Rum, business and society in Cuba, 1832-1965*

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Introduction

The birth of the big rum companies constitutes one of the most tangible tests to the strength of Cuban business in the first and second industrial revolutions. However, study of the history of Cuban rum has been clouded by litigation between the Cuban government and the largest global distillery, Bacardí, over the ownership of certain brands.[1] The few works that have studied this factor have mainly done so from an ethnographical or anecdotal perspective, underestimating the importance of the sector in the economic development of the country.

Cuban rum firms had everything going against them: the production of this liquor started later,; it faced the obstacles of Spanish tariff legislation until 1898 and since then had enormous difficulty accessing its natural market, the US, which was in the hands of other producers.[2] Nevertheless, Cuban rum firms (especially Bacardí) were among the largest in the world at the beginning of the twentieth century.[3] The purpose of this article is to explain how this became possible.

We could argue that vertical and horizontal integration contracts — in response to changing circumstances experienced by the sector — contributed to overcoming these obstacles and thus led to the creation of large Cuban rum

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1. Voss (2006); Foster (1990); Gjelten (2006); Calvo (2000).
2. Huetz de Lemps (1997); Broom (1997); Columbe (2007); Morrison and Moreira (1988); Curtis (2007); Smith (2005); Plotkin (2001); Chez Cheo (1988).
3. See the figures in http://www.bacardilimited.com/corporate-responsibility/about-bacardi-limited.

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producers. However, it is not enough to apply the Coase (1937), Williamson (1985) and Chandler (1962 and 1977) models when interpreting the success of these firms. It is important to explain how the signing of such contracts became feasible, how the parties contacted each other and what legal protection there was in such a hostile environment that was the Anglo-Saxon one on which the previously mentioned approaches were based. Cuba, like the rest of Latin America, was a country that had fragile institutions after going through several wars, a traumatic independence process and several German occupations that led to permanent political instability. Thus, the skill and wisdom of managers in decision-making and in the preparation of contracts was not enough. It required the support that came from the citizenship, the confidence that came from their common origin, the existence of social spaces where they could meet and negotiate contracts and the existence of a hierarchy with rules that were mutually respected. That is to say, social capital in the form of trust, customs, rules and networks facilitated the creation of these firms.[4] In this paper it will be shown that the social capital created by the Spanish emigrant minorities — through the generation of financial resources, an increase in their cultural capital and improvements in their institutions — allowed Cuban rum producers to overcome the obstacles referred to above.[5]

Social capital can be defined as resources provided and made accessible through membership of a network.[6] From this perspective the success of the Cuban rum companies can be explained as a result of the corporate entrepreneurship that network membership provided, following the interpretative model that Delgado, Delgado and Hurtano (2013) used for South American companies.

Although Tocqueville highlighted the relationship between civil society and entrepreneurial spirit that was to be found in the United States, the use of that social capital in retrospective interpretations of changes in companies is rare.[7] The concept has been used more in explaining the quality of western democracies and their economic growth rather than in the creation of their business corporations.[8] Economists, historians and sociologists have only recently realized the usefulness of considering non-monetary forms of capital in the interpretation of changes in the business sphere. Precisely, the study of the Cuban-American community under this perspective has more clearly revealed the extent of these “ethnic firms” and “ethnic niches”.[9]

4. MacElroy et al (2006).
5. Bourdieu (1980); Coleman (1988); Nahapiet and Grodhal (1998).
6. Nathapiet & Goshal (1998).
7. Putnam (1995).
8. Knack and Keefer (1997).
9. Portes (1987).

This paper, therefore, clarifies a relatively forgotten aspect in recorded history: the role of foreign minorities in the industrialization of Latin America. It also invites us to reflect on another equally neglected aspect: the development of great enterprises using indigenous capital in the region.

The contributions that this study makes go beyond explaining the factors involved in the establishment and subsequent success of Cuban rum companies, as well as the reasons for the country's specialization in manufacturing this product; the integration of institutional and social analysis can help us better understand the historical perspective of Latin American companies, which are often studied using models that are completely divorced from the reality of this unique region.

The birth and growth of large Cuban rum firms (primarily Bacardí and Havana Club) must be understood as a most meritorious example of Latin American initiative and entrepreneurial spirit. We can thus argue that the study of large rum companies can help clarify the nature and peculiarities, as well as the degree of modernisation, of non-sugar businesses in Cuba, unknown to date in spite of the fact that their economic achievements have already been widely disseminated.

It is for this reason that this article is particularly generous with the information it offers. The business history of Latin America is in need of local players, since its existence and achievements have been blurred by unwarranted imperial contempt and cumbersome interpretations of models that are both hostile and alien to the reality of these countries.

The first steps of the cuban rum industry, 1832-1859

At the beginning of the seventeenth century, rum manufacturing was born in New England as the result of the ageing of sugar cane liquor in a whisky cask.[10] Boston manufacturers were supplied with molasses from the British and French colonies in the Caribbean where they quickly established the first distilleries. However, the colonial privileges of Spanish grape liqueurs held up manufacturing in Cuba and other Hispanic territories in which it was prohibited after 1714[11].

With the end of the Napoleonic Wars, businessmen from Havana and Santiago de Cuba, asphyxiated by the abusive tax privileges enjoyed by the Catalonian "moscatel", fruitlessly implored Madrid to tolerate the produc-

10. Temin (2003); McCusker (1989); Loades (2000).
11. Rodríguez (2003), p. 55; Bureo (2000), p. 114; William (2005).

tion of rum which was already being secretly made under the name "taifa" in basic and unsanitary stills owned by slaves.[12]

The Spanish government relaxed legislation but only somewhat, authorising Fernando Aristola to set up a modest factory in 1821.[13] In Havana, five years later, José Batllo Buenaventura patented the first mechanical factory specifically dedicated to rum manufacturing.[14] However, both initiatives ended up badly. While the rum industry remained lethargic in Spanish colonies in the Caribbean due to metropolitan prohibitions, it experienced notable growth in French (Martinique, Guadalupe, Reunion), English (Guyana and Jamaica) and Danish (Saint Croix) colonies.

Finally, in 1832 the Spanish government, worried about the fall in molasses exports to the United States, authorised J. J. Higgins to carry out a study into the profitability of allowing rum production in Cuba. His report was conclusive: doing so would yield up to 12 million pesos annually in earnings for the Treasury, which, to date, was being enjoyed by the English in Jamaica. Immediately, the *Ministerio de Indias* [Ministry for the Indies] allowed Berazana & Co. to set up three rum factories in Havana, Matanzas and Trinidad.[15] However, in practice, the results of this policy were very limited. In 1839, Cuban rum exports only represented 1% of total value.[16] The problem lay in the high taxes charged on its importation into Spain, the amount of which was non-negotiable for Catalonian manufacturers of liquor who controlled the metropolitan market.[17]

Cuban rum — which was very poor quality rum — was produced in Jamaican glass stills with a double return.[18] In fact, in Cuba it was only drunk (out of necessity) by inmates and not exactly to appease them.[19] Bad and expensive, only at the end of the 1850s did this liquor manage to make a small dent in the United States' market, where it managed to reach a 3% market share in 1857, rising to 20.6% in 1859.[20] However, it did so by camouflaging itself as low-grade Jamaican rum, benefitting from the demand for its competitor.

12. ANC, Gobierno Superior Civil, 1021/35999; Campoamor (1988).
13. ANC, Gobierno Superior de Civil, 1475/58209.
14. OEPM, privilegio 505.
15. ANC, Reales Órdenes Comunicadas, 86/6.
16. *The Merchants's Magazine and Commercial Review*, volume III, New York, 1840, 351.
17. ANC, Gobierno Superior Civil, 1179/46.096; AHN, Ultramar, 296/36.
18. ANC, Gobiernos Superior Civil, 1482/58854, 1490/ 59.609 and 566/28.065; OEPM, privilegio 595; Cantero (1866); Lorenzo (1860).
19. AHN, Ultramar, 1080/5.
20. Chamber of Commerce of the State of New York (1862), p. 61.

The *Bacardí* path, 1860-1881

This momentary vitality provided by the foreign market was merely an illusion. Rum exports to the United States ceased in 1860 after an increase in import duties. Criticism of Cuban businesses, greatly affected by the 1857 financial crisis, and legal and fiscal obstacles to Cuban rum manufacturing, worsened. Madrid had to concede. From 1860 onwards, the Government allowed the free establishment of distilleries and rum production without further impediments.

Facundo Bacardí Massó, a Catalonian businessman originally from Sitges (an area actually dedicated to "moscatel" production for sale in the Caribbean), who had arrived in Santiago de Cuba in 1814, was the first to avail of this opportunity.[21] In 1862, he decided to enter large-scale rum production, for which he used resources acquired through the running of a small foodstuffs business in Santiago and profit from coffee plantations in Baracoa that had been inherited by his wife Amalia Moreau.[22] To this end, he created a company in 1863 with 2000 pesos in capital, along with Leon Boutellier — a French liquor and sweet manufacturer — as a partner, and his brother José.[23] Bacardí and the Frenchman set up a factory on the site of an old still erected by Briton John Nunes in 1838.[24] Barcardí had as his incentive, aside from the domestic market which was practically virgin, the demand sailors had when visiting the seaport of Santiago where they drank "taifa". By 1868, their liquor was sold on a large scale in Havana. It had even reached Spain (Graph 1).

Bacardí's initiative soon had followers (Table 1). In Santiago de Cuba, the first rum-making enclave in the Caribbean was born due to the emigration of liquor-makers from Sitges, Bacardí's birthplace. He stimulated the chain migration of his fellow countrymen and relatives, thus forming a small and unusual industrial community in the Caribbean, united by kinship and common citizenship.

These small producers were able to succeed thanks to the advantages provided by social capital. From Bacardí, they learnt production and distribution techniques. Solidarity mechanisms solved their financial needs in their infancy and the institutions created by the newly-arrived Catalonian producers (welfare centres, hospitals, entertainment) offered them social spaces in which to sign contracts and a legal certainty that the colonial government did not provide. Such missions were carried out by the Trade Board, which by 1880 had become the Chamber of Commerce. In fact, both institutions — founded by Spanish traders in order to exercise influence as a lobby and

21. AHN, Ultramar, 349/63.
22. AHPSC, Protocolos, 515/315.
23. AHPSC, Protocolos, 62/226-227.
24. Curtis (2007), p. 167.

solve internal problems outside the Cuban justice system — solved their disputes, defended their interests and gave them legal advice.[25] Indeed, the producers found more support in these institutions than that provided by the governmental administration, whose authority was very weak (apart from the military authority) due to the distance from Havana. The Catalonian origin of most businessmen reinforced the commercial ties of this small and powerful colony in a city where the black population was, in relative terms, much higher than on the rest of the island.

Moreover, this social capital facilitated the spread of technical change. Belgian, French and British copper and steam-powered, continuous distilling machines, such as those sold by Blumental, Sanguer & Coffeg, Shear & Son, Derosne, substituted the previous Jamaican stills in Santiago.[26] Nonetheless, Egrot, who, since 1861, began marketing its distilling machinery in Spain, faced particular difficulty among Cuban producers.[27] Factory control was now passed on to a master rum-maker (who was usually French), whose mission was to oversee the ageing and bottling processes, mixing rums from different years.[28] Bacardí was the first to incorporate these innovative changes that were later adopted by its neighbours in Cuba.

Bacardí and its emulators, such as Crossi and Mestre, managed to create a genuinely Cuban liquor, the result of a distillation process — similar to brandy — in whiskey or sherry barrels using the characteristics of indigenous sugar cane. This rum, known as "a la Española" [Spanish style], distinguished itself through its sweetness and a lower alcohol content than its Jamaican counterpart (which was soaked in leather) and the *rhum agricole* of Martinique (which was practically brandy), which both had a sharper taste. Cuban producers agreed on the advantages of this differentiation because they could explore new markets, especially among the urban upper classes.[29] In the distribution of his rum Bacardí used the distinctive drawing of a bat, a symbol of good luck in Spain.[30]

The export of rum revitalized the declining port of Santiago. It had been eclipsed by Havana and even Manzanillo since the abolition of the slave trade in 1817 (although this was still carried out illegally by one of the protagonists of this story). Its main traffic was sugar exports and flour imports that supplied the city. Producers, especially Bacardí, built large buildings for the storage of cane and the aging of liquor, connected by small railways to the main train tracks and the port.

25. Yáñez (1996); Friguls (1994).
26. Rodríguez (2003), p. 68; Duplais (1871); OEPM, privilegio 596.
27. *Alambique* (1871).
28. Cantero (1866).
29. Claves and Porter (1977).
30. Bonera (2000), p. 77.

In short, the growth of the rum making nucleus of Santiago around Bacardí was due to the high degree of specialization of the resources, following Williamson's model (1983): site specificity (the daily encounter of buyers and sellers in Santiago, a small-sized town), physical asset specificity (the built-in machinery that gave rise to the production of a very distinctive rum), and human asset specificity (the training of workers under French masters).

However, one might think that this argument overestimates the virtues of social capital due to the fact that sovereignty over Cuba made this group less compact and distinguishable. Actually, colonial rule did not provide much business for the Catalonian minority. In fact, it was harmful because of the tariff legislation which was mentioned earlier. The environment in which these entrepreneurs were working was not, of course, very forgiving. Santiago de Cuba had nothing to do with Havana. It lacked financial press, a stock market, and a "Lonja de Comercio" (an institution where agricultural products were sold on a wholesale basis). Whilst, additionally, Havana enjoyed the advantages of its proximity to the United States, Santiago was plagued by its proximity to Haiti, with the continuous arrival of immigrants who worsened the problems of marginalization and neglect suffered by the city. The Catalonian minority in Santiago did not enjoy greater advantages than in other cities in emancipated Latin American countries, except that of military protection. The capital, with institutions such as the Chamber of Commerce and local government control, remedied this deficiency. Otherwise it could not be explained why the largest rum region in the world developed in the east of the country, the poorest region in Cuba.

However, it was precisely because of this vitality that the industrial district of Santiago soon became saturated due to the continuous arrival of new liquor manufacturers, which risked disturbing the harmony created by the city's social capital. Some producers, having learnt the trade, left Santiago to settle in other parts of the island. Such was the case of Aldabó, who set up a factory in Havana along with his fellow Spanish citizen, Canals (Table 1).[31] To them we owe the spread of the business to the capital city.

In fact, some of the Sitges liquor-makers, as well as those from other towns in Catalonia, preferred to follow Bacardí's example, not in Cuba, but in Puerto Rico. In this Spanish colony they not only avoided Bacardi's hierarchy, but they exploited the by-products of sugar cane, which had no industrial usage until then. There the large central producer *Ponce* was set up by patriarch Sebastián Serrallés in 1865 when he began to distill "*Don Quixote*" rum, followed later by Roses, García & Co., among others. That was an absolutely exceptional event in the economic history of Latin America, since from one industrial district that was born thanks to its social capital (espe-

31. OCPI, 1241/17.

TABLE 1 ▪ *The first rum factories established on the island of Cuba (1862-1892)*

Company	Brand	Town	Year
Bacardí & Bouteiller	Bacardí	Santiago	1862
José Arechabala	La Vizcaya	Cárdenas	1870
E. Aldabo	Aldabo	Havana	1870
Robato & Beriguistain	El Infierno	Sagua la Grande	1870
Ignacio Romañá	Romañá	Santiago	1870
Andrés Brugal & Muntaner	Brugal	Palenque	1870
Camps Hermanos	Matusalén	Santiago	1872
Dusasacq & Co.	La Campana	Havana	1873
Cía Destiladora El Infierno	El Infierno	Sagua La Grande	1873
Compañía Licorera de Cárdenas		Cardenas	1874
Fandiño Pérez, S.C.	Fandiño	Havana	1875
José Bueno & Co.		Santiago	1876
Felipe Guzmán		Santiago	1876
Rovira & Gallaume		Santiago	1880
Manuel Planas		Santiago	1880
Castillo & Co.		Santiago	1880
Canals & Co.	Canals	Havana	1880
Cárdenas & Echevarría		Havana	1884
Crossi & Mestre		Santiago	1885
Nicolás Merino	Merino	Havana	1889
Isidoro Jaureguíar	La Estrella	Havana	1892

Source: OCPI, 59, 60, 63 and 141; HMM, Comisión de Reformas Económicas, *Cuadros estadísticos de las fábricas de cervezas y licores y su producción en 1926*.

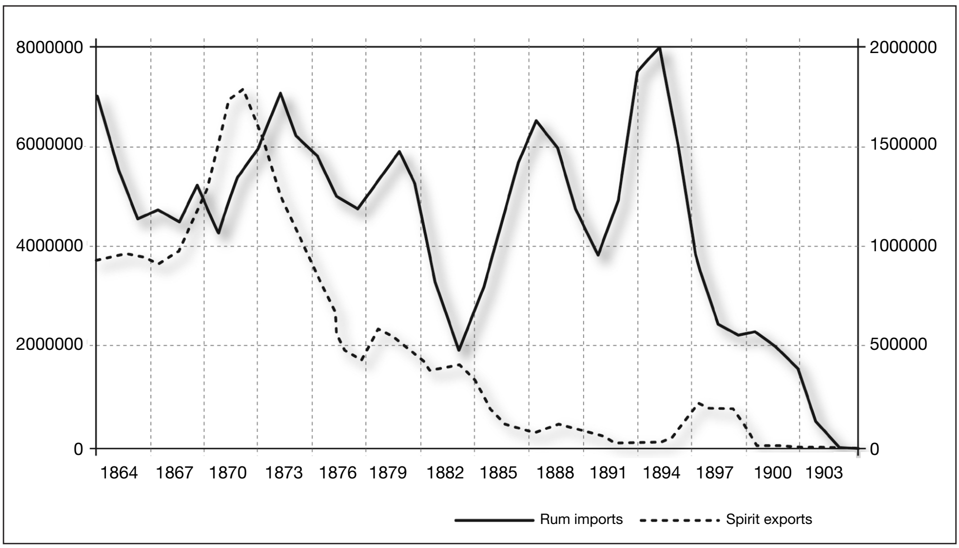
cially the common origin — Sitges — of its members) and its asset specificity, other districts surged in distant territories thanks to the same reasons, particularly the transmission of knowledge and skills by those specific assets. Such migration was not due to hostile environments or the indolence of managers. Puerto Rico was also a Spanish colony so producers suffered the same disadvantages. It was the result of the will of the most daring to break Bacardí's rules and hierarchy to impose their own.

As a result, Cuba lost its monopoly on the production of rum in the "Spanish style". The outbreak of the *Guerra de los Diez Años* [The Ten Year War] (1868-1878) held up industrial growth (Graph 1). Initially, the conflict did not affect distilleries due to the increasing demand by the Spanish army but the creation in 1873 of customs surcharges on rum exports (duties to pay for war) by the Madrid government weakened the sector.[32] On the other hand, the war favoured Puerto Rican producers who were exonerated from these same duties that threatened the Cubans.

Along with the lethal effects of fiscal pressure, Bacardí suffered the dismantling of its management. In spite of the lucrative return on investment received (6,500 pesos as a monthly dividend), the French partner withdrew from the company.[33] Spanish authorities furthermore ordered the deportation of the founder's eldest son, Emilio Bacardí Moreau, to the The Chafarinas Islands (islands off the coast of Spanish-governed Morocco) due to his adherence to a pro-independence cause.[34] Deprived of his son's and associates' support, an already-aged Facundo Bacardí had to attend to the factory alone.

The situation improved in 1876 (Graph 1). Cuba, headed by Bacardí, presented the achievements of its rum industry to the world at the Philadelphia Great Exhibition that year. However, in 1879 exports sank, once again, as a consequence of the establishment of a charge equivalent to one peso per barrel of rum sold overseas. Cuban producers had to bottle their rum secretly in

GRAPH 1 ▪ *Spanish liquor trade with Cuba, 1863-1902 (triennial mobile average in litres)*



Source: Estadística(s) del Comercio Exterior (1863-1902)

32. *Derechos* (1877).
33. AHPSC, 556/ 292 and 315.
34. ANC, Donativos y Remisiones, Diario del Deportado Emilio Bacardí, 1879-1882, 24/49.

Jamaica and export it as a local product in order to avoid this tax. This situation reached such a point that companies involved in production decided to export molasses instead, losing the added value.[35]

The creation of new rum districts, 1882-1898

In 1882, the approval of the *Ley de Relaciones*, a trade law which eliminated the tariffs that taxed trade between Spain and its Caribbean colonies, unleashed the euphoria of Cuban distilleries. They were finally freed of that tax in the Spanish markets. The increase in exports to the "fatherland" gave rise to an authentic investment fever in the sector (Graph 1). Old stills that were spread across the island now evolved into modern rum factories (Table 2).

In Santiago, Bacardí maintained its dominance, in spite of having to rebuild its factory after a fire in 1879. Following the death of the founder in 1886, brothers Emilio, Facundo and José Bacardí Moreau grouped together in a business association with 10,000 pesos in capital, taking charge of the company.[36] Management of the firm fell on the shoulders of Emilio Bacardí,

TABLE 2 ▪ *Rum factories in Cuba in 1888*

City	Factories		
	1888	1902	1918
Havana	10	29	22
Matanzas	12	9	15
Cárdenas	5	5	8
Sagua la Grande	3	2	
Cienfuegos	3	1	
Camagüey	2		2
Holguín	1		
Manzanillo	5	3	
Guantánamo	1	5	1
Sancti Spiritus		1	1
Ciego de Ávila		1	
Las Tunas		1	
TOTAL	42	57	49

Source: Guía (1888, 1902, 1918).

35. *Report* (1879), p. 219; Porter (1980).
36. AHPSC, Protocolos, 570/100.

a local figure, great scholar and distinguished member of the *Partido Revolucionario* [The Revolutionary Party], while his brother José became the company's representative in Havana.[37] Emilio not only managed the firm but also the Santiago district rum group. Nothing happened in the sector without him being aware of it and nobody could distil rum without his consent.[38] Things had not changed much after the war. The Santiago nucleus regained its strength for the same reasons as its initial creation: social capital and ease in formalizing contracts.

The second rum-making enclave was set up by José Arechabala Aldama, born in Gordejuela (Vizcaya) 1847, who established his distillery in 1870 in the thriving port of Cárdenas.[39] Soon Eulogio Erizondo Urueta and Gerona and Doménech, among others, followed in his footsteps. Again, they reproduced an industrial district model structured around a common origin, as had been the case in Santiago, with the difference that these members were Basque businessmen, rather than Catalans. In Cárdenas, a very politically committed (albeit to the *Partido Conservador* [The Conservative Party]) José Arechabala, assumed a leadership role. In these cities the organisation of production was similar to the characteristics of the Marshallian industrial districts but with the oddness that its strength was based on social capital.[40] In fact, the solidity of the districts was not only due to the hierarchy and community of interest but also to the existence of spaces for socializing, inbreeding, kinship and solidarity, as well as the Spanish group of producers acting as a lobby.

The company structure of the rum industry in Havana (as well in Matanzas) was not one of large factories but rather of small establishments. In the capital, in the absence of a large producer such as Bacardí, barriers to entry were far laxer. A handful of pesos was enough to acquire a distillery and supply rum to restaurants and bars in the port. In this respect, the Havana sector showed more permeability than that of Santiago. The entry of new producers to the sector was continuous, as was the collapse of many. The most powerful producers (Trueba, Trespalacios, Aldabó, Gómez, Canals, Lopo, Merino) set up companies to distil rum together. Social capital contributed to the strengthening of the sector but not by creating a hierarchized enclave such as in Santiago or Cárdenas, but through occasional horizontal integration. Havana producers did not generate more than site-specific assets and thus could not rival those from Santiago and Cárdenas.

However, once again tariff legislation in the metropolis hindered the development of the sector and its territorial spread on the island. As a result of

37. AHPSC, Protocolos, 569.
38. Bonera (2000), p. 91.
39. Bonera (2000), p.78; OCPI, legajo 59/1.
40. Marshall (1890).

1882 trade regulations, Spanish spirits not only suffered expulsion from Cuba, but were also blocked by Cuban sweet rum in Spain, leading to furious complaints from the Catalan distillery lobby with which the government had to deal (Graph 1). In April 1892, Prime Minister Antonio Cánovas set an import duty for Cuban rum at 20 cents a litre, increased to 50 % if it was commercially bottled.

Cuban rum production was in a deep recession while its competitors prospered in the Caribbean. The French government announced a policy for rum produced in its West Indies colonies that was much more permissive than Spain's despite pressure from Bordeaux wine merchants.[41] Jamaican rum, especially *The Old Nick Rum*, by Edwards & Co., known as *Negrita* and distributed in Spain from 1887 onwards, reached other European markets.[42] To make things worse, thanks to the emigration of Cuban producers fleeing tax pressure, a competitor emerged: the Dominican Republic. Andrés Brugal Montaner, also born in Sitges, settled there in 1888.[43]

The intensification of competition and tariff changes led to the disintegration of the armour that social capital had provided as in the early stages of the sector's development. Bacardí (according to the testimony of Cuban liberator José Martí) had to declare bankruptcy in 1892 (Graph 2).[44] In 1894, amidst difficult circumstances, the statutes for a new company were drawn up, in which Emilio Bacardí's brother-in-law, Enrique Schueg Chassin, was involved.[45] Despite this, the Barcardís feared for the future of the sector. In fact, the family used the substantial profits derived from rum production in 1894 in an ambitious investment: an iron mine with its own port in nearby Daiquiri, the first of many businesses undertaken in addition to the distillery.[46]

The outbreak of a new war of independence in 1895 made matters worse. Initially, rum makers (above all Bacardí) profited from sales to the Spanish army, despite Emilio's having been deported for the second time to Spain and the new manager, Enrique Schueg, being exiled to Jamaica. The *Ejército de Liberación* [The Cuban Liberation Army] ordered production to be brought to a halt in order to put a stop to supply, thus leading some industries to move to the Dominican Republic.[47] Cuba ended up having an almost marginal share in Caribbean production because of the conflict (Table 3).

41. Malon (2006).
42. OEPM, marca 1808.
43. Chez Cheo (1988), pp. 197-222.
44. Bonera (2000), p. 91.
45. Hurtado (1982), pp. 60-61.
46. AHN, Ultramar, 211/23.
47. Chez Cheo (1988), pp. 222.

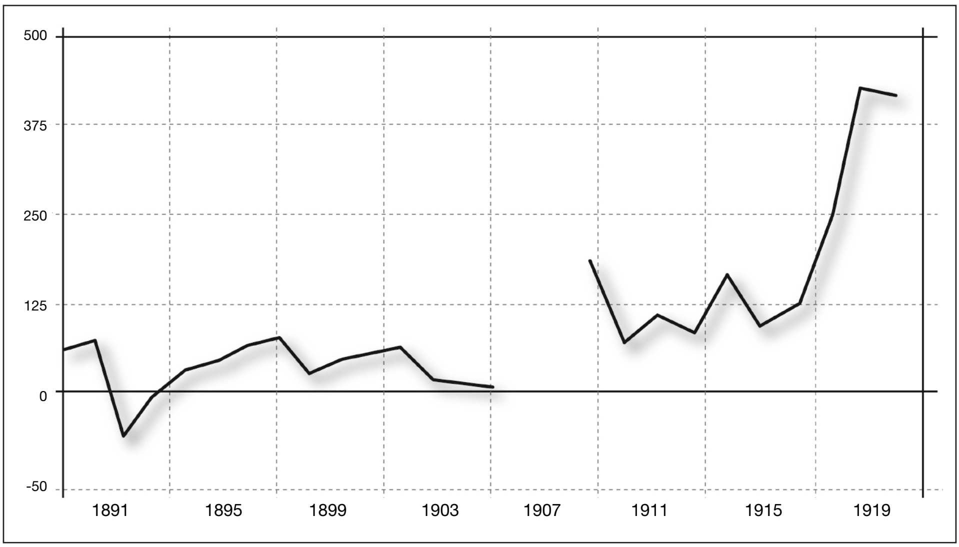
TABLE 3 ▪ *Main global rum exporters, 1890-99 (triennial mobile average in litres)*

Colony	Country	Exports
Martinique	France	17,160
Guyana	United Kingdom	15,990
Jamaica	United Kingdom	10,591
Cuba	Spain	4,162
Mauritius	France	3,240
Guadalupe	France	2,887
Reunión (*)	France	1,651
Trinidad	United Kingdom	540
Guyana (*)	Netherlands	528
Saint Croix(*)	Denmark	365
St. Lucia	United Kingdom	258

(*): Exports in 1899.

Source: Pirault (1903), p. 1; *Estadística(s) del Comercio Exterior* (Madrid, 1890-99).

GRAPH 2 ▪ *Bacardi & co. profits (1891-1918) (in thousands of current pesos)*



Source: Hurtado (1982), pp. 60-61.

Rum, occupation and war, 1899-1918

After the war, the Cuban distilling industry was left literally devastated and with its trade ties with Spain broken. Thus, a large number of Havana firms went bankrupt.[48] The crisis also reached Santiago as a result of Camp Hermanos' bankruptcy, which was the hardest hit.[49] The rest (Table 2) barely continued in operation and many factories suffered serious damage during the war. In practice, the production of rum in the years of the first American occupation was limited and discontinuous.

Producers' expectations improved with the signing of the Reciprocity Treaty with the United States in 1902, which granted a 25 % reduction in taxes on the importation of Cuban rum to that country. It seemed as though the doors to the much longed-for United States' market — which had been closed for decades as a reprisal to customs duties suffered by American flour in Cuba — had finally opened.

However, an increase in fiscal pressure hindered the immediate beginning of this trade. In addition to the detested "*impuesto de consumo*" (an indirect tax on sales), in 1903 there was a tax of 20 cents per bottle of rum produced in the country in order to guarantee the repayment of the loan contracted with the United States to pay for the war veterans' assets, taxes that the American authorities demanded be paid in gold.[50] Furthermore, the compulsory requirement on the orders of Major Davis that rum be analysed by the Laboratorio Municipal de La Habana [The Havana Municipal Chemistry Laboratory] prior to its exportation to the United States, was an added obstacle.[51] Checks to prevent smuggling increased during the second United States intervention (1906-09). Even Emilio Bacardí himself in the senate defended his stance opposing this American interference.

Therefore, independence did not have the expected positive impact on the sector but quite the opposite. Producers lost the support of the old metropolis. The activity of those institutions based on social capital, such as the Chambers of Commerce, languished until 1927 and the prospects for accessing the American market did not materialize.

Inevitably, it was essential to design new strategic policies, contractual relationships, asset choices and ways of taking advantage of the social capital. The first to notice this necessity was Barcardí. It modernized its old distillery, convinced of the enormous potential of the American market.

48. OCPI, legajo 3/6.
49. OCPI, legajo 3/2.
50. Bonera (2000), p. 116; AHPSC, Cámara de Comercio, legajo 9/6.
51. OCPI, 41/15.

However, technical innovation was not enough to allow it to compete there. Rum producers needed a more vigorous institution to deal with the new scenario. The *Asociación de Licoreros de la Isla de Cuba* [Association of Liquor Producers of the Island of Cuba], united in a company presided over by Aldabó, were especially belligerent.[52] It was a group of rum manufacturing companies that intended to act as a lobby against US authorities. Again the sector used the guarantees offered by social capital since the members of this institution were, for the most part, like Aldabó himself, from Catalonia. Many of them were even related to one another.

In fact, the sector was unable to entirely shake off the consequences of 1898 until the end of occupation in 1909. Only then did exports regain momentum (Graph 3).[53] The United States' occupation helped spread rum among the troops in that country.[54] With the arrival of Coca Cola on the island, a cocktail known as "Cuba Libre" became increasingly popular, followed by "Mojito" and "Daiquiri", which soon spread across the United States. These drinks were cocktails that combined young rum with tropical juices and were designed by the companies themselves, especially by Bacardí. Thanks to these drinks they created new market segments. The young rum (amber) was no longer a liquor for black people but the ingredient of sophisticated cocktails that were consumed even by women.

Rum was now regarded, thank to these cocktails, as a sophisticated and sweet drink for the upper classes and not a vulgar liquor for sailors. As strange as it may seem, Bacardí earned recognition as a sporting tonic there. Through an effective marketing campaign the firm managed to instil the habit among baseball players of drinking rum before each pitch, which gave it enormous popularity among supporters of the sport.[55] Furthermore, Bacardí returned to the Spanish market with the opening of a bottling plant in Barcelona in 1910. It even became known in France, due to the destruction of factories in Martinique during the Mount Pelée volcanic eruption in 1902.[56]

Cuban rum producers responded to this growing demand by strengthening social capital in the traditional rum-producing enclaves, by vertical integration and technical change.

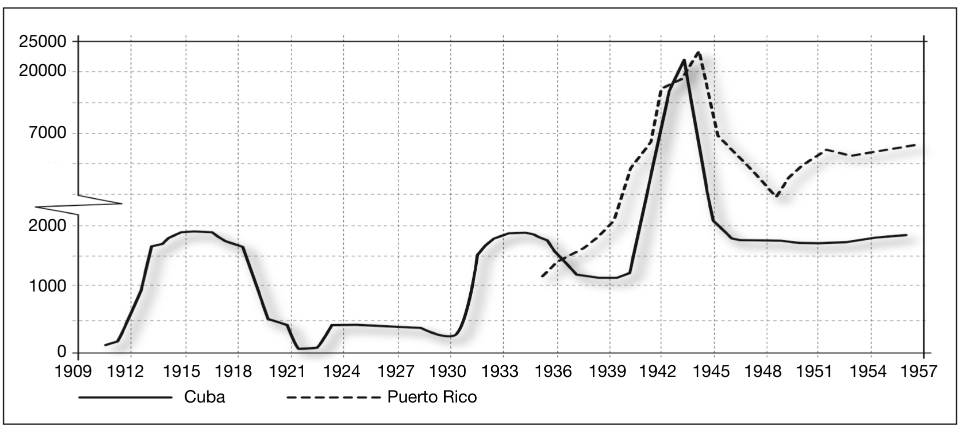
Networks were rebuilt after a momentary break due to emigration first and then this decline between 1898 and 1906. Sicars' and Castillo's arrival from Sitges consolidated the core-production in Santiago de Cuba, a city that became a haven for Catalan liquor-makers in crisis. There they found the comfort and support needed. The structures of social capital became more

52. Unión de Fabricantes de la Isla de Cuba (1909).
53. OCPI, 60/13.
54. Blocker, Fahey and Tyrell (2003), p. 527.
55. *Diario de La Marina, Número Extraordinario*, Havana, 1918.
56. Huetz de Lemps (1997), pp. 213-218.

sophisticated in their institutional aspects with regional groupings becoming authentic Catalan business schools.[57]

Secondly, in this new environment the old contracts lost their usefulness. The large scale production of rum that was needed to supply the American and European markets demanded new contracts and specific assets. The two major producers, Bacardí and Arechabalas, set out to create a large corporation.[58] Bacardí considerably improved its facilities, whereas Arechabalaba went even further, beginning to exploit its own sugar refinery, something no other Caribbean producer had done before then. Producers in Havana opted for product diversification. Gradually, with emancipation from Spain, dependence on liquor supply in that country dwindled in such a way that rum makers in Havana hastened the production of grape liqueur, following a Canarian and Galician style, as well as cognac, gin and all sorts of spirits. In order to manage this, they organised an efficient trade that brought down production costs. Return shipments from Barcelona brought cork to be used as bottle stoppers, while exports to New York were repaid in whisky, the distribution of which went largely unregulated in Cuba.[59] In the capital, the sector demonstrated its extraordinary flexibility as compared to the governing hierarchy in Santiago. Producers signed alliances with each other to jointly operate under one brand name and distillery agreements among various groups that lasted for a number of months. They integrated vertically and shared bot-

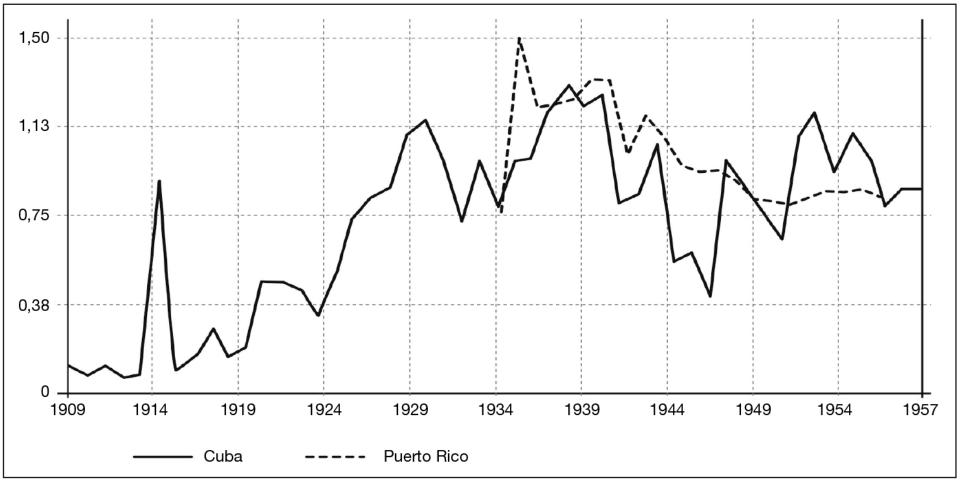
GRAPH 3 ▪ *Rum exports from Cuba and Puerto Rico (1909-1957) (triennial mobile average in litres)*



Source: Anuario(s) Azucarero(s) Cubano (1909-58); *Anuario Estadístico*(1957).

57. Cimadevilla (1921), pp. 51-52.
58. Chandler (1962) and (1977); Chandler and Deams (1980), p. 11.
59. *Diario de La Marina, Número extraordinario*, Havana, 1918.

GRAPH 4 ▪ *Rum prices in Cuba and Puerto Rico, 1909-1957 (in dollars per litre)*



Source: Anuario(s) Azucarero(s) (1909-58); *Anuario Estadístico* (1957).

tle manufacturing, packaging and labelling. Trespalacios, Trueba, Aldabo and Gomez did so repeatedly.

The outbreak of the First World War gave a boost to rum production. An increase in exports and price reflected the happy years experienced by the sector (Graphs 2 to 4). Members of the United States army entered into combat, strengthened by Cuban rum, which was used as a healing liquor. It was not an easy business for Cuban producers due to the political conflicts caused by the 1917 elections (once again, Cuba was occupied by the United States army which extremely hindered economic activity).

Moreover, the deterioration of the social atmosphere (together with the profits of war) also made it advisable for these emerging large corporations to internationalize, a move that was facilitated by the links that tied the island's liquor-makers to great American entrepreneurs, most of all those that had Cuban roots, such as Rionda.[60] The aim of those links was not only to strengthen their presence in the United States, but also to finance their growth since the large Cuban rum companies had maintained their family nature until then. Site-specific assets had lost their financial efficiency and loans between members of the trading colony in Santiago and Cárdenas no longer sufficed, an area where no foreign banks operated and no stock exchange had been set up.

60. Coase (1937); Santamaría (1989).

In 1918, Bacardí opened a second bottling plant on the outskirts of New York, assigned to the Bacardí Corporation of America, run by D. S. de Jong on Wall Street, and with John E. Tench among its shareholders. The increase in the volume of assets experienced by Bacardí between 1912 (182,282 pesos) and 1919 (3,705,024), both in current terms, serves as quantitative proof of this strength.[61] Arechabala began sugar and rum extraction in alliance with the Hershey Corporation. The former sought to take advantage of the latter's trade networks, while with the agreement the American company increased its sugar supply. Furthermore, the United States Cuban Industrial Alcohol and Refining Co. set up a large alcohol refining plant, the first of its kind funded by foreign capital, in Santa Cruz del Norte, on the outskirts of Havana.[62]

Under this perspective, things were easier in Havana. The greatest business transformation as a result of the First World War was the grouping together of the Havana distilleries, which reduced the number of factories in the whole country (Table 2). The idea of creating a large alliance had been in the works since 1913, on Aldabó's initiative, who was the one who was most worried among the Havana rum makers.[63] However, it did not materialize until 1917 when the Compañía Destiladora Cubana was set up, initially with 15 shareholders and quoted on the Havana stock exchange. The success was such that, at the end of 1918, it included 28 producers with factories, laboratories and warehouses, along with the sizeable sum of 1,700,000 pesos in invested capital. The company was joined by the Cárdenas shipping firm Echevarría & Co., so the maritime transport of rum was also integrated. Never before had a business operation of such magnitude been carried out in Cuba nor in the Latin American distilling industry.[64] There was 100% vertical integration of the company and product diversification was also very high. This strategy was very useful because of the transaction costs incurred by the social and political conflicts which were lived with greater intensity in Havana, in contrast to Santiago where, thanks to Bacardí's control, they were much lighter.[65] The community of interest and the need to keep up with the rhythm set by Bacardí and Arechabala made this union possible. It was mostly an intertwined social capital, family ties, the farming community, daily contact with Spanish institutions and this cooperative tradition that paved the way towards the union which would not have been feasible otherwise.

61. Alegre (1986), p. 192.
62. OCPI, 61/10.
63. Bonera (2000), p. 144.
64. ANC, Protocolos, escrituras de Rafael Octavio Saladrigas, 1917.
65. Bonera (2000), pp.134-144.

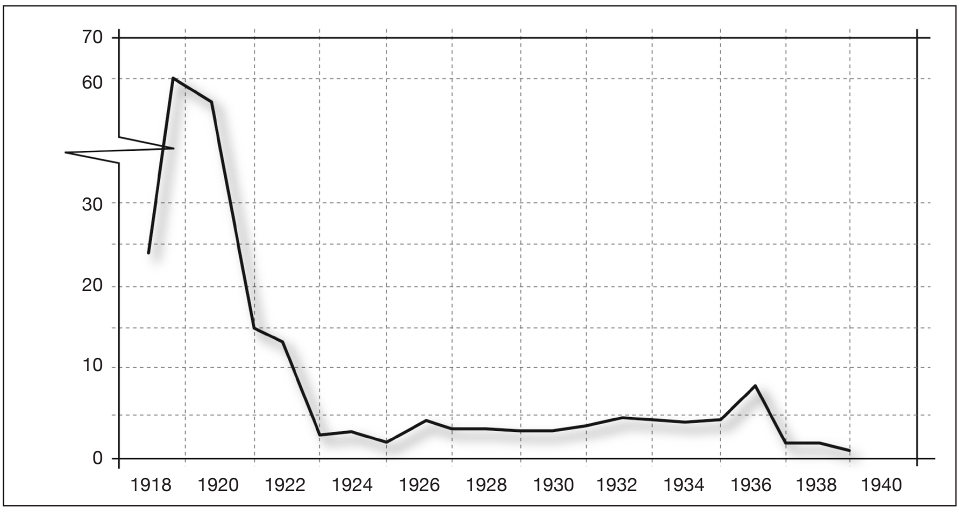
Prohibition and Cuban Rum, 1919-1929

At the end of the war, Cuban producers faced an even more dramatic situation than that ailing other foodstuffs manufacturers due to the effects of the “Prohibition”, a law passed by the United States congress in 1919 (Graph 4). Bacardí immediately closed its subsidiary in New York to avoid conflict with the police in Queens.[66]

The situation worsened in October 1920 after the outbreak of the greatest financial crisis suffered by Cuba since independence, due to the fall in the price of sugar (as well as that of rum), which hindered the repayment of bonds emitted by sugar-producing companies. The government prohibited the withdrawal of bank deposits and, in October, cancelled stock exchange activity, where weeks before the value of Compañía Destiladora Cubana had collapsed (Graph 5). Rum producers suffered tremendous difficulties in accessing short-term credit to finance their investments and raw material acquisition.[67]

The two big firms also had to face a succession problem in leading the company in the midst of such adverse circumstances. In 1921 José Arechaba-

GRAPH 5 ▪ *Value of compañía destiladora cubana shares on the Havana Stock Exchange, 1918-1939 (in pesos)*



Source: ANC, Bolsa de La Habana, Actas de Cotización.

66. *New-York Tribune*, 20, June, 1920, 7.
67. *Diario de La Marina, Número extraordinario*, Havana, 1918.

la died and a year later so did Emilio Bacardí. The former, after a succession of family tragedies, was led by Tomás Pita. Pepín Bosch on the other hand, Schueg's brother-in-law, took control at Bacardí. Both Barcardí and Aldama chose to trust management to people who were relatively far from the core family unit. Both made the transition from patriarchal to professionalized management, leaving a well-defined internal hierarchy in decision making.[68]

The other Cuban companies made a series of less drastic decisions when faced with change. The first of such strategies was that of horizontal integration. The Compañía Destiladora Cubana consolidated its control in Havana after taking over the Compañía Destiladora de Cuba in 1927, a company which had been set up by a group of producers in 1922 when they fruitlessly tried to compete with Compañía Destiladora Cubana.[69] Similar firms were created in Manzanillo, Camagüey and Guantanamo. In 1926, Bacardí went into partnership with a firm from Camagüey under the name Rifa y Bacardí; this joint-venture was short-lived, however.

Recovery was also achieved through diversification. Bacardí, on its aforementioned sites, began to manufacture bottles. In 1926 it acquired the Hatuey brewery, which had operated as the United States Santiago Brewing Co. (Graph 6) since 1914. Bacardí invested large sums in its brewery which in a short period of time began to compete with the two large Havana firms: La Nueva Fábrica de Hielo and La Compañía Cervecera Internacional. With this investment Bacardí incorporated distribution networks created by the former American owner and increased the company's income.

Events in Havana prompted the rum producers in Santiago to modernize, which turned them into joint-stock companies, a type of structure that was far from the eastern merchant culture they had until then. Bacardí once more set the example in 1921.[70] Castillo followed a few weeks later with Albuerne doing so in 1932.[71]

Rum producers also responded to such challenges (low prices and exclusion from the United States' market) through technological change. Bacardí set up an almost brand new factory in 1920 which was extended in 1922 and again in 1926-28, expansion work that created an industrial complex to a scale never before seen in Cuba and which consolidated Santiago's position as the rum capital of Cuba (Table 4).[72]

These strategies were reinforced with an aggressive marketing policy that even made Bacardí uneasy. Their attempt to change their distinctive logo into

68. Chandler (1977).

69. Only one company of a particular size remained at the margin of this corporation, *Isidro Jaureguizar y Goyena*, which in 1925 absorbed *Hormaza & Co.* (OCPI, 59/5).

70. OCPI, 3/17.

71. José Albuerne was established in Santiago in 1917 (OCPI, 59/3).

72. AHPSC, Fondo Bacardí, Planero.

TABLE 4 ▪ *Distribution of vat from factory industry in Santiago de Cuba in 1930 (in percentages)*

Activity	Establishments	Vat
FOOD, DRINKS AND TOBACCO	77	66.3
Cigarette and tobacco factories	49	13.3
Rum factories	4	29.9
Beer factories	1	0.9
Vinegar factories	1	3.7
Biscuit factories	2	3.7
Chocolate factories	3	2.1
Sweet factories	3	2.6
Processed meat factories	4	2.1
Coffee factories	2	0.5
Mineral water and ice	8	7.5
Leather and footwear	13	2.7
Metallurgy	12	6.6
Wood	1	2.3
Ceramic and glass	18	9.1
Chemicals	10	8.5
Textiles	1	0.5
Paper and graphic art	14	4.1
TOTAL	146	100

Source: AHPSC, Hacienda, Matrícula Industrial.

a modern triangular design (United States marketing consultants thought the emblem of the bat was too sinister) became a fiasco and the publication of a million promotional pamphlets in 1927 was a complete waste of money.[73] Other producers, acting not quite as rashly, had better results.

Integration, technological change and marketing supported the international expansion of Cuban rum producers, forced to seek out new markets following the loss of that of the United States. Alternatives were to be found in Europe. In fact, Castillo registered its brand name in Belgium in 1917.[74] Bacardí was the company that made the biggest effort internationally, to such a point that it became the first real Latin American multinational company. In 1920 it created a bottling plant in France and its liquors managed to com-

73. AHPSC, Cámara de Comercio, 9/8.
74. OCPI, 159/17.

pete with Martinique's, a significant milestone for the company. Eventually, it was able to penetrate markets in Eastern Europe, places never previously explored by Caribbean rum companies.[75]

However, it was the domestic market that sustained the Cuban rum industry. In 1925 Bacardí exported only 8.7% of its production.[76] The birth of the tourist market with those escaping the Prohibition stimulated the industry through unlimited rum consumption in the already extremely famous Havana bars, thus mitigating in part the negative effects of the drop in exports and smuggling from Barbados (in which Al Capone himself was involved).[77] Rum flowed at bars, hotels and brothels in Havana, then the most dissolute city in the Americas.[78] The price of rum multiplied in the second half of the 1920s (Graph 4). The share value of the Havana producers' trusts also improved considerably (Graph 5).

A total of 65 companies profited from this transformation of Cuba into a sad and poisonous paradise. Bacardí, whose production in 1927 represented 29.6% of the national total, was unrivalled, due to its prestige and competitive edge which gave it a productivity ratio that was 25.2% greater than average. Its factory, with 251 workers, along with that of the Compañía Licorera Cubana, with 131, were the only ones worthy of such a name (Arechabala did not produce rum at that time). The rest (a third of which belonged to modest Spanish immigrants), with 15 employees on average and a capital of 69,516 pesos (43 times less than that of Bacardí) were no more than mere domestic distilleries sustained by the demand of visiting tourists.[79] Bacardí wanted to show its control with the building of new headquarters in 1928 in Havana, a building that was iconic of Cuban modernism and which was designed by E. Rodríguez Castells and R. Fernández Ruanes.

The great depression and Cuban Rum companies (1929-1938)

In spite of the low level of stock market capitalisation of Cuban rum producers, the 1929 crisis had tragic effects on the sector. Immediately after the New York Stock Exchange crash, the Cuban Industrial Alcohol and Refining Co. collapsed, gripped by increased levels of debt. The drop in price and ex-

75. OCPI, registro 54.838.
76. HMM, Comisión de Reformas Económicas, *Cuadros Estadísticos de las fábricas de cervezas y licores y su producción en 1926*.
77. Curtis (2007), pp. 163-166.
78. Touchard (1990), p. 255; Smith (2005), pp. 178-179.
79. HMM, Comisión de Reformas Económicas, *Cuadros Estadísticos de las fábricas de cervezas y licores y su producción en 1926*.

ports, attributable to intensifying competition after the opening that same year of a large distillery in Santo Domingo by the Spaniard Juan Barceló, left large firms in a complicated situation despite the safeguard offered by family fortunes. The increase in fiscal pressure with the announcement in 1931 of the *Ley de Emergencia Económica* [Economic Emergency Law] made the situation worse.

Despite the crisis Bacardí consolidated its leading position (in 1930 it produced 38.8% of rum on the island) but had to close its bottle factory. The rest of its plants were miraculously able to remain active by doing away with paternalistic labour relations implemented by founders (the firm was a pioneer in the introduction of the 8-hour working day), thus reducing operating costs. Small producers in Havana sought refuge in the Compañía Destiladora Cubana, which in 1934 already supported over a hundred industrialists, which is why the size of the plant in capital exceeded the national average (Table 5). With their agreement they put an end to the price war in which they were involved but other producers were not as lucky and had to bring production to a standstill.

It was in such circumstances that the sector gladly welcomed the news of the end of the Prohibition in 1932, which, along with the approval of a new trade treaty with the United States, allowed exports to recommence at an abnormally high price (Graphs 3 and 4). However, expectations of privileged access to the United States' market soon came to nothing, this time due to competition from Puerto Rico, whose producers had enjoyed generous customs advantages since 1917. Essentially, the Jones Act, passed that year, awarded the same treatment to rum produced in Puerto Rico as that manufactured in the United States. Furthermore, Washington would have to return

TABLE 5 ▪ *Geographical structure of the Cuban Rum Industry in 1930 (in percentages and thousands of litres)*

Province	Companies	Production	% of Total	Average Production
Pinar del Río	3	138.6	2.2	46.2
Havana	19	2236.8	35.5	117.7
Matanzas	4	253.3	4.0	63.3
Santa Clara	11	491.9	7.8	44.7
Camagüey	7	463.8	7.4	66.3
Oriente (with Bacardí)	12	583.0	9.2	48.6
Oriente (without Bacardí)	13	2719.4	43.1	209.2
TOTAL	57	6303.8	100.0	110.6

Source: Maspons (1932), pp. 132-133.

tax on imported rum to the Puerto Rican government. This, in turn, would have to be used, among other purposes, in advertising and in the improvement of technical conditions in the production of rum.[80]

For Puerto Rican distilleries, which had not have enough time to benefit from those concessions due to the passing of the Prohibition Law in 1919, an opportunity had now arisen.[81] The Puerto Rico Distilling Company, set up in 1911 in Arecibo and dedicated since then to alcohol production, along with Sebastián Serralles, overtook Cuban companies in the American market (Graph 3).[82] As on previous occasions, Cuban producers were able to respond to this changed environment but this could not now be sustained on social capital due to the oligopolizing of the sector and a major conflict of interest, but had to be done through vertical integration.

Competition encouraged technological innovation in the Cuban distillery industry. In the case of Arechabala, when the founder's nephew José Fermín Iturroz Llaguno had taken control of the company and following the destruction of facilities during the 1933 hurricane he immediately ordered the resumption of rum production, as well as the construction of a new distillery capable of producing four million litres annually as well as a honey plant.[83] The company underwent a thorough image overhaul. From 1934 onwards it used the new distinct commercial name Havana Club, which gave the firm an extraordinary push. Soon afterwards it opened a branch in New York and the company also continued its vertical integration and diversification policies. In March 1932, it began to manufacture fuel marketed under the Mofuco brand. In 1936, Iturroz signed an agreement with the American company Charms to establish a large sweet factory in Cárdenas, which employed 1,024 people. In addition, it set up jute, paper, bottle, electricity and petrol refinery plants.

Meanwhile, Bacardí opted for relocation as a strategy. The idea had been developing within the family since the passing of the Jones Act in 1917. In fact, throughout the 1920s it acquired land to cultivate sugar cane in Puerto Rico. With the Prohibition lifted, in 1937 it set up an enormous factory in San Juan, the island's capital, in order to benefit from Puerto Rico's tax advantages. From this point onwards Cuban exports fell (Graph 3).

At the time, Bacardí was already the largest and most renowned company in the United States with a share of two thirds of the market.[84] However, its investments had strengthened Puerto Rican rum production at the cost of Cuba's, which was now deprived of the company's tutelage where it had guided the industry's steps for decades. This decision was a heavy blow for the Cu-

80. Maguire and Teefy (2009); Smith (2005), pp. 228-229.
81. Touchard (1990), p. 183.
82. Bureo (2000), p. 15; Gelabert (1992).
83. *José Arechabala S.A.* (1953).
84. See the figures given by the firm magazine.

ban Treasury, insomuch as income only as taxation on liquor and tobacco production averaged half a million pesos, 25 % of total tax income. The company distanced itself from the political power in Havana that it had previously sought out. Bacardí no longer had its eyes firmly fixed on Cuba alone.

The creation of the Duopoly: Bacardí and Havana Club (1939-1958)

With the beginning of the Second World War, the Cuban rum industry experienced the advantageous effects of an armed conflict for business. Once more, Cuba supplied a large share of the rum consumed by the United States' troops (Graph 3). Demand reached such magnitude that Arechabala had to make shipments on motorboats and even created its own shipyard to load them.[85] The American navy made use of them.

Moreover, in setting quotas (as was the case with sugar), the United States government set quite moderate prices, much lower than those paid for Puerto Rican rum (Graph 3 and 4), despite their sales surpassing that of Cuba. Bacardi had acquired such prestige that, despite its higher price, it kept Puerto Rican production at acceptable levels. On the other hand, the Puerto Rican government took advantage of funds it received from the US government by virtue of the 1917 Jones Act (which went from US $ 22 million in 1939 to US $ 150 million in 1945) to organise an experimental pilot plant directed by Cuban Rafael Arroyo, with the goal of sharing technical developments from Cuba.[86] On the other hand, in 1942 Florida Cane Production Inc. signed a joint venture with Ronrico, created in 1935. The explosion of the extremely powerful Canadian firm Seagram Co., producer of Captain Morgan, onto the market complicated matters even more for Cuban distilleries, except for Bacardí, which played its hand at several cards.[87] However, the company suffered the destruction of its plants in Spain and France during the Civil War and German occupation respectively.

After the signing of the Armistice, exports fell (Graph 3). Cuba lost ground in the United States in favour of Puerto Rican rum. Not only was their product much more competitive (Graph 4), but the United States' authorities imposed exceptionally rigorous sanitary conditions on rum imports which Puerto Rican producers were able to satisfy through investment paid for by tax returns under the application of the Jones Act. The same could not be said for the Cubans.[88]

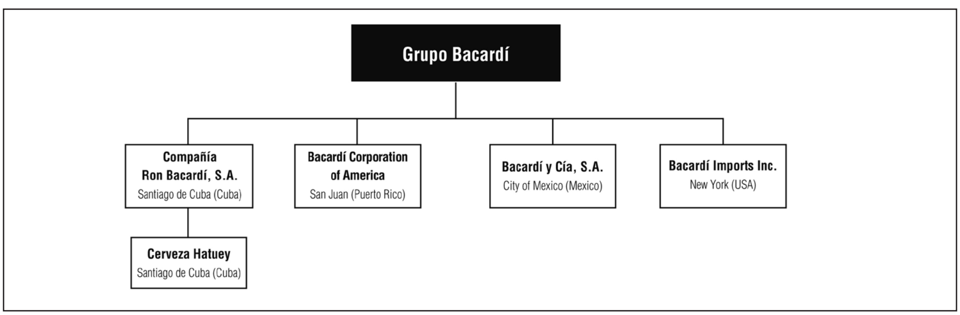
85. *José Arechabala S.A.* (1953).
86. Chez Cheo (1988), p. 124.
87. Da Silva Lopes (2007).
88. Chez Cheo (1988), p. 124.

Bacardí, guaranteed its market share in the United States due to the operation of its plant in Puerto Rico, became less worried about rum production in Cuba in order to strengthen its brewery division. In 1946, it signed an agreement with the Mexican company Modelo, also founded by Spaniards, for the joint operation of a large factory on the "La Candita" estate in El Cotorro (Havana), in addition to a second one in Santa Clara assigned to the affiliate company Cervecera del Mencas. The common origin of both producers, in other words their social capital, made this feasible. The company (whose organic structure is outlined in Graph 6) also had interests in grain mills, passenger transit and hospitality in Santiago de Cuba.[89] These investments did not provide large sums of money but guaranteed Bacardí's control of the Santiago district. The firm needed to be present at all the local social and economic initiatives to maintain its leadership in the production of rum.

Arechabala's expenditure, coordinated in Cuba, was even more ambitious. In 1946 it built a shipping terminal for its own use.[90] The city of Cárdenas was transformed into an industrial port complex with only one owner, previously unheard of in the urban and economic history of Latin America (Graph 7). That is, Arechabala, facing intensified competition in the Caribbean, opted for a strategy not used until then: investing in specific physical assets, distribution infrastructure, based on the Williamson's (1983) interpretation.

Gradually Havana Club was able to make a name for itself in the United States and Europe through the improvement of the ageing plant in Cárdenas.[91] However, above all, it achieved this through stressing its position as the "authentic Cuban rum" with a new advertising strategy, as opposed to Bacardí, which was able to boast its corporate strength but no longer claim the

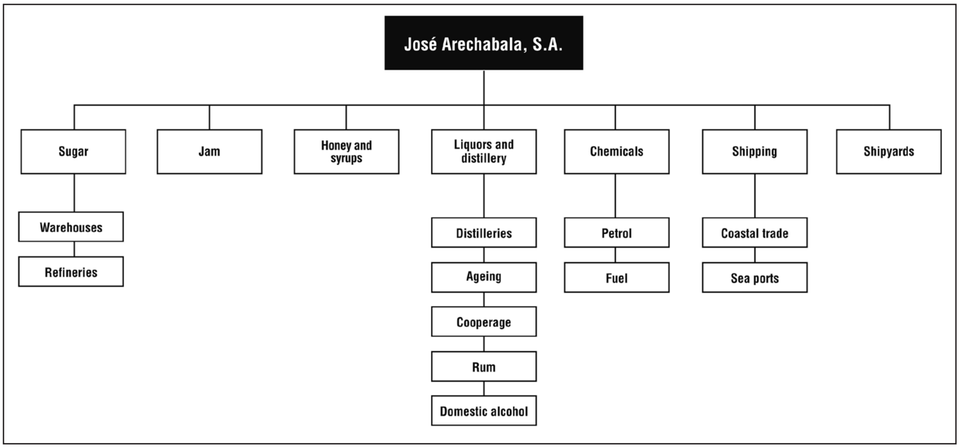
GRAPH 6 ▪ *The Bacardí Group in 1950*



Source: Hurtado (1982), pp. 60-61.

89. Jiménez (2004), pp. 527-8.
90. *José Arechabala S.A.* (1953); Jiménez (2006), pp. 27-28.
91. See its magazine *Gordejuela*.

GRAPH 7 ▪ *Lines of business for José Arechabala, S.A. in 1953*



Source: José Arechabala S.A. (1953)

same authenticity. The Cuban government, of course, supported this strategy for economic reasons.

The growth of Bacardí and Arechabala was a real storm that smaller Cuban companies in Havana could not resist. They lacked the prestige among tourists and the economies of range of both firms. Their response consisted in joining large trade corporations such as Compañía Andaluza de Licores, Compañía Industrial y Comercial de La Habana and Compañía Importadora de Vino in the capital of the country and Palau and Albuerne in Santiago in 1946. They did business by importing Spanish wines that had a good name among Havana high society and foreigners visiting Cuba. This was the only gap in the market that Barcardí and Arechabala had left untouched. Strangely enough, the group was set up by producers from the same geographical regions, especially Andalusia and Catalonia. During those difficult times, small producers sought the benefits of social capital that the large corporations had by then fled from.

The boom in tourism during dictator Fulgencio Batista's term of office (1952-1959) and the transformation of Havana into a haven for wealthy businessmen, the mafia, celebrities and intellectuals, such as Hemingway, who universalised the excellence of the Cuban "mojito", compensated in part for the deterioration of the United States market, despite a moderation in its price (Graphs 3 and 4).

The Cuban alcohol dream was short-lived. Improvements in fiscal concessions enjoyed by the rum industry in Puerto Rico in 1954 and the implementation of such policies by the American government in the Virgin Islands (bought from Denmark in 1917) completely changed the status quo of rum markets. Not only did spirit traders in Saint Croix become able to export liquor to the United States from an advantageous position, but these policies also resulted in the eventual relocation of the great Caribbean spirit firms.

Such was the case of the Seagram Company which moved to Puerto Rico after setting up a partnership with Destilerías Serrallés (Bacardí had declined the offer), and with Brugal on the Virgin Islands. Venezuelan rum, especially *Santa Teresa*, also snatched a share of the market in the United States from Santiago and Havana.[92] Cuban rum distillers were only able to maintain minimum export levels by making an effort to reduce prices (Graphs 3 and 4), which ended up being a disastrous strategy. Things looked quite different for Bacardí, well set up in Puerto Rico.

The company continued with its international expansion and in 1957 Pepin Bosch commissioned architect Mies Van Der Rohe to design a new plant in Tultitlán (Mexico). The company also planned the building of premises in Brazil. By then, Bacardí had representative offices in at least fifteen countries in three continents.[93] In the United States, where Bacardi was already a best-selling rum, its subsidiary company Castleton Beverage Co. was in charge of its distribution, thus paying tax as a United States firm and not as a foreign one.[94]

Relations between the Cuban government and Bacardí deteriorated even more due to the continuation of policies that weakened traditional rum producers, while Arechabala rubbed its hands together in anticipation. The Bacardí company transferred its legal address to the Bahamas in 1957 and used fiscal pressure and its conflicts with the government as an excuse.

Rum and revolution (1959-1965)

We can therefore see that the Cuban rum industry's position on the eve of the 1959 Revolution was hinged on two large family-run companies which originated in the Spanish migration of the ninteenth century: Barcardí and Arechabala (Havana Club).

Both these firms were nationalised by Fidel Castro's government, along with a number of large sugar-producing companies, on 30 September 1960. By then, Bacardi's shares in Cuba were valued at 84 million dollars, the equivalent of about 56% of the Republic's average tax revenue.[95] The *Junta Central de Planificación* [Central Planning Board] extended these policies to the rest

92. Rodríguez (2003), pp. 96-120.
93. Jiménez (2004), pp. 527-528.
94. Huetz de Lemps (1997), p. 169.
95. Ibídem.

of the large rum companies on 8 August 1961, coinciding with the now famous speech at Punta del Este (Uruguay) by Che Guevara.

The Cuban state continued the production and distribution of rum processed at the seized companies. These were managed by revolutionary committees, who used the original trademarks, including Bacardí. Parallel to this, the family produced Bacardí rum at its offshore factories, arguing that the brand had been registered in the Bahamas, an operation which Pepín Bosch had been meticulously and stealthily working on for years.[96] This is how two different rums bearing the Bacardí brand, one made in Cuba and the other overseas, ended up sharing the same market, until the International Court at The Hague ruled in favour of the family-run company in 1964.[97] By that time Bacardí boasted a 67.8% share of the US rum market.[98]

The Cuban government responded by reorganising the entire rum industry, which now had to face the challenge of competing against vodka coming in from Eastern Europe and the Soviet Union. After completing the nationalisation process on 1 July 1965, the government reduced the number of firms then in existence down to half a dozen of the best-known names. At the same time, Castro shut down the smallest factories in order to centre production at the Santa Cruz plant where Havana Club was distilled.

Conclusion

The emergence of a powerful rum industry is one of the greatest achievements in Cuba's industrial and business history and in that of the larger South American continent. The birth and consolidation of the sector in Cuba was a consequence of the resilience of the island's distilleries, which had to face, firstly, all the policies imposed by the central government in the capital, and secondly, from 1898 onward, those imposed by the United States. In the case of the latter, these impositions took the shape of prohibitions or tariff restrictions.

A study of the rum industry, therefore, offers us insight into the industrial achievements of the indigenous bourgeoisie. In the Cuban business world, not all was centred on sugar and not everything was funded by foreign capital. Rum production was almost exclusively led by Cuban firms which managed to become some of the most competitive in the Caribbean.

Great Cuban companies were born under such adverse circumstances due to the advantages that social capital had given them, strengthened by the

96. Gjelten (2006), pp. 288-96.
97. Huetz de Lemps (1997), p. 169.
98. Chez Cheo (1998), p. 124.

bonds of common citizenship, especially Catalonian, on which the development of the rum industry was built, not only in Cuba but also in Puerto Rico and in the Dominican Republic. The rum producers of Spanish origin wove institutional safety nets into the sector, guided by their own values and hierarchies, sharing technical expertise, management and integration agreements which were signed when necessary. This social capital offered strength to the core rum companies which were organized as authentic Marshallian industrial districts and run by three great patriarchs: Bacardí in Santiago, Arechabala in Cárdenas and Aldabó in Havana.

Vertical integration helped reduce transaction costs substantially, costs which were so high in a country that, from 1868 to 1959, had suffered two colonial wars, permanent and violent political conflicts, two occupations by the United States, the 1933, 1953 and 1959 revolutions and several coup attempts. This chaos thus forced the businessmen to create big rum corporations that could supply everything from sugar to the ships on which the rum was transported to the United States. As a growth strategy Cuban rum companies opted for economies of range rather than of scale, up to the point that the large corporations operated with dozens of brands.

Furthermore, rum companies joined together in large corporations in order to limit falling prices in deflationary situations. Social capital facilitated the signing of such agreements. In sum, the Cuban producers responded quickly and flexibly to changes in the economic situation, either through vertical or horizontal integration, thanks to those non-economic links that existed among them.

Indeed, one cannot understand the agility and with which the head offices of companies made decisions and signed contracts in such a hostile environment — not to say violent — and in an economy that was weighed down by institutional obstacles, which had existed both before and after the 1898 war, without the facilities that the social capital generated by the Spanish minorities provided. It was on these that site, physical, human and special asset specificities were built, along with their social spaces, vocational schools, employer representative bodies, lobbies and infrastructure, all built to serve everyone. A consideration of this social capital, solidarity, trust and unwritten rules within foreign minorities is thus required to understand the birth of great indigenous companies in Latin America, which cannot otherwise be understood by exclusively using the conception of the company as a "black box" (Coase, 1937). Neither are all of Chandler's (1990) categorizations applicable here. The capital space in which these companies were born in Cuba was very small and they were set up in just a few localities amid rigid and outdated forms of economic organization, consisting of a small core of industrialists who were more familiar with the market and its mechanics in their country of origin but who could reach agreements and sign contracts thanks to the mutual trust they had in one another and not due to any legal certainty that would have been guaranteed under a liberal order unknown to them, as was the case in the United States and the United Kingdom. As a result, and although it may seem contradictory, the creation of large Cuban rum enterprises responds exactly to Chandler's theses when he linked them to American liquor corporations, both in size and in strategy;[99] it was social capital that made it possible.

It should be emphasized that these rum firms became the first Latin American multinational companies. The relationships of the rum elites to American and Spanish businessmen (yet another variant of social capital) facilitated this internationalization. The relocation of the headquarters of some of these firms (especially Bacardí) was not the result of obstacles encountered in Cuba — not much larger than those faced in Puerto Rico, Mexico or Spain. The change in location factors (which even affected the Canadian businesses) was due to a positive discrimination in tariff terms which was enjoyed by rum from Puerto Rico in the United States. But above all, the international expansion was the result of ambition, of a desire to expand markets and increase profits, not the happy consequence of the birth of these companies in a backward colonial economy.

These firms became detached from the family core in management as soon as succession problems emerged (the third generation). Hierarchical and professional management was chosen, which became so effective that the owners, who had settled in Spain or Miami, became completely disconnected from the management of the companies.

However, the Cuban rum companies did not entirely lose the weight represented by the family, not even Bacardí and Havana Club. The fact that neither of these two were quoted on the Stock Exchange and that they declined forming alliances with other business groups, whether Cuban or foreign (e.g. Bacardí and Seagram) when the opportunity was available, is evidence of the weight of bloodlines in the growth of these companies. This factor was shared by all large Cuban businesses and it can explain the loss of control of strategic business sectors against companies from the United States.

Social capital, vertical and horizontal integration and product differentiation protected and strengthened Cuban rum companies only for a while. Following the end of the Prohibition in 1932, the reduction in transaction costs as part of the strategy of large Cuban firms and the prestige of their spirits were not enough to compete in the US market against rum from Puerto Rico and Barbados, which benefited from generous tariff concessions. The substantial foreign investment in Cuba attracted by firms such as Havana Club proved useless (at least as far as the American consumers were concerned).

99. Chandler (1962) and (1977); Chandler and Deams (1980).

There seemed to be no alternative other than moving offshore, a strategy adopted by Bacardí and which led to the bulk of its investments in Puerto Rico. Thus, on the eve of the outbreak of the Revolution most of the rum known as authentic Cuban rum was not actually produced in Cuba. This is still true today.

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ANC, Archivo Nacional de Cuba (Havana, Cuba).

AHN, Archivo Histórico Nacional (Madrid, Spain).

AHPSC, Archivo Histórico Provincial de Santiago de Cuba (Santiago, Cuba).

HMM, Hemeroteca Municipal de Madrid (Madrid, Spain).

OCPI, Oficina Cubana de la Propiedad Intelectual (Havana, Cuba).

OEPM, Oficina Española de Patentes y Marcas (Madrid, Spain).

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Rum, Business and Society in Cuba, 1832-1965

ABSTRACT

This article maintains the hypothesis that Cuba was able to become one of the world's biggest rum producers thanks to the external economics provided by its social capital. In fact, Cuban rum producers had to face Spanish commercial tariffs first, and then those of the US. It was only thanks to the social and economic networks built by Catalonian producers in the industrial districts that they created that rum firms could reduce their costs and become competitive. Additionally, both commercial restrictions and high internal transaction costs pushed these firms toward greater horizontal and vertical integration. As a result of this process, in 1959 Havana Club and Bacardí were two of the most powerful beverage firms in the world. This study tries to identify the founders, origin, organization and strategies of great non-sugar Cuban companies which are not very well known in historiography.

KEYWORDS: Rum, Cuban business, social capital, entrepreneurship

JEL CODES : N 16, N26, N66, N86.

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Ron, negocios y sociedad en Cuba, 1832-1965

RESUMEN

En este trabajo sostengo la hipótesis de que Cuba pudo convertirse en uno de los grandes países productores de ron a escala mundial gracias a las economías externas generadas por el capital social. En efecto, los roneros cubanos tuvieron que hacer frente a las trabas arancelarias de España, primero, y de Estados Unidos después. Solo gracias a las redes económicas y sociales tejidas por los productores catalanes en los distritos industriales que formaron, las empresas productoras de ron redujeron sus costes y ganaron en competitividad. Por otra parte, tanto las restricciones arancelarias como los elevados costes de transacción internos llevaron a estas a la integración vertical y horizontal. Como resultado de este proceso, Havana Club y Bacardí eran en 1959 dos de las firmas licoreras más poderosas del mundo. Este texto trata de identificar a los fundadores, los orígenes, la organización y la estrategia de las grandes empresas cubanas no azucareras, no del todo bien conocidas por la historiografía.

PALABRAS CLAVE: ron, negocios cubanos, capital social, empresarialidad

CÓDIGOS JEL: N16, N26, N66, N86