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| *November 11, 2005* |

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**1. Comrades in Vodka**

By Reid Forgrave, Staff Writer – *Des Moines Register*

November 7, 2005

**Russians prepare to survive long, harsh winter in Iowa by importing and selling their own native liquor**

IOWA CITY, IA -- They say "vodka" the way vodka was meant to be said — "VODE-ka," with a long "o" — and they drink vodka the way it was meant to be drunk: straight, or on ice.

They know not to muck up a good vodka by diluting it with juices, and they scoff at the American concept of a martini: various liquors and juices tossed into a glass.

And they were frustrated upon moving to Iowa City from Russia. The vodka Americans drink, they soon learned, doesn't compare to the vodka in Moscow.

So Irina and Alexei Kratko set out to change that.

Call them vodka snobs.

The Russian-vodka entrepreneurs started importing Quadro, an ultra-premium liquor in a futuristic-looking stackable bottle, from their Russian homeland this summer and selling it from their company headquarters in Iowa City. It is the only liquor imported by an Iowa company.

Their mission: make Quadro a national success and, with its one-of-a-kind bottle, the next drinking phenomenon.

"When we moved here we thought, 'Oh my God, there's not real Russian vodka here,' " said Irina, a business professor at the John Pappajohn Entrepreneurial Center at the University of Iowa and a former Fulbright scholar. "Most brands are identical. There's no difference in the packaging. And it's not high-quality vodka.

"There's not a lot of high-quality vodkas in the world," she continued. "It's tough to make and to keep that standard all the time."

**Making a better vodka**

Though Russia is synonymous with vodka, few popular brands in the United States are of Russian origin. They're from Sweden (Absolut), Poland (Belvedere), Finland (Finlandia), France (Grey Goose), Holland (Ketel One) and the U.S. (Skyy).

Stolichnaya, which most assume is the premier Russian vodka brand, is made in Latvia, which was once a Soviet republic. The company moved production facilities there a few years ago. (A new Stolichnaya brand, elit, is made in Russia and costs about three times the price of regular Stolichnaya.)

Poland and Russia grapple over which country was the birthplace of vodka, likely in the beginning of the 12th century, but Russia's claim is especially strong, as the word "vodka" comes from the Russian word "voda," which means "water."

"Russian vodka" is often made outside the country's borders — a practice so common that Russia's government took legal action. In 2003 Russia's patent office ruled the term "Russian vodka" can be used only with vodka produced inside the country — similar to countries protecting such terms as Scotch whisky, Champagne and Parma ham.

The difference between vodka made in different countries has to do with the ingredients as well as the type of water used in the distillation process.

"It's not potatoes," the 46-year-old Irina said. "It's not corn. It's not sugar. We use mostly wheat and some rye and a very small percentage of other grains."

The wheat they use is winter wheat grown in central Russia, near Moscow, which historically has been known to produce high-quality grain for spirits.

Russian wheat is harvested twice a year. The winter wheat is planted in autumn, sits under snow for the winter as water soaks into the grains, then is harvested in spring. Growing under thick snow and soaking up the water makes the grains rich and full of minerals. Russian-grown winter wheat, Irina says, is best for distillation.

"It's a big difference, where the grain was grown," Irina said.

**Pristine water used**

And Quadro uses "ecologically pure" water from the pristine Prioksko-Terrasny forest reserve — an area known for its bison.

The vodka is smooth, with no aftertaste, and doesn't produce the quaking nerves that most vodkas do when swallowed straight. Tasting vodka is different than tasting other liquors. Vodka is alcohol in its purest form, so the less flavor the better. Cheaper vodkas taste (and smell) like rubbing alcohol, and they burn the back of your throat because of the vodka's fast, cheap filtration.

And there's another great thing about Quadro's ultra-premium vodka, Alexei said devilishly.

Alexei, 47, holds up the sparkling bottle in their barren, wood-paneled office building near the railroad tracks in Iowa City.

"If you drink the full thing, you won't have headache," Alexei said.

Then, with a smile, he added: "Oh, you will sleep. But you won't feel sick."

**Judging a liquor by its bottle**

Say what you will about the crystal-clear contents inside the bottle. It's the bottle itself that makes this liquor stand out.

It's like a Lego piece, intended to be stacked and built into different structures. The Kratkos talk as if it were an Earth-changing scientific discovery.

"You remember how the apple fell down on Newton's head and a new theory was born?" Irina said modestly. "Well, one day the idea just fell down to me."

They decided on a cube-shaped stackable bottle.

Easy enough, right?

But making this bottle was, according to many glass manufacturers, impossible.

They checked glass manufacturers around the world; most told them a stackable bottle in that shape would be impossible. A famous professor at an architectural university with a glass department told them they were crazy.

Glass manufacturers said they could make a pushup in a round bottle, or they could make a mostly cubical bottle with a sloping top. But the Kratkos persisted: They wanted a bottle like a brick.

After three years of searching, the Kratkos found Saint-Gobain, a French glass manufacturer that makes windshields for Mercedes automobiles, French cognac bottles and bottles for Chanel perfume. They finally had their bottle.

"We wanted a bottle that could advertise itself," said Irina, who used to be assistant director of the Department of Entrepreneurship at the State Academy of Management in Moscow. "And we wanted to make the taste as unique as the bottle."

The cubical-shaped bottles makes you think of ice cubes, which makes you think of purity and coolness. Light shines through the bottom push-up, making the bottle sparkle like a diamond.

Starting a drinking phenomenon out of their small office in Iowa City sounds like a daunting task, but Quadro is already available in five states, and the Kratkos are working to introduce the liquor in more states. They plan on having vodka tastings in Iowa bars and restaurants as early as next month, and their marketing team plans to have contests for building the widest or the tallest tower of Quadro vodka. There are more marketing plans to equate "Quadro" to "cool," but Irina doesn't want to reveal too many secrets.

Sometime in early 2006 they hope to delve into flavored vodka, but they insist their vodka will be flavored naturally with actual fruits instead of concentrates.

The long-term concept is to take their distinctive bottle and turn Quadro into a global brand that sells all kinds of high-quality liquors made in their country of origin. If all goes well, other Quadro liquors made in their country of origin could be on the shelves within a year or two.

"Vodka should come from Russia," Irina said. "Tequila should come from Mexico. Rum should come from . . . um . . ."

"Jamaica!" Alexei interjected happily.

**Vodka: How it’s made, how it should taste**

“Everybody thinks, especially here in the United States, the more you distill the better,” Irina Kratko said. “It’s not true. . .It’s like cleaning a table. When you clean it several times it’s shining very good. Buy when you clean deeper, you destroy the product. It’s the same with vodka. When you distill more than four times, you take away any positive taste. . .There is an optimal level.”

Vodka can be distilled from any starch- or sugar-rich plant matter, according to Wikipedia, the online encyclopedia. Most vodka today is produced from grains or wheat, but some vodka is made from potatoes, molasses, even by-products of oil refining or wood pulp processing.

**About that weird bottle**

“Quadro” is an Italian word meaning a stone cut in a cubic shape. Quadros were widely used in wall masonry during the Renaissance. The brand’s word hints at its shape and its ability to be stacked. Irina and Alexei Kratko hope bars, restaurants and people in their private homes will use these stackable bottles to create forms that dominate shelves.

The best taste for vodka, Kratko insisted, is about 90 percent wheat, 10 percent rye and a tiny percentage of barley and oats. Quadro is made of 100 percent grain-neutral spirits – meaning it’s clear, pure alcohol.

Drinking a good vodka is similar to drinking a good distilled water: The less taste it has, the fewer impurities made it onto your taste buds, the better the vodka. Vodka is alcohol in its purest form, so the less flavor the better.

The best definition is that a good vodka tastes like a bad vodka doesn’t. And you know when you drink a bad vodka. It’s something that makes you shake and quiver after the shot goes down. Because of faster and cheaper filtration, cheaper vodkas often have a burn on the back of the throat.

There’s a new theory on how to make a cheap vodka taste better: Run it through a Brita water filter. Or just dilute it with the most sugary drink possible. Read about the bad-booze Brita betterment technique on the blog [www.ohmygoditburns.com](http://www.ohmygoditburns.com).


**2. Booze: The New Food Group**

By Katy McLaughlin, Staff Reporter –*The Wall Street Journal*

November 5, 2005; Page P3

**Liquor companies want you to cook with the hard stuff. Think vodka-spiked turkey and fish with gin**

This year, the spirits industry has a few suggestions for your holiday buffet: Soak the Thanksgiving turkey in vodka and douse the roast with gin. In a new twist on a season that is always strong for the liquor business, spirits companies are pushing far beyond rum cake. They're publishing cookbooks with recipes for booze-laced meals, making deals with restaurants to get their products on menus and rolling out Web sites full of recipes and cooking tips. It is part of an industry-wide strategy designed to make consumers think of spirits less as hard stuff and more as a gourmet ingredient.

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| [image]**The hard stuff: deglazing the pan with vodka** |  |
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Of course, cooking with plain vodka may sound silly, since it's essentially flavorless. But hard liquor can work well in recipes because alcohol reacts chemically with other ingredients, creating more intense flavors.

Spirits are especially handy when a recipe requires a lot of flavor but not much liquid -- for example, a touch of cognac in a cream sauce or Grand Marnier in crepes. Clean-flavored spirits such as gin or lemon vodka impart crisp notes to cured fish, while complex liquors like bourbon can quickly infuse sauces with layers of flavor. The trick to cooking with spirits is using the right quantity -- too much and you bury, not enhance, the flavors of the dish.

Before Thanksgiving, Diageo, which owns brands including Johnnie Walker and Smirnoff, is distributing recipe booklets to liquor stores. One sample: London broil marinated in teriyaki sauce and Tanqueray gin. Chambord, maker of the black raspberry cordial, has convinced nearly 500 restaurants to add items made with Chambord to the menu. At the end of the year, Pernod Ricard will distribute a DVD to culinary schools about cooking with its anise-flavored liqueur Pernod.

Of course, barbecue-pit masters and Southern cooks have long used bourbon in sauces for meat, beans and desserts. In 1997, Brown-Forman, which owns Jack Daniel's, parlayed this association into a deal with T.G.I. Friday's restaurants to serve Jack Daniel's-flavored sauce on its burgers, seafood, chicken and ribs.

The success of the new spirits-as-food effort is important to the liquor business now as it attempts to regain the third of its volume that was lost between 1980 and 1996, according to David Ozgo, chief economist for the Distilled Spirits Council, an industry trade group. The craze for flavored martinis and zany cocktails that emerged in the 1990s helped recapture some market strength; the industry will sell 170 million cases this year, up from 137.3 a decade ago. Volume hasn't reached the levels of 25 years ago. Because only so many tomato martinis and peach mojitos will become trendy, companies are looking to upscale chefs and gourmet home cooks to move bottles.

To see how some of these new industry-sponsored holiday recipes would work out, we tapped Jennifer Clair, a chef and cooking teacher in Brooklyn, N.Y., to test two Thanksgiving recipes from Smirnoff's new book, "The Vodka Cookbook" -- a turkey soaked in a vodka-spiked brine and served with gravy made with vodka, plus a cranberry sauce with vodka.

Ms. Clair, who like many chefs often cooks with wine for the flavor it adds to food, was skeptical of how vodka would work. But her experiments demonstrated two important chemical reactions that can occur when cooking with booze.

The first relates to solubility: Many flavor molecules that aren't soluble in water are soluble in alcohol; when alcohol is added to a dish, these molecules in the ingredients dissolve and release their flavors. So after stirring a small amount of vodka into the apple-cranberry relish, Ms. Clair says, she "could taste the cranberry and apples more."

Solubility is even more important with fats, which don't dissolve in water. Deglazing the bottom of the pan with vodka helped the fatty bits stuck to the pan dissolve and flavor the gravy, which Ms. Clair said had a rich, vibrant flavor. The vodka in the turkey brine seemed "pointless," says Ms. Clair, because there wasn't enough vodka -- 1 cup in 2 gallons of water -- to affect the taste. ("Cooking is a subjective art," says Diageo spokesman Gary Galanis.)

The second reaction occurs when alcohols and acids meet and create "fruity esters," compounds with a sweet, fruitlike flavor, according to Kevin Wu, a project engineer at Foster-Miller, a food-product development company in Waltham, Mass. Dishes such as vodka-tomato sauce, barbecue sauce and the apple-cranberry relish Ms. Clair made benefit from these fragrant esters.

At least two spirits companies say that their culinary efforts have helped expand sales. Chambord says it sold 19% more bottles from September 2004 to September 2005, compared with the same period the previous year, and Pernod says sales at bars and restaurants jumped by 3% in the second two quarters of this year, compared to the same time last year.

Many chefs cook with spirits. Michael Zebrowski, executive pastry chef at Copeland restaurant in Morristown, N.J., says he generally pairs spirits with ingredients of the same flavors. One example: truffles with Kirschwasser, a cherry-flavored spirit, and puréed black cherries. Chef Anita Lo, at Annisa in New York City, uses gin to add juniper flavor when she cures fish, and rum to compliment the sweetness of bread pudding.

It is important to remember that cooking doesn't burn off all the alcohol in, say, tequila pork chops or vodka turkey. According to food-science writer Harold McGee, dishes that cook for a long time retain about 5% of their alcohol content, quick-cooked items of 10% to 50%, and flambéed dishes up to 75%.

Because so much alcohol can remain in the dish, it's important to use a light hand. Spirits have a lot more alcohol than wine, and often just a spoonful or two will do the trick.

**3. A-B Gets Into the Spirit of Things with Jekyll & Hyde**

By Gregory Cancelada – *St. Louis Post-Dispatch*

November 6, 2005

Innovation has driven the brewing business of Anheuser-Busch Cos. for the last 153 years. Now the nation's largest brewer hopes to duplicate that innovation in an entirely new business: distilled spirits.

Anheuser-Busch has created a subsidiary, Long Tail Libations Inc., that will focus on developing and marketing distilled spirits. Created in September, the St. Louis-based subsidiary and its small staff began a very limited test market last week of a set of distilled beverages named Jekyll & Hyde.

So far, the subsidiary is testing the product in fewer than 40 retail accounts in four cities: Orlando, Fla.; Denver; Las Vegas and Columbia, Mo.

Though early results are encouraging, there has been no decision yet on whether to offer Jekyll & Hyde to more markets or even to launch it nationally, said Mic Zavarella , director of innovations at Long Tail Libations.

"This is a completely new space for us, and it's going to be a great deal of fun getting out there and seeing how the product does," Zavarella said Friday.

Beer remains the country's most popular drink, and no other type of beverage is close to surpassing it.

Beer represents about 58 percent of alcoholic servings, while distilled spirits account for about 28 percent. The rest is wine.

But distilled spirits appear to be steadily growing at the expense of beer consumption.

Last year, industrywide shipments of domestic beer rose at a minuscule 0.6 percent, while spirits sales volume is estimated to have grown by more than 3 percent.

This new competition has forced Anheuser-Busch to look beyond its traditional brewing rivals in order to grow sales. During a May investor conference, Chief Executive Patrick Stokes told analysts that the company wouldn't limit products by the source of alcohol, raising the possibility that it might venture beyond brewing.

Still, creating a distilled spirits subsidiary, even if it is small, represents an interesting twist.

"It's amazing. I never would have thought (A-B) would do this," said Robert Weinberg, a St. Louis-based beer industry consultant and a former director of research at Anheuser-Busch.

Though focused on spirits marketing, Long Tail Libations isn't a distiller. United States Distilled Products of Princeton, Minn., is producing Jekyll & Hyde.

It's too early to talk about whether A-B would start its own distilling operations, said Pat McGauley, vice president of innovations at A-B's domestic brewing unit and Zavarella's boss.

However, Anheuser-Busch's wholesalers are distributing the product. The four wholesalers whose territory lies in the test markets already have applied for and received licenses to sell distilled spirits.

Jekyll & Hyde is a set of two bottles of different spirits that are combined in a single shot glass.

At 60 proof, Jekyll is scarlet red with a taste of wild berries. Jet-black Hyde, at 80 proof, is a mix of spice and a strong herbal licorice taste. When combined, the drink becomes layered, with the Hyde liquid floating on top and Jekyll below.

The two distinct tastes play off the Jekyll & Hyde theme of offering "the good and the bad, the naughty and the nice," Zavarella said.

This duality also fits the mood of young adult drinkers, McGauley said. "They're shifting from work to fun, and that's what Jekyll & Hyde is all about," he said.

The drink also lends itself to mixing with other spirits and flavorings, something that young adult drinkers often desire.

"See how the black floats to the top," said Marianne Radley, manager of innovations at Long Tail Libations. "You can add other flavorings, and they drop down between the two layers."

Though the unit has come up with a dozen drink recipes, they saw bartenders create four new recipes Thursday night while visiting bars in Columbia, she said.

A-B could have delegated marketing and development of this beverage to its main brewing unit. Instead, the brewer decided it needed a separate subsidiary to create a unique approach to this business.

"Some of the larger, mass-marketing vehicles don't work quite as well in this space," Zavarella said. "There's a lot for us to learn, a lot for us to do."

Though Long Tail Libations is working on these other drink ideas, the subsidiary will devote its attention over the next year to the Jekyll & Hyde product.

Though a bold move, the decision reflects Anheuser-Busch's willingness to innovate and look at every opportunity to grow, said Weinberg, the consultant.

"It sounds like a good probe," he said. "It's not way out in left field."

**4. College Students Leave Town, Head for Party Central (Iowa)**

By Lisa Livermore – *Register Ames Bureau*

November 8, 2005



###### BILL NEIBERGALL/REGISTER PHOTOS

**There to tailgate:** University of Iowa senior Jake Beach, 23, center, laughs as he is good-naturedly teased about being a Hawkeye fan by fellow tailgaters partying in the background before the Iowa State football game Saturday. Beach was not going to the game.

### Police watch Web for big student gatherings

AMES, IA **--** University of Iowa student Zachary Kmiec was amid the throngs of students nationwide this year who abandoned their home campuses in favor of a shoulder-to-shoulder bash in another college town that resembled Mardi Gras and surpassed Animal House. This year, he went to Madison, Wis., for the Halloween celebration.

Ryan Wiedmann, 22, of Iowa State University has partied at Simpson College and the University of Iowa. He got his first criminal citation while carrying an open container of alcohol on the street at UNI's homecoming in Cedar Falls.

"It's the only blemish I have on my record right now," he said. "I've never done anything else wrong in my life."

Rick Ahlstrom , the Cedar Falls police chief who will attend a two-day National Summit for Preventing Civil Disturbances that begins Thursday in Ames , calls the students "destination partiers" who communicate through the Internet to decide where to go. As a result, they've made some regional parties bigger but have also made it easier for police to track where they are going by monitoring Internet message boards.

Ahlstrom, and police in other college towns such as Iowa City, Madison, Ames and Durham , N.H., are mixed in how they respond to out-of-town students that crash their local parties. Some cities and campuses have recently taken steps to discourage visitors to the growing events. Other cities, including Ames, have abandoned campaigns to discourage outsiders, while campus and city police have tried to improve their relations with student partiers.

Police said young people are more uninhibited away from their hometowns or campuses and use cell phones and Internet sites such as facebook.com to coordinate where they go and whether a school's homecoming celebration or other event will produce enough good times to merit a road trip. The risk they take is encountering fights or getting arrested, sexually assaulted or trampled, police said.

"You go there because you know everybody else is going to go there," Kmiec said. He said he has traveled to Madison the last two years to be part of a "ridiculous spectacle. I found myself equal parts observer and participant."

The examples of struggles in college towns with the party crashers are easy to find:

• In recent years, UNI has seen two-thirds of its arrests coming from young adults who are neither students nor alumni of the university, Ahlstrom said. Police responded to the clamor by creating a U-shaped barrier in 2004 on College Hill, its main hub of late-night homecoming activity, to disperse the crowds. The move caused backlash from bar owners, who said it hurts business.

• The Madison Halloween celebration has swelled from 60,000 estimated partiers in 2001 to nearly 80,000 this year. At least 76 colleges and universities were represented at last year's bash, police said.

The University of Wisconsin-Madison this year banned guests in university housing and limited parking in campus lots over the Halloween weekend. But more than 450 people were arrested on charges ranging from depositing human waste to disorderly conduct, police said.

• Three years ago, police in Durham, N.H., home of the University of New Hampshire, started collecting data on the number of nonstudents arrested in the city. That followed a move in 2000 by police to send letters to parents of anyone younger than 21 arrested for alcohol violations.

It was initiated in response to a riot that broke out after an overtime loss by the New Hampshire men's hockey team in 1999, when young people "took over the downtown" while only three officers were on duty, said Durham Police Chief Dave Kurz.

Kurz said about 50 percent of young people arrested each year are New Hampshire students. The rest "are not coming here because we have beaches," he said. "They are coming here because we have partying."

Technology has been a key contributor to the large-group drinking phenomenon, Kurz said.

At Madison, police spokesman Mike Hanson said the Internet's influence on partying "is huge."

"Pictures on the Internet (are) showing a great time that is allegedly happening," he said. "Kids these days think it's a rite of passage to stay and riot, that their youth will hide them from the law."

The riots during this year's Halloween started after young adults who organized beforehand starting chanting, he said. They wore their own gas masks and shirts saying they wanted to be pepper-sprayed.

At UNI, police monitor Internet bulletin boards to determine if an event like homecoming will generate a big crowd. On one Web site, a participant likened UNI homecoming to "Iowa's Mardi Gras."

Home games have also proved to be a regional attraction for nonstudents, who police have noticed increasingly are coming just to party and not attend the actual game.

University of Iowa Director of Public Safety Chuck Green said Iowa City home game weekend becomes "party central for a lot of surrounding communities."

Overall in 2004, 185 students and 141 nonstudents were arrested on campus for underage possession of alcohol.

In 2004, 74 of the 102 arrested during football weekends at ISU identified themselves as residents of Ames, according to Ames police data. Numbers so far for 2005 home games at ISU, which includes the Iowa-ISU game, show nearly half of those arrested were nonresidents.

"It also goes by reputation," said Loras Jaeger with the Ames Police Department. "You find a place to party and word gets out. It develops over time. That's what happened with ISU tailgating."

At one time, ISU leaders attempted to discourage out-of-towners for their events.

The year after a fatal stabbing at the end of 1997's Veishea, the university adopted a new policy that required all residence hall guests to register at a front desk before visiting dorm rooms, said Pete Englin , ISU director of residence. The policy was abandoned the year after when university leaders started promoting the idea of the "Cyclone family," which emphasized a celebration for alumni and students, not just young adults looking to party.

**CHATTER**

The following snippets are excerpts of messages posted on an Internet site that Cedar Falls police monitored before this year’s homecoming festivities. Students who use the site are able to post messages using the cover of screen names. Police say monitoring the Internet helps them measure interest around the region in upcoming events at the University of Northern Iowa. All of the excerpts below are dicussing UNI’s homecoming.

* “i was told it is iowas mardi gras.”
* “I will be goin up there prolly thurs fri and sat. Stayin at my old roommates, I mean, 25 cent drinks at tonys on thurs then dollar u call it on fri. Cant beat that.”
* “Ive heard uni’s homecoming is better than iowa’s, is this true?”
* ----a fact I found interesting in the Northern Iowan-----“over 50% of the problems during homecoming (citations, etc) are caused by students that don’t go to UNI.” CFPD Chief
* I dunno, but that sounds like a good omen for the students of UNI. Way to go and not get caught!”

Veishea was canceled in 2005 after a riot the year before, and officials are still debating policies for this year's event, such as whether to allow alcohol in the residence halls that weekend.

Guests were not discouraged, however, at Saturday's ISU home football game. At the student tailgate, ISU public safety officers mingled with students and passed out black bracelets bearing hearts.

Non-ISU students and young adults from Cedar Rapids, Bettendorf, Oskaloosa, Fort Dodge and Iowa City showed up to tailgate but not attend the game. Many said they felt more comfortable drinking in a city other than their own.

"I like to drink beer," said Jake Beach, 23, who was dressed in University of Iowa gear at the ISU tailgate. He said he uses facebook.com to determine where to party and enjoys the anonymity of drinking away from home.

"You don't know everybody," he said. "I like to drink. I may have mentioned that already."


# 5. Alcohol Taxes Are an Untapped Source of Revenue

*The Morning Call*November 6, 2005

Multiple factors, including war, tax cuts, a struggling economy, and the imminent bill for the pension and health costs of retiring baby-boomers have converged to threaten large, increasing and endless budget deficits. Now, faced with the prospect of additional huge outlays for Katrina cleanup and reconstruction, some members of Congress have been searching madly for ways to cut spending.

But only some spending. Bridges to nowhere and other shameless pork-barrel outlays get a pass, but politically weaker targets — programs to help low-income Americans, such as food stamps, Medicaid benefits and the recently enacted and not-yet-implemented drug benefits for the elderly and disabled — are on the chopping block.

Those programs need not be sacrificed to the deficit hawks. Instead of going after the weak, concerned Democrats and moderate Republicans should consider a sensible option that will help stanch the flow of red ink and improve the bottom line. That option is long-overdue, popular, and fair: raise the tax rates on alcoholic beverages.

In the last 25 years, taxes on alcoholic beverages have fallen dramatically with inflation. For example, had the beer tax merely kept up with inflation, it would be 20 percent higher today; the liquor tax would be nearly double its current rate of $13.50 per proof gallon. Effective tax rates have dwindled because those taxes are typically not a constant percentage of price, but a flat amount. As prices rise, the relative importance of the taxes falls, unless Congress raises them. In fact, beer and wine taxes have been raised only once in 55 years, liquor taxes only twice. As a result, tax revenues that accounted for 12 percent of the sales of alcohol in 1980 now amount to only 7 percent of total sales.

Those stealth tax cuts have deprived the Treasury of tens of billions of dollars and helped reduce the relative price of alcohol, a particular break for price-sensitive underage drinkers. According to a 2005 report of the Congressional Budget Office, modestly increasing and reforming alcohol taxes would raise almost $27 billion between 2006 and 2010. Recognizing that cheap booze puts it in easier reach of kids, the National Academy of Sciences recommended alcohol tax increases, especially on beer. That call was echoed last spring in a petition to Congress from 60 of America's most prominent economists, including four Nobel Prize winners, who agreed that an alcohol tax increase is overdue and well-justified.

Alcohol producers, wholesalers, and retailers will no doubt protest. But raising alcohol taxes is justified because the $18 billion in current alcohol-tax revenues don't come close to offsetting the staggering public health and safety costs of alcohol consumption — estimated at $185 billion per year, including $53 billion for the costs of underage drinking alone.

No one really likes tax increases, but alcohol taxes are among the most acceptable. Most Americans would barely notice higher alcoholic-beverage taxes because more than one-third of adults don't drink and among those who do, about eight in 10 drink at most one per day. The 20 percent of drinkers who consume 85 percent of all the alcohol would have to dig deeper into their pockets of course, but that might cause some to forgo that last round, a decidedly healthy outcome.

Americans know that taxing alcohol is not like taxing bread, and they would choose tax hikes over the wholesale evisceration of social and health programs. A nationwide poll on state alcohol taxes conducted last year by the American Medical Association found that 65 percent of Americans prefer tax hikes on alcohol over cuts in spending on education, healthcare, and law-enforcement.

Raising taxes on alcohol is fair because alcohol consumption of all kinds rises sharply with income. According to industry data, more than 52 percent of beer and liquor drinkers have incomes in excess of $60,000, compared to 20 percent who have incomes less than $30,000.

Greater percentages of upper-income persons drink than do those in lower income categories, so per capita taxes on alcohol rise with income. Conversely, per capita use of Medicaid and Food Stamps falls with income.

Deficits damage us all by reducing U.S. wealth and eroding future income growth. Why pass up an opportunity to marry deficit cutting and progressive public health and social policy? Can anyone seriously doubt that an increase in alcohol taxes will be more effective in fulfilling President Bush's one-time promise to promote compassionate conservatism than would cuts in Medicaid, Medicare, and Food Stamps?

Only political cowardice and shortsightedness would allow Congress to gut health and income support for the poorest Americans when a source of revenue is at hand that would reduce the deficit and also discourage consumption that severely compromises public health and safety. Raising alcohol taxes to preserve critical social safety net programs is something we could all in good conscience celebrate.

George J. Hacker is director of the alcohol policies project at the Center for Science in the Public Interest. Henry A. Aaron is senior fellow in Economic Studies at the Brookings Institution.

**6. Many Bar Ordinance Concerns Unrealistic**

By Jacob Maxson – *The Press-Citizen*

November 6, 2005

**Not passing law “irresponsible”**

This week's Q&A is with Peter Nathan, a professor in the Department of Community and Behavioral Health at the University of Iowa.

**Q: If the 21-and-older ordinance is passed in Iowa City, do you think underage drinking would be substantially reduced?**

A: Yes, I do think that if the 21-and-above ordinance is passed, underage drinking, including binge drinking, would be substantially reduced.

I base this opinion on my reading of a great deal of scientific data, gathered over three decades and more, that say that reducing access to alcohol by underage drinkers reduces their alcohol consumption. Making it more difficult for underage drinkers to enter Iowa City's bars would reduce their access to alcohol. And that would make it a more difficult for them to drink.

While passing this ordinance might cause a modest increase in house parties and other places serving alcohol illegally to underage drinkers, I don't think the increase of parties would be great. After all, house parties are difficult to organize; the host must purchase alcohol and run the risk of being arrested for serving underage drinkers and they are more difficult to visit than a downtown bar. So I don't think they will become the problem many people opposed to passing the 21-and-above ordinance predict they will.

I think passing the 21-and-above ordinance would reduce alcohol consumption and binge drinking by underage drinkers by 25 percent to 30 percent overall, even taking into account the change in house parties that might happen. Reducing underage binge drinking will also reduce the negative consequences of the drinking by at least an equal amount. The result? Fewer of Iowa City's young women will suffer the horrendous trauma of rape and physical violence, fewer of our sons and daughters will lose their licenses, mobility or lives because of drunken driving, and fewer high school and UI students will have to drop out because of binge drinking's effects on their studies.

**Q: Do you think it's fair that area bars can be fined and potentially lose their liquor license if underage drinking occurs in their establishments? There is really no way of knowing whether employees served the alcohol or whether friends of the underage drinkers bought it for them. The latter being the case, there is very little a bar can do to prevent this from happening.**

A: It may not be fair, but since the law says underage drinking is illegal, the bars have a legal obligation to do everything they can to reduce underage drinking on their premises. Since the bars in virtually every other city and town in the U.S. have the same responsibilities, I assume that Iowa City's bars would want to do the same thing. In fact, I think that our bars could do a more effective job than they now do, especially if they did not have to worry about drinking by their underage patrons. If those underage persons could not enter the bars and taverns of Iowa City, the self-policing enforcement problem would simply not be as great as we are told it now is.

**Q: Some think the ordinance would be detrimental to the survival of several downtown bars, saying that minors account for a significant amount of their earnings. Do you think the ordinance would create a negative economic effect?**

A: I do think that passing the 21-and-above ordinance would have a negative economic impact on Iowa City. I also think that justifying continuing to let underage drinkers into the bars of Iowa City because stopping it would cause an economic problem for the city is not a good justification. Maintaining the city's financial stability on the backs of its underage drinkers doesn't seem to me to represent sound public policy.

I think more than just a few bars would have to go out of business if they could no longer serve underage drinkers. In fact, as many as a third of Iowa City's drinking establishments would probably have to close down. While that would certainly represent a short-term economic problem for Iowa City, its long-term impact would be much more positive. I think it would lead to a more diversified business community in downtown Iowa City, as well as a more attractive weekend/evening environment for Iowa City's adult citizens.

**Q: Do you think underage drinkers are more likely to binge drink at a bar than they are at a house party?**

A: No, I don't think there is much difference in the alcohol consumed at house parties and (at) bars. If anything, because access to alcohol is a good deal easier in bars than at house parties, there may be a bit more drinking overall at the bars than at the house parties.

**Q: Is the city council likely to pass the 21-and-older or will it remain 19-and-older like it is now?**

A: I don't think the ordinance will be passed. I don't think a majority of city counselors want to risk the financial consequences to the city of doing so. I also think a majority think the underage drinking in Iowa City is "normal" for college towns: It is not. It is much more than is "normal" elsewhere.

For what it's worth, I think not passing the ordinance is very irresponsible. I also think it will be tragic for the underage drinkers of Iowa City, including both our own sons and daughters and the university students.


## 7. Beer Brewers Plan Image-enhancing Ad Campaigns

By Sarah Ellison – *The Wall Street Journal*

November 7, 2005

Beer rivals Anheuser-Busch Cos. and SABMiller PLC, by pouring millions of dollars into ads that reinforce a raucous, frat-boy image, haven't done themselves any favors.

Now they need to undo all that hard work, says the new top marketer at Miller Brewing Co.

"People will tell you that beer is not sophisticated enough, or stylish enough, to compete with wine and spirits," says Tom Long, Miller's chief marketing officer. "Why do they think that? Well, I believe it's because we told them to."

As evidence, Mr. Long points to such recent beer commercials as Miller's own "cat fight" spots, in which two women duke it out and tear each other's clothes off, and spots for Anheuser-Busch's Bud Light featuring flatulent horses and a dog attacking a man's crotch. And let's not forget the bikini-clad twins for Molson Coors Brewing Co.'s Coors Light.

Is it just a coincidence that while the beer industry has been hitting these advertising themes, three important consumer groups have begun to turn away from beer in favor of wine and mixed drinks? Baby boomers increasingly are drinking wine, young women now often find it more fashionable to drink a low-carb cocktail than a brew, and older members of the so-called echo-boom, the children of baby boomers born from the late 1970s through the early 1990s, also seem drawn to cocktails, in large part because of the more-sophisticated image the spirits industry has created for its products.

"We've marketed our way into this problem," Mr. Long says, "and we can market ourselves out of it."

In an unprecedented effort to reverse the industry's decline, Anheuser-Busch, which controls roughly half of the U.S. beer market and has dominated it for decades, is trying to drum up support in the industry for the equivalent of the dairy industry's popular "Got Milk?" campaign.

Robert C. Lachky, Anheuser's executive vice president of global industry development, working through the Beer Institute, an industry group, has been assigned to get other brewers in line. He says the response so far has been "unbelievably favorable."

According to several people familiar with the campaign's development, brewers would donate advertising space in which one of the industry spots could run. Conceivably, a spot could run during one of Anheuser's many Super Bowl slots, although no final decisions have been made. As for costs, "we haven't costed it out yet," Mr. Lachky says, "but we're really at a point where a little could go a long way."

Mr. Lachky has circulated several ideas for TV ads among beer executives, retailers and other insiders. One, dubbed "Here's to Beer," shows people around the world drinking beer and toasting in different languages, according to several people who have seen it. "It's about connecting and the universality of beer," says Mr. Lachky. It is one of three or four concepts the industry is considering.

A print campaign making the rounds would feature celebrities who answer the question, "Who would you like to have a beer with?" In the version that Mr. Lachky has shown several executives, Paul Newman wants to have a beer with Teddy Roosevelt. Oprah Winfrey chooses Lucille Ball. Mr. Lachky says the campaign is still in its rough stages, and individual celebrities haven't been approached yet.

In an industry that spends a collective $500 million in the U.S. pitching its brands, the new effort may be just one more squirt from the advertising keg. Still, industry executives have been buzzing with curiosity about what form the new campaign will take.

Miller and Coors have expressed interest in participating in the campaign. According to several people familiar with its development, brewers would donate already-purchased ad time for a TV spot to run, possibly even one of Anheuser's many Super Bowl slots, though no final decisions have been made.

As far as budget, "We haven't costed it out yet," says Mr. Lachky, "but we're really at a point where a little could go a long way."

The defection of the echo-boomers has hit beer makers particularly hard, digging directly into beer's longtime consumer base of 21- to 27-year-olds. Indeed, Miller's Mr. Long says beer makers grew too comfortable targeting young men in this age group, a group he calls "the Pack."

A "girls and humor" ad formula made some sense, Mr. Long says, considering that young men continue to drink the vast majority of beer in the U.S. But "girls and humor" became "bimbos and slapstick" -- "and ultimately our message often became a parody of itself," Mr. Long says.

Beer's share of the overall U.S. alcoholic-beverage market peaked in 1995 at about 61 percent, according to industry estimates, but it fell to 58 percent by 2004. Spirits' share of the market has climbed to more than 28 percent in 2004 from just under 27 percent in 1995, while wine grew to 14 percent in 2004 from under 12 percent in 1995.

Anheuser is taking other measures to improve beer's image. It is promoting cocktail recipes to bartenders that make use of beer as a mixer. It is selling "limited edition" seasonal beers for the holidays and trying new packaging for existing Budweiser brands. And it even is showing signs of interest in moving into the world of distilled spirits, testing a new liquor in several markets.

Mr. Long stopped short of promising the industry would turn its back on bathroom humor and babes. "Does this mean we're suddenly going to get high-fallutin' and start giving away free pedicures with every twelve-pack?" he asks. "Of course not."

In Miller's newest campaign, the company uses a Court TV format with a scruffy young actor who puts Bud Light on trial for having less taste and twice the carbs of Miller Lite. The campaign, with the tagline "All Rise for Great Taste," shows that Miller is deepening its reliance on competitive advertising, which has helped propel the brand's sales in recent years.

**8. Anheuser-Busch Forms Spirits Subsidiary**

*The Associated Press*

November 7, 2005

ST. LOUIS, MO - With consumers increasingly choosing mixed drinks over beer, Anheuser-Busch Cos., the maker of Budweiser and other beer brands, has formed a separate spirits subsidiary.

The company said its Long Tail Libations Inc., based in St. Louis, will develop, test and market distilled spirits, including its first product, Jekyll & Hyde.

On Nov. 1, Anheuser-Busch, which also produces Michelob, Busch and Bud Light beer, began test-marketing Jekyll & Hyde, two bottles of different distilled liquors that are intended to be mixed into a single drink, in Columbia, Mo.; Denver; Las Vegas; and Orlando, Fla., the company said.

The U.S. beer industry, including market leader Anheuser-Busch, has been losing market share to mixed drinks, particularly among younger drinkers.

Anheuser-Busch has said previously that it would consider spirit-based drinks as a way to compete better.

Pat McGauley, Anheuser-Busch vice president of innovations, said, "Big beer is still number one — 60 percent of total alcohol — but consumers are looking for more variety, more options, more choices."

Jekyll is a "60-proof, scarlet-red product with a wild berry flavor," and Hyde is "80-proof, black in color" and "a little licorice tasting," said Mic Zavarella, Long Tail director of innovations.

The product currently is being sold only in restaurants and bars in the test markets, and its price is comparable to other call brands, Zavarella said.

Looking ahead, Zavarella said, "We've got quite a few ideas in the hopper." He didn't elaborate.

Shares of Anheuser-Busch closed at $42.35, up 48 cents, or 1.1 percent, on the New York Stock Exchange.

 Christopher Growe, an analyst at A.G. Edwards, characterized the move into spirits as an example of the company "testing the waters to see if a long-term presence in spirits is feasible."

"If Long Tail is a success," he added, "an acquisition into spirits could be in the offing."

However, Growe noted that Anheuser-Busch will not be distilling the liquor, but will outsource production, meaning a bigger move into spirits could be slow to occur.

**9. Diageo's World - The View From the Top**

Source: *just-drinks*

November 8, 2005

As the largest drinks company in the world and owner of many of the best known and biggest selling spirits brands on the planet, Diageo has an unmatched international profile. In an exclusive interview, Diageo's chief executive, Paul Walsh, talks to Olly Wehring about the company's current performance across a range of markets and his outlook for the future.

Meeting Diageo's chief executive, Paul Walsh, is always a daunting assignment. As the CEO of the largest spirits company in the world, in the drinks business they don't come any bigger. And with a stature that suggests he'd make a pretty good rugby player, Walsh is a fairly commanding physical presence too. Thankfully, however, he is a man who likes to get straight down to business, so the butterflies are swiftly dumped in the lobby, and we launch straight into things.

We start by looking at the company's performance on a geographical basis. In Western Europe, most drinks companies have suffered as the markets have matured, something Diageo has addressed over the last couple of years through cost-cutting.

"We will continue to see the benefits of (cost cutting) actions coming through certainly for the next 12 months," Walsh says. "The nature of the improvements we've made are such that we will start to see the benefits drop in (in) '06 and to a certain extent in '07. The main projects have been around centralising all of our back-office functions in Europe - that is ongoing and proving very successful - and as difficult as these things always are, the closure of Park Royal (London), which has allowed us not only to save that cost but to improve the efficiency of our Dublin operation."

Given the tough market conditions, Walsh is pleased with the resilience of Diageo's spirits sales. "Excluding RTDs, in spirits volumes we've actually been able to grow," he says, "not as much as I would like, but we have seen some growth. Our spirits brands have done OK in what is a very tough market. The bottom line, then, is that top-line will be challenged but back out RTDs and I think that spirits will be fine, and we will continue to have growing profits here in Europe."

The once-booming RTD business has taken a hammering recently, targeted as encouraging binge and underage drinking in markets like Germany and the UK, and subject to increased taxation as a result. "The reality is that they have been subject to, I would say, unfair tax burdens," Walsh says. "In the UK, a bottle of Smirnoff Ice carries a much higher tax burden than the equivalent strength beer. That's the consumption occasion that it's targeting, so it strikes me as very unreasonable. But it is what it is."

Walsh concedes that the products have been targeted by responsible drinking pressure groups but is clearly sceptical of the singling out of RTDs in this regard. "In reality, does anybody confuse Smirnoff Ice with a non-alcoholic product? I think not," he says. Moreover, he believes RTDs have an important role to play in the future. "I think the fact that we're still selling them suggests that it's still something the consumer wants. Whilst I don't expect growth, I'm hopeful that we can hold on to the business we currently have here in Europe. I think elsewhere in the world we can probably grow that business. We're having certain success in South America, we've got some ideas on how to develop the category in the US. Clearly, Australia has always been a very strong market for RTDs. But I do think, from a tax point of view, it's going to be hard to grow here in Europe."

Walsh won't be drawn on new product plans for the RTD sector in the US, but is rather more effusive about Diageo's prospects for the whisky category there. "I think there's quite a renaissance on the way in Scotch," he says, "and I think in many ways we have led that. There is no question that Crown Royal is doing and will continue to do very well. So I think whisk(e)y in general is going to do well in the US." Walsh is also upbeat about Captain Morgan and Baileys in the US going forward.

Where there appears to be room for improvement is in the performance of Tanqueray, which has to compete with Bombay Sapphire, a highly successful - and coincidentally - former Diageo brand. While Walsh clearly does not wish to give a now competing brand airtime, he appears to take a grudging pride in the continuing success of a former Diageo jewel. "I'd like Tanqueray to do a bit better," he says. "There's nothing wrong with the product. I just think that there's a fantastic competitor product that we used to own that is doing quite well. The brand that we launched many years ago has captured the imagination."

It is clear that Walsh is more sanguine about the US than Europe. "In many instances, you have the mirror image of the US here in Europe," he explains. "In the US, you've got a growing population aged 21 years of age and above, in many European countries you have a shrinking population. You have a very buoyant consumer environment in the US, and you've got a very uncertain one in many parts of Europe. For us, the US is very important, which is why we continue to invest very aggressively in that market."

Elsewhere, Walsh seems happiest with Diageo's performance in South America, particularly Brazil. "We all know that Latin America has gone in peaks and troughs. The troughs are never as deep as the previous ones, the peaks are always higher than the previous ones. So whilst it oscillates, it is an upward trend and at the moment it's doing very well."

The two big emerging markets - India and China - are also development areas for Diageo but Walsh points out that they remain for now small scale. "Both of those markets are coming from a small base, and therefore it doesn't have the same impact for Diageo as say the US or indeed South America," Walsh says. Furthermore, some development markets - namely Nigeria, Taiwan and Korea - have been problematic for Diageo in the past year, and Walsh notes that "we're not out of the woods yet".

In Nigeria, Diageo increased the price of Guinness as the market was softening. Walsh concedes that it was probably an ill-timed decision, and the company is now having to weather the consequences, though things are improving. As Walsh put it: "You make your decisions as you see them at the time, hindsight's 20:20!"

Notwithstanding the blip in Nigeria, Walsh sees Africa, along with other development markets, as critical growth areas for Diageo, going forward. "If we'd met a few years ago," he says, "I would have said that the US was where we wanted to focus. Today, I'm very pleased with how the US is performing and I think our investments there have proven very wise. I think the next areas for us are the BRIC (Brazil, Russia, India and China) economies and, once we get through the tough work in Nigeria, I think we'll see further growth coming from Africa."

