands such as Ballantine's whiskey, Malibu rum and Beefeater gin. That is why so many of its rivals want to buy it.

In April, Paris-based Pernod-Ricard SA made a bid valuing Allied Domecq at $14 billion, or 670 pence a share. As part of the deal, Fortune Brands Inc. agreed to buy labels including Canadian Club whiskey and some distribution operations from Pernod for 2.8 billion pounds ($5.3 billion).

Last week, Fairport, New York-based Constellation Brands Inc. said it was considering an offer with Blackstone Group LP, Lion Capital -- formerly known as Hicks Muse Europe -- and Brown-Forman Corp., which makes Jack Daniels whiskey, on a rival offer for Allied Domecq.

**Diageo as Suitor?**

Next up? Possibly Diageo Plc, Allied Domecq's great rival in the global market for spirits. According to a report in the Times of London, Diageo has been holding talks with Bacardi Ltd. about launching their own joint bid for Allied Domecq.

What started out as an agreed offer by Pernod-Ricard may turn into a three-way bidding contest. Patrick Ricard, the ambitious French tycoon who kick-started the whole process with his bid for Allied Domecq, must be weeping into his pastis. Even if he gets his hands on the prize, Ricard will almost certainly have to pay more money for it.

What should Allied Domecq shareholders make of all this before they sample some of their own company's products to celebrate their good fortune?

They should hold tight. There's plenty of fun left in this saga yet.

Not since the bull market ended at the turn of the decade has Europe witnessed such a bidding war. (The closest was the tussle for the U.K. supermarket chain Safeway Plc.)

**2.6 Billion Pounds**

Yet, the drinks industry is prime territory and a highly profitable business, with loyal customers who are slow to switch from one brand to another. It has stable revenue that isn't hurt by economic cycles as much as other industries. And it has plenty of scope for cost savings, through merging distribution systems, combining distilleries, and sharing advertising and marketing costs.

Take a look at the raw numbers at Allied Domecq. Last year, on sales of 2.6 billion pounds, it delivered an operating profit of 585 million pounds. Ignore the deductions for tax and interest for the moment. The basic margin is more than 20 percent of sales. That leaves plenty of money for a buyer to play with.

Pernod-Ricard argues that it can afford to pay for Allied Domecq because of the cost savings it can make by combining its own brands with those owned by the U.K. company.

**Still Affordable**

``Pernod and Allied Domecq are in many of the same geographic markets, so we believe that a large portion of the synergies will come from distribution and be very obtainable,'' said Ben Chim, assistant vice president at Dominion Bond Rating Service Ltd. in Toronto, in an e-mailed response to questions.

The trouble is that plenty of its competitors can follow the same logic.

Of the big players in the global drinks industry, not many are for sale. And Diageo, with a market value of more than 23 billion pounds, is too big for any of its rivals to consider buying.

Allied Domecq is the one significant player in the industry that is still affordable.

Next, think of the cash available for anyone wanting to do a deal. It is interesting that Constellation is combining with two big buyout firms: Blackstone and Lion Capital. The buyout industry is awash with spare cash right now -- just look at the $8.5 billion raised by Goldman Sachs Group Inc. in April for its latest fund, the largest so far.

**Buyout Finance**

Drinks are just the kind of solid, cash-rich industry that buyout firms like. Bidders for Allied Domecq are unlikely to have trouble tapping them for money.

The net result? Allied Domecq shareholders should hold their nerve and wait for the highest offer. At almost 690 pence, the shares are already trading at a level that is higher than the Pernod-Ricard offer.

This may turn into a battle of industrial egos. That's good news for Allied Domecq shareholders, though it may turn out to be bad for the winner of the contest. In such tussles, it's very easy to end up paying too much.



**9. UK: Bacardi Chief to Retire – Report**

Source: *just-drinks.com editorial team*

May 3, 2005

The chairman and chief executive of Bacardi International Ltd. is to retire, according to press reports. The Miami Herald said yesterday (2 May) that Ruben Rodriguez will retire after the company’s annual shareholder meeting next month or soon after.

Rodriguez has been with Bacardi since 1989, serving as chief financial officer and director of audit and finance. He took over as president and chief executive in March 2000 and added the title of chairman in July 2000, marking the first time a non-Bacardi family member held both top executive jobs.

In June 2003, Rodriguez gave up the position of chief executive to Javier Ferran, but had to re-assume the position late last year when Ferran resigned.

Rodriguez’s resignation came just as Diageo approached Bacardi in search of a partner to launch a possible counter-bid for Allied Domecq, the paper added. Some of Bacardi’s 600 family shareholders were believed to be considering a bid, UK paper The Sunday Business said.

Citing a company spokesman as confirming the news, the paper said that the spokesman added that his departure was not connected with any dispute within the Bacardi family or anydisagreement about whether to pursue a bid for Allied.

“This is a very stressful job,” Rodriguez told the Herald. “I’ve given it every drop of my blood. I never planned that I was going to stay here forever.”

