FOREIGN DIRECT INVESTMENTS IN CUBA

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The value of foreign direct investments in Cuba can be estimated at some $700-750 million, out of which U.S. investments represented $596 million and British investments $100-110 million as of the end of 1947. Altogether foreigners control practically all the public utilities and railroads of Cuba, in which they have invested over $370 million, 55% of the sugar mills (as against 72% in 1939), the largest banks and insurance companies and a large part of manufacturing and foreign trade enterprises.

Because of the severe effects of the world depression on Cuba, foreign enterprises established in Cuba hardly survived during the 1930s and their profits were low in comparison with those in other Latin American countries. The war boom changed the situation and, during the 1944-47 period, earnings of U.S. enterprises increased to roughly 10% of the capital invested, mostly on account of the large profits of the sugar mills. The yield of British capital, which is entirely invested in railroad companies, did not exceed 0.3% during the same period. The earnings of foreign enterprises have already declined in 1948 and should decline somewhat further in the near future because of smaller profits of the sugar industry.

Foreign investments in Cuba enjoy the same rights to do business and to acquire property as Cuban citizens and are subject to the same tax rates. There is no government competition with private enterprise and the Cuban Government has not nationalized any industries to date. No foreign exchange restrictions of any kind exist in Cuba with the exception of small taxes on the transfer of funds abroad on capital account. But those favorable conditions, which are almost unique in Latin America, are dimmed by the uncertainty of the economic and political future of Cuba. Present union policy, in particular, is generally considered by businessmen, Cuban as well as foreign, as one of the main obstacles to the industrial development of the Island.
I. VALUE AND CHARACTER OF FOREIGN DIRECT INVESTMENTS

The total value of foreign investments in Cuba has recently been estimated at roughly $700-750 million. This sum would compare with over $2,000 million in 1930 and $1,200 million in 1936. The drop in the value of investments is due primarily to the naturalization of former Spanish subjects and to the sharp decline of U.S. interests in the sugar industry.

Out of $700-750 million, U.S. investments can be put at $596 million as of the end of 1947. From the standpoint of U.S. direct investments abroad, Cuba is at the present time the third country in the world (after Canada and Venezuela). Contrary to general belief, American interests in Cuban public utility enterprises represent $272 million as against $124 million invested in agricultural enterprises, $65 million in manufacturing and $33 million in trade. Noticeable during the last 20 years has been the decrease in value of U.S. sugar interests due to depression business losses from $600 million in 1928 to some $150 or 160 million in 1943 and the increase in manufacturing interests, from $27 million in 1936 to $65 million in 1943.

Spanish interests in Cuba have been considerable and are still predominant in the internal wholesale and retail trade of the Island. However, they can hardly be considered as foreign investments at the present time, with a few exceptions. Spanish-owned enterprises used to remit only small amounts to Spain and to re-invest their profits in Cuba. They were generally not administered from Spain but by Spaniards definitely established in Cuba although retaining their former nationality. Moreover many Spaniard investors have become naturalized Cubans and this trend has been accentuated since 1936.

1/ Estimate by Ramiro Guerra.
2/ International Monetary Fund's RD-429, "Economic Survey of Cuba".
4/ These figures are as of May 31, 1943, date of the latest available breakdown. At that date total U.S. direct investments in Cuba represented $529 as against $596 million in 1947, but the relative importance of each group indicated has probably not changed very much.
5/ Estimated at $1.4 billion in 1933 (J.H. Alvarez Acevedo, La Colonia Española en la Economía Cubana).
British interest have been put at some $100 or 110 million, all invested in railways with the exception of a few tobacco factories. Canadian direct investments have been valued at $12 million, being mostly represented by banks and a few sugar mills. The importance of Canadian activities in Cuba is actually larger than this estimate would suggest because of the activity of Canadian banks.

Altogether foreigners control a large part of the Cuban economy: 55% of the sugar mills (as against 72% in 1939), the largest tobacco factories, practically all the public utilities and railroads, the largest banks (holding two-thirds of total deposits) and insurance companies, a large part of manufacturing and foreign trade enterprises. However, the relative importance of foreign investments has been declining over the last 15 years.

II. EARNINGS, INCOME REMITTED AND CAPITAL INVESTMENTS RELATING TO FOREIGN INVESTMENTS IN CUBA

Foreign enterprises in Cuba have gone through unusual vicissitudes. Following the "dance of the millions" of the early 1920's, the collapse of the sugar market wrecked the Cuban economy until the war. Since 1940, general prosperity has caused a large increase in the earnings of many foreign-owned enterprises.

In the 1938-40 period the average yield of U.S. investments in Cuba, as measured by the income remitted, was 2.6% of the capital invested, the lowest return of U.S. investments in Latin America, and there was no reinvestment of earnings. Because of the war boom, earnings of American enterprises during the 1944-46 period increased to almost 10% of the capital invested and were substantially higher in 1947. But on the whole earnings of U.S. enterprises in Cuba have not been higher than for the average U.S. enterprise in Latin America. A drop can be expected for 1948 on account of lower earnings of the sugar mills. It is noticeable that during 1944-46 around 40% of the total earnings of U.S.-owned enterprises in Cuba have been reinvested, as against less than 25% for the rest of U.S. investments in Latin America during the same period.

British investments did not yield any sizeable returns in the 1944-46 period: approximately $200,000 a year, or 0.3% of the invested capital. This low return is due to the railroad companies, which, whether U.S.- or British-owned have been in a poor financial condition. British railways have not paid any dividend since 1926-27 and $100 bonds of the U.S.-owned Cuban Co. could be bought for $1 in pre-war days. A certain

6/ South American Journal, April 5, 1947. This does not include investments represented by securities not quoted on the London Stock Exchange or not represented at all by securities. An undetermined amount of bonds of British-controlled railways is held by Dutch citizens.

7/ Branch earnings and common or preferred dividends only.
improvement in the financial situation of the railroads occurred during the war. The foreign banks hardly survived the 1930–39 period during which the general moratorium froze most of their assets. They are now in better condition but did not actually participate in the general war boom because of the lack of investment outlets. Agricultural, manufacturing and trade enterprises have been making large profits although hampered in their operations by growing labor difficulties. The sugar mills have made large profits over the last few years but their best years seem definitely over. The price of sugar is expected to drop while production costs will remain high in 1949 since the Cuban Government is maintaining by decree wages and salaries at the 1947 level. These troubles, added to political and economic uncertainty, have been chiefly responsible for a sizeable outflow of capital on account of foreign direct investments; it should be noted, however, that Cuban capitalists have sent abroad much higher sums, both absolutely and relatively.

III. GOVERNMENT ECONOMIC POLICY AND REGULATIONS

Right To Do Business

There is no provision whatever in the constitution or in the commercial code to prevent a foreigner from freely engaging in commerce or developing any industry within the country. On the contrary, the constitution guarantees to foreigners all rights recognized therein and in the laws including the civil laws.

Labor Regulation

The law for the nationalization of labor provides that at least 50% of the payroll must be paid to native Cubans and at least one-half of the wage-earning and salaried personnel must be native Cubans. Vacancies and positions created must be filled by native Cubans if qualified

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8/ The earnings, dividends and approximate stock price of some leading U.S. sugar producers in Cuba are as follows (in U.S. dollars):

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Violeta Sugar</td>
<td>$7.23</td>
<td>$3.81</td>
<td>$2.00</td>
<td>15 -10-1/8</td>
<td>11</td>
</tr>
<tr>
<td>Cuban-Amer. Sugar</td>
<td>6.13</td>
<td>4.27</td>
<td>2.00</td>
<td>17-1/8-12-3/8</td>
<td>14</td>
</tr>
<tr>
<td>Cuban Atlantic Sugar</td>
<td>10.68</td>
<td>8.35</td>
<td>2.00</td>
<td>24-3/4-16-1/4</td>
<td>17</td>
</tr>
<tr>
<td>Francisco Sugar</td>
<td>8.06</td>
<td>5.76</td>
<td>1.50</td>
<td>16-3/8-9-7/8</td>
<td>11</td>
</tr>
<tr>
<td>Punta Alegre Sugar</td>
<td>4.22</td>
<td>3.06</td>
<td>4.50</td>
<td>14 - 8</td>
<td>8</td>
</tr>
<tr>
<td>Vertientes-Camaguey</td>
<td>5.28</td>
<td>4.25</td>
<td>2.50</td>
<td>15-1/2-12-1/4</td>
<td>12</td>
</tr>
</tbody>
</table>

2/ This section is largely based on "Foreign Assets and Liabilities of the U.S.", a report to the Senate Committee on Finance, December 18, 1947, G.P.O. 1948.
personnel is available. In the release of employees, aliens must be let out first. This law does not apply to establishments employing less than three persons. Foreign technicians must be employed only when it is shown that a qualified Cuban is not available. Technicians permitted to enter Cuba usually can remain for no longer than one year and must train Cuban apprentices to replace them.

On the whole, Cuban law is very strict from the point of view of the employment of foreigners, and the labor unions constantly try to have still more restrictive laws passed by Congress. A presidential decree issued in 1947 and imposing sharp restrictions on the employment of foreign representatives by foreign corporations drew an official protest from the U.S. Government to the Cuban Government. Present union policy is generally considered by businessmen, Cuban as well as foreign, as one of the main obstacles to the industrial development of the Island. In 1947 and 1948 a few American-owned plants had to shut down on account of labor difficulties.

Taxation

There is no distinction between foreigners and Cuban nationals in matters concerning taxation.

Competition with Government-owned Companies and Nationalization

Since the Cuban Government does not own any companies, instances of competition of the Government with private enterprise are almost non-existent.

Cuba has not nationalized any industries to date. In a few instances, as a result of labor difficulties, the Government has appointed a government intervener to exercise control of an industry or public utility until such time as the labor questions are resolved. Such cases are extremely rare, however, and usually concern public utilities and railroads in which the interruption of services would result in extensive injury to the general public. However, nationality of ownership of affected interests has had no significance in past instances of intervention.

The decree, known in Cuba as the Cuban Agent Act, became effective December 25, 1947. It provided that any foreign business entity employing the services of distributors, agents or representatives for the distribution or sale of its products in Cuba may not discontinue or revoke any arrangements with such individuals or transfer agencies or distributorships except under certain stringent conditions. The United States' protest stressed that the decree would bar or make very difficult the replacement of present selling representatives in Cuba by any foreign company either with another agent or its own branch office or sales staff.
Foreign Exchange Control

No foreign exchange restrictions of any kind exist in Cuba. There are no restrictions or formalities in connection with the transfer of funds abroad on capital account. However, a 2% tax is due on direct or indirect exportation of money or its equivalent including capital, cash and securities of any kind. In addition, there is a 15% monthly tax on funds invested abroad (with the exception of the balances left abroad by banks). A tax of 7% is levied on interest and dividends paid to holders in Cuba of foreign securities issued by public entities or private enterprises which do not operate in Cuba.
APPENDIX I
Factors of Change in
U.S. Direct Investments in Cuba

(in millions of United States dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Earnings</th>
<th>Capital Movements</th>
<th>Total Value of U.S. Direct Investments in Cuba</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Remitted to the U.S.A.</td>
<td>Reinvested in Cuba</td>
<td>(net)</td>
<td></td>
</tr>
<tr>
<td>1943</td>
<td>19.9</td>
<td>8.6</td>
<td>-12.2</td>
<td>526.2</td>
</tr>
<tr>
<td>1944</td>
<td>27.5</td>
<td>23.0</td>
<td>-21.1</td>
<td>528.1</td>
</tr>
<tr>
<td>1945</td>
<td>30.4</td>
<td>21.9</td>
<td>-2.1</td>
<td>547.9</td>
</tr>
<tr>
<td>1946</td>
<td>33.3</td>
<td>20.9</td>
<td>-11.0</td>
<td>557.8</td>
</tr>
<tr>
<td>1947 (est.)</td>
<td>37.0</td>
<td>39.4</td>
<td>-1.1</td>
<td>596.1</td>
</tr>
</tbody>
</table>

1/ means an outflow of capital from Cuba into the U.S. on account of U.S. direct investments.

2/ As of the end of the year.

3/ The estimates of income for 1947 are almost certainly undervalued.

Source: U.S. Department of Commerce - confidential data.

APPENDIX II
Breakdown of Income Remitted by U.S. Direct Investments in Cuba in 1946

(in millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount</th>
<th>Interest</th>
<th>Yield</th>
<th>Direct Investments Other than Railways</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>4.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>2.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>15.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining</td>
<td>1.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public utilities</td>
<td></td>
<td></td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>33.3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Department of Commerce - confidential data.

APPENDIX III
Estimates of British Direct Investments in Cuba

(in thousands of pounds)

<table>
<thead>
<tr>
<th>Year</th>
<th>Railways Amount</th>
<th>Railways Interest</th>
<th>Railways Yield</th>
<th>Direct Investments Other than Railways Amount</th>
<th>Direct Investments Other than Railways Interest</th>
<th>Direct Investments Other than Railways Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>25,842</td>
<td>1,275</td>
<td>4.9</td>
<td>8,915</td>
<td>379</td>
<td>4.2</td>
</tr>
<tr>
<td>1929</td>
<td>29,304</td>
<td>1,140</td>
<td>3.8</td>
<td>7,711</td>
<td>139</td>
<td>1.8</td>
</tr>
<tr>
<td>1946</td>
<td>26,089</td>
<td>78</td>
<td>0.3</td>
<td>90</td>
<td>133</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: South American Journal, April 5, 1947.
APPENDIX IV

Partial List of U.S. Direct Investments in Cuba
(the name of the Cuban subsidiary is given when available)

Public Utilities

Railroads

The Cuban Company (controls Consolidated Railroads of Cuba which
controls "Cuba Northern Railways Co. the Cuba R.R. Co.)
The Guantanamo and Western R.R. Company

Transportation

Havana Electric Railway Company
Pan American Airways, Inc.

Communications

International Telephone and Telegraph (Cuban Telephone Co. - Radio
Corporation of Cuba - Cuban American Telephone and Telegraph Co.
is owned 50% by International Telephone and Telegraph and 50% by
American Telephone and Telegraph Company)

Electricity

American Foreign and Power (Havana Electric and Utilities Co. -
Compania Cubana de Electricidad)

Manufacturing

Abbott Laboratories (Abbott Laboratories de Cuba)
American Agricultural Chemical Co., Del.
Air Reduction Company Inc. (Cuban Air Products Corp.)
Bristol-Myers Co.
Colgate Palmolive Feet Co. (Crusellas y Cia)
Columbia Carbon Co.
Coca Cola Co.
Cudahy Packing Co.
General Cigar Co.
Johnson & Johnson
Liquid Carbonic Corp. (Liquid Carbonic of Cuba - 50% of the stocks is
owned by Air Reduction Co., Inc.)
Lone Star Cement Corp. (Cuban Portland Cement Corp.)
Parke Davis & Co.
Pepsi Cola Co. (Compania Pepsi Cola de Cuba)
Proctor & Gamble Co.
Sharp and Dohme Inc.
Standard Brands Inc.
Stokely Van Camp Inc.
Swift & Co.
Wilson & Co.
APPENDIX IV — Continued

Distribution

American Cyanamid Co.
Armour & Co., Ill.
Canada Dry Ginger Ale Inc.
Corn Products Refining Co.
E. I. duPont de Nemours & Co.
Eastman Kodak Co.
Firestone Tire & Rubber Co. (Firestone Interamerica Company)
General Motors Corp. (General Motors Interamerica Company)
General Paint Corp.
General Electric Company
General Paint Corp.
Gillette Safety Razor Co.
Goodyear Tire & Rubber Co. (Goodyear Tire and Rubber Co. of Cuba)
B. F. Goodrich (Compania Goodrich Cubana)
Ingersoll Rand Co.
International Business Machines Company
International Harvester Co. (International Harvester Co. of Cuba)
Johns Manville Corp.
National Cash Register Co.
Remington Rand Inc.
Sears, Roebuck & Co.
Simmons Co.
E. R. Squibb & Sons
Sterling Drug Inc.
United Shoe Machinery Corp.
United States Rubber Co.
United States Steel Corp.
F. W. Woolworth Co.

Agriculture

American Sugar Refining Co.
Central Violeta Sugar Co.
Cuban American Sugar Co.
Cuban Atlantic Sugar Co.
Francisco Sugar Co.
Guantanamo Sugar Co.
Charles E. Hires Co.
International Harvester Co.
Manati Sugar Co.
Pepsi-Cola Co.
United Fruit Co.
Vertientes Camaguey Sugar Co.
West Indies Sugar Corp.

Mining

Bethlehem Steel Corp.
Petroleum

Atlantic Refining Co.
Sinclair Oil Corp.
Standard Oil Co. (N.J.)
Sun Oil Co.
Texas Co.

Miscellaneous

Atlantic Gulf & West Indies S.S. Co.
Columbia Pictures
Havana Docks Corp.
Johnson & Johnson
Loew's Inc.
Monogram Pictures Corp.
Paramount Pictures Inc.
Radio Keith Orpheum Corp.
Twentieth Century Fox Films Corp.
Warner Brothers Pictures Corp.
Westinghouse Electric Corp.
United Fruit Co.
Universal Pictures Co. Inc.

Source: U.S. Department of Commerce - Confidential
APPENDIX V

Partial List of British Direct Investments in Cuba

Manufacturing

Henry Clay and Bock and Co. Ltd. (controls Havana Cigar and Tobacco Factories Ltd.)

Railroads

United Railways of the Havana and Regla Warehouses Ltd. (owns Havana Terminal Railroad Co.)