

# SHAPING THE COFFEE COMMODITY CHAIN: HAMBURG MERCHANTS AND CONSUMPTION OF GUATEMALAN COFFEE IN GERMANY, 1889-1929

## CONFIGURANDO LA CADENA DE CAFÉ: CASAS MERCANTILES ALEMANAS Y CONSUMO DE CAFÉ GUATEMALTECO EN ALEMANIA, 1889-1929

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Abstract. During the second half of the 19th century, industrialization in Germany and subsequent changes in Hanseatic investment strategies aimed at Latin American coffee-producing countries had a considerable impact on German coffee consumption habits. Using a transnational perspective this article explains how, responding to greater commercial risks in the market, Hanseatic coffee merchants developed differentiated market policies and encouraged consumption patterns that would not only help counterbalance their own commercial risks but also satisfy the dissimilar needs of the industrial sector and the growing German middle and upper classes. German investment strategies in Guatemalan coffee production were to play a key role in this scheme.

Key words: coffee consumption; industrialization; marketing strategies; transnational perspective.

Resumen. Durante la segunda mitad del siglo XIX, la industrialización alemana y el consiguiente cambio en las estrategias de inversión del comercio anseático en los países latinoamericanos productores de café cambió marcadamente las preferencias del consumo de este producto entre la población alemana. Partiendo de una perspectiva transnacional, este artículo explica cómo comerciantes anseáticos de café, en respuesta a mayores riesgos comerciales desarrollaron estrategias diferenciadas de mercadeo y apuntalaron prácticas de consumo que iban a equilibrar no sólo sus riesgos comerciales, sino a satisfacer las necesidades diversas del sector industrial, como las de las emergentes clases media y alta de Alemania. Su inversión en la producción cafetalera de Guatemala estaba destinada a desempeñar una parte clave en este esquema.

Palabras clave: consumo de café; industrialización; estrategias de mercadeo; perspectiva transnacional.

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PRELIMINARY NOTE

In 1983 the Workgroup Hamburg-Third World published a brochure which explained –using a transnational perspective– the globalized and multidirectional relations existing between the commercial interests of enterprises in this German port and political, economic and social change in nations of the so called third world.<sup>1</sup> By using the recent history of several international commodity-trading companies, the workgroup endeavored to break with the common notion that globalization is something anonymous, inevitable and unchangeable by showing that changes in the producing and consuming countries could be explained in terms of processes set in motion by company interests. Though many of the details of that influence had not yet been identified, the transnational perspective used by the workgroup has since been refined and applied by others to historical research. National histories have been reconstructed and integrated into an international context, thus bringing about a more profound comprehension of the existing causal connections between the local and the global.<sup>2</sup> As Steven Topik stated, “Regional histories and cultures need to be interwoven with those of nation states and the wider world. [...] The local and the global need to complement one another.”<sup>3</sup> To this end international coffee history has been quite illustrative because it demonstrates how decisions and interests of local economic players on one side of the coffee producer-consumer chain might affect political, economic and social processes on the other.<sup>4</sup>

The case presented here attempts to explain linkages between two apparently independent historical phenomena in the German national and international coffee market. The first is the enormous rise in overall coffee consumption in Imperial Germany from the 1870’s onwards. The second is the notorious dominance of German-owned coffee plantation companies in Guatemala between 1887 and 1929. Statistical data, so far published, give proof of growing production and consumption during the years considered, but, as Rischbieter correctly states, they neither explain its causes nor its social consequences.<sup>5</sup> Based on archival material, publications by the Hamburg Chamber of Commerce and specialized coffee research materials published during the last 130 years, the present article tries to show how both are intimately related and can be better understood

<sup>1</sup> Arbeitsgruppe, *Schwarzbuch*, 1983.

<sup>2</sup> Rischbieter, *Mikro-Ökonomie*, 2011; Samper, “Historical”, 2003, and Wunderlich, “Kolonialware”, 1994.

<sup>3</sup> Topik and Clarence-Smith, *Global*, 2003, p. 409.

<sup>4</sup> Rischbieter, *Mikro-Ökonomie*, 2011, p. 24.

<sup>5</sup> *Ibid.*, p. 13.

when considered as consequences of specific actions taken by German commercial and industrial interests. But, to avoid misunderstandings, the present case study and its findings apply to Germany's commercial and industrial interest in its relations to Guatemala coffee production and not necessarily to relations between other producing and consuming countries. We will start with a consideration of the first point, the enormous rise in coffee consumption in Germany.

#### COFFEE CONSUMPTION IN GERMANY

How precisely did coffee achieve status as the second favorite beverage in Germany after beer? How could a costly product, without any nutritional value, produced in distant lands, come to be considered eventually a "staple food" for millions? What were the precise mechanisms and interests that finally turned this luxury commodity into one accessible to almost everyone? With respect to the case of Germany, if coffee had been cheap and accessible everywhere and at all times, it would be easy to explain the enormous boom in consumption. But during most of the 19<sup>th</sup> century, coffee in Germany was not cheap for the average consumer. On the contrary, at least until the 1880's, it was highly taxed and relatively expensive.

During the 17<sup>th</sup> and 18<sup>th</sup> centuries, coffee imported into Hamburg had come primarily by way of Portugal, Spain, England, France and Holland. As there were no direct commercial relations between Hamburg and the coffee-producing countries, coffee had to be bought from the colonial powers. Small quantities at rather high prices identified it as merchandise destined for consumption by the German upper class.<sup>6</sup>

Between 1789 and 1802, during the French Revolution and its aftermath, things began to change temporally when the Continental Blockade turned Hamburg into the main port of entry for products from the West Indies to all those countries affected by this popular uprising.

From 1814 onward, factors such as the end of the Napoleonic wars, the independence of the Spanish colonies in Latin America in 1821, and first direct contact between Hamburg and the New World favored a rapid growth in coffee imports. By the 1860's, coffee (primarily from Brazil) had already become the most valuable agricultural product imported into Hamburg harbor.<sup>7</sup> Hanseatic coffee imports from London, Amsterdam and Le Havre now funneled directly into Hamburg, driven by a growing consumer demand for coffee in Germany itself. This rise in consump-

<sup>6</sup> Becker, *Kaffee*, 2002, pp. 67-68.

<sup>7</sup> Blass, "Entwicklung", 1907, p. 196.

tion was accompanied by constantly expanding production in most of the coffee-producing countries, including those in Central America. In 1890 the Hamburg Chamber of Commerce stated that the harbor had been transformed into the number one coffee trading place in Europe.<sup>8</sup>

The reasons given by traditional coffee historiographers to the questions of why and how this rapid increase in consumption came about are relatively standard, and vary only slightly in argument. The rise in overall individual income level after 1871 is argued as one reason.<sup>9</sup> Others argue that rising coffee consumption was due to imitation of upper-class customs by the German middle and working classes.<sup>10</sup> Most frequently cited as the reason for the rise in its popularity, however, are the qualities of coffee itself, its stimulating effect, its capacity to waken the mind, and its bouquet or its flavour.

It is also common among coffee historians to cite cultural reasons for the increase in consumption, specifically mentioning the elaboration of a coffee house culture that had developed in Europe from the 17<sup>th</sup> century onwards. They project the well-known images of those famous *cafés* in Paris, Berlin, Prague and Vienna where buyers would be swayed by the fine smell of freshly roasted coffee, where coffee was served in refined elegance, where the newly rich exposed their status, and where the intellectuals read the world's news and celebrated their daily analysis of political events past or future. These famous coffee houses, and the equally famous private coffee circles hosted by the ladies of the upper class that were popular in almost every big city, had become the symbols of sociability and bourgeois leisure in the 19<sup>th</sup> century. The coffee consumed there was touted as the desirable beverage for everyone.<sup>11</sup> Certainly all these factors to some degree influenced coffee imports and consumption, but could they really explain the enormous increase in Hamburg coffee imports from 30 000 000 kilograms in 1843 to over 200 000 000 kilograms at the end of the century?<sup>12</sup>

German High Society and the recently formed middle class were quite small during the 19<sup>th</sup> century and it seems rather unlikely that its members consumed all the coffee that flooded into the country. Even with the newly formed German Empire as a growing market for this colonial product and with a constantly growing railway network that brought coffee into regions of Germany where it had previously been unknown, as well as to neigh-

<sup>8</sup> Hamburger, *Hamburgs*, 1890, pp. 111 ff.

<sup>9</sup> Blass, "Entwicklung", 1907, p. 202.

<sup>10</sup> See Teuteberg, "Kaffeetrinken", 1980, p. 40.

<sup>11</sup> Heise, *Kaffee*, 1987, pp. 91-231, see especially the fourth chapter on coffee houses from the 17<sup>th</sup> to 20<sup>th</sup> century. Lange, "Geschichte", 1929, pp. 47 ff.

<sup>12</sup> Kurth, *Lage*, 1909, pp. 143 ff.

boring markets in Austria, France, Italy, Russia and Scandinavia, it is not easy to explain the constant and rapid rise in overall coffee-trading and consumption.

Yearly per capita consumption of coffee more than doubled in Germany from 1.01 kg in the late 1840's to 2.69 kg sixty years later.<sup>13</sup> If we consider that high and middle-class populations made up just 19% (in 1860) or approximately 25% (in 1900) of the German population<sup>14</sup> and were those that frequented the above-mentioned coffee houses and/or were the private coffee consumers, per capita consumption of just this group would have risen from 5.05 to 13.5 kg.<sup>15</sup> As there is no proof for such extraordinary increase in consumption habits among the upper and middle classes, other possible explanations should be taken into account.

German government coffee statistics do not really shed much light on coffee consumption patterns as they just document amounts of incoming coffee and amounts of coffee re-exported to third countries; the distribution of coffee within Germany is poorly documented leaving much room for speculation. It is known that coffee in small quantities went almost everywhere within and outside the new German Empire, but complementary documentation suggests that the principal buyers of this coffee were not necessarily the big cities with their famous coffee houses. So where did it go? Ratzka-Ernst, a German coffee analyst cites documents from 1840, stating that within the German Customs Union (*Deutscher Zollverein*), which showed high coffee consumption in general, the biggest consumers were the Rhineland, Saxony and Brandenburg.<sup>16</sup> Assuming the correctness of this data, how could that be explained?

What the three highest consumer states had in common was their growing industrialization, specifically heavy industry and mining in Rhineland, mining in Saxony, and the manufacturing industry close to Berlin. Nor should we forget the famous weaving home industry in Silesia where contemporary research reveals a surprisingly high coffee consumption level as well.<sup>17</sup> These data suggest that the rise in coffee consumption in Germany during the last quarter of 19<sup>th</sup> century coincided with increased industrialization and the creation of an industrial working class.

<sup>13</sup> "Kaiserliches Statistisches Amt *Statistisches*", in *ibid.*, p. 151; compare as well Ratzka-Ernst, *Welthandelsartikel*, 1912, p. 80.

<sup>14</sup> German population in 1871=41 000 000, and in 1914=67 000 000.

<sup>15</sup> See Geissler, *Sozialstruktur*, 2008, pp. 24 ff.

<sup>16</sup> Ratzka-Ernst, *Welthandelsartikel*, 1912, p. 80.

<sup>17</sup> "Fünf Dokumente zur Lage der Handwerker in Schlesien zu Ende der siebziger Jahre" in Kuczynsky, *Geschichte*, vol. 3, 1962, pp. 102 ff.

#### COFFEE AND THE PROCESS OF INDUSTRIALIZATION IN GERMANY

Industries had been developing in Germany since the first half of the 19<sup>th</sup> century, but the real starting point for rocketing industrial development was in the 1870's after the defeat of France, when several billion marks poured into the newly founded German nation as war reparations. The new German Empire, formed from 39 independent, relatively small and more-or-less feudal states, now constituted a new and promising united market. Detrimental internal tariffs were cancelled and members of a young and dynamic middle class, formerly blocked from participating in state politics by the traditional noble class, channeled their energy and capital into new industrial production and consolidated enormous assets which finally enabled them to buy their way into politics. But even with this rise of new industrial zones in Rhineland, Saxony, Berlin and Silesia, Germany remained basically an agricultural nation; the majority of its inhabitants kept on toiling the land for themselves or for others.

Nevertheless, changes in the agricultural production after the liberation of the serfs in 1807, which resulted in the expulsion of agricultural workers from the German manors, provoked a steady migration from the countryside into the cities during the 19<sup>th</sup> century. Tens of thousands of former serfs poured into the cities looking for work in newly created industries. Others did not bother to look for work there, but went on, as did the poor from other parts of Europe, to the United States, to Latin America or other places all over the world, forming part of the biggest migration in human history.

The almost 5 000 000 German migrants who left for the promising countries overseas were the fortunate ones, for others who fled the countryside found themselves trapped in a similar or even worse labor situation than before. It was an everyday occurrence to see ex-fieldworkers flooding from the semifeudal working conditions in the countryside and pouring into the cities as poor and badly underfed workers. They formed the new German proletarian working class in factories or as weavers in an expanded cottage industry. The enormous quantity of people who left the manors surpassed by far the amount of labor that could be absorbed by industry. Those migrants who had hoped to find work in the cities encountered fierce and even deadly competition, just as did the weavers who were confronted with contracts that obligated the whole family to work in subhuman conditions.

Analyzing the living conditions of the Silesian weavers, an official report stated in 1877: "If the people weren't living so modestly and had not adapted themselves to even decreasing pay by turning to the most basic living conditions, they would not be able to survive on such low pay. They

live only on potatoes, bread and coffee.”<sup>18</sup> These same conditions were also faced by millions living on the outskirts of the cities. A piece of bread, fermented sauerkraut, and a cup of coffee were the sole provisions on which they lived. Hunger and infectious diseases such as tuberculosis and cholera were their daily companions.<sup>19</sup>

Investigations going back as far as the 1840’s present statistical data on the income of weaver and other working families, stating that 9.7% of their yearly earnings were spent on coffee beans.<sup>20</sup> But, if the German workers, as stated in the reports, did not have sufficient income to buy their regular food, why did they spend anything on coffee?

The answer proves to be quite illuminating. Those who had managed to find work in the factories were confronted with a workday up to 16 hours long for pay that barely covered their most basic needs, and usually not enough to meet the needs of the entire family. The only way to stay awake and survive these harsh conditions was by using some sort of a drug. Coffee turned out to be ideal because of the enormous advantages of its triple effect: it helped workers stay awake, it apparently muted hunger and it optimized the capitalist goal of raising profits by increasing worker output. On the downside, coffee masked medical problems and exhaustion, causing premature worker death. Reports from Silesia, Saxony and the Rhineland were quite clear about what was happening during these first years of savage capitalism.<sup>21</sup>

Obviously this situation did not escape the attention of the industrialists like, for example, Alfred Krupp, owner of Krupp Werke, Essen, Germany’s number one industrial employer of 64 000 workers.<sup>22</sup> At the beginning of the 1860’s workers of the Krupp Co. founded the *Essener Konsumverein* (Consumer Association) to guarantee their fellow workers food and utilities at low prices. As the *Konsumverein* went bankrupt in 1868, Krupp himself took over that function and created the *Konsumanstalt*, offering food and beverages at cost for his workers. In 1888 he installed

<sup>18</sup> Schneider, *Arbeiterhaushalt*, 1967, pp. 50 ff, and Kuczynski, *Geschichte*, vol. 3, 1962, p. 103.

<sup>19</sup> Frequently it is maintained that when the contemporary reports mention “coffee” they were really talking about a “coffee substitute” like chicory or other organic materials roasted and turned into a brownish bitter liquid that could be consumed as a hot beverage. Even though high coffee prices favored the use of substitutes, workers and especially those employed in the heavy industry, manufactories and the weaving industry, drank real coffee long before 1877. See Teuteberg, “Kaffeetrinken”, 1980, pp. 27-54. Jahnke, *Neue*, 2008, p. 2; Petersen, “Anschauungs”, 1877, p. 55, “After strenuous work and during travel [coffee] will drive away fatigue; that is why it is given to soldiers in the field and to the worker who spends his scarce money to drink some coffee.” Wunderlich, “Kolonialware”, 1994, pp. 47 ff., 59.

<sup>20</sup> Schneider, *Arbeiterhaushalt*, 1967, pp. 53 ff.

<sup>21</sup> Kuczynski, *Geschichte*, vol. 9, 1960, p. 241, and vol. 3, 1962, pp. 102 ff.

<sup>22</sup> The most famous heavy industry founded during the 19<sup>th</sup> century and which became a synonymous for German industrial production.

a company-owned coffee roaster, preparing 1 200 kg of coffee every day which were sold in liquid form in the company canteen during working hours or as beans for the workers' home use.<sup>23</sup> Even though coffee ranked second on the price scale in the company store, just below butter, workers would buy and consume coffee in great quantity.<sup>24</sup> Other industrialists followed Krupp's example and founded company-owned canteens and coffee retail stores for their workers as well.<sup>25</sup>

Further evidence of the high level of coffee consumption among members of the working class comes from entrepreneurial statements and government health reports of the period, which portrayed coffee as a favorable alternative to the intoxicating use of beer-soup and of other alcoholic beverages. In 1906 German public health officials ordered a medical report from different parts of Germany that confirmed the "enormous coffee consumption" among the rural and urban working class.<sup>26</sup> It seems that coffee traders had been correct when they claimed that coffee was a "staple food" for the "not so well off people".<sup>27</sup> Eventually coffee was declared to be a "staple food for the poorest of the poor: the weavers, home workers and factory workers".<sup>28</sup> And the Hamburg Chamber of Commerce seconded this appraisal by declaring: "It is common knowledge that there is no more healthy and no more strengthening beverage than coffee for workers; that's why the efforts by the government and by private industrialists are intended to terminate the noxious abuse of liquor by installing coffee shops for workers."<sup>29</sup> Thus, coffee consumption was lauded as positive for the country. "Industrialization requires the always present worker. Something that can only be guaranteed by the use of coffee. That's why it became a product of mass consumption [...] Coffee helped to endure hunger."<sup>30</sup>

Once it became obvious that coffee was indispensable to German industrial production, it also turned into one of the main objects of speculation.<sup>31</sup> Surely one of the best ways to induce workers and their families to increase their consumption of coffee and thus generate a growing demand for it in the future was by guaranteeing sufficient quantities at low prices in

<sup>23</sup> This daily quantity amounts to 438 tons of coffee a year.

<sup>24</sup> Post, *Musterstätten*, 1893, vol. II, p. 344.

<sup>25</sup> *Ibid.*, p. 344.

<sup>26</sup> Röttger, *Genussmittel*, 1906, pp. 68-71.

<sup>27</sup> "Hamburgs", Preussisches Handelsarchiv (PH), Berlin, num. 6, vol. 1, 1877, pp. 129 ff, and Blass, "Entwicklung", 1907, p. 202.

<sup>28</sup> "Kaffee", 1909, p. 385.

<sup>29</sup> Handelskammer, *Hamburgs*, 1887, p. 94.

<sup>30</sup> Jacob, *Sage*, 1934. See Schneider, *Arbeiterhaushalt*, 1967, p. 62.

<sup>31</sup> Jacob, *Sage*, 1934, pp. 259-260.



the factories. Here is where the interests of the coffee importers and resellers matched those of the industrialists.

Industrialists, interested in sober and productive workers, had started buying coffee in great quantities to sell at cost in their company stores. But when industry expanded again in the eighties, demand for coffee for workers simply outstripped available cheap supplies. The industrialists acted promptly by improving direct relations with the Hamburg Chamber of Commerce which included among its leading members the principal coffee traders, the coffee financing banks, and the naval companies that were initiated and controlled by the same financial interests.<sup>32</sup> In 1881 a first interchange was organized: a group of industrial magnates from Rhineland came up to Hamburg and a selected group of coffee importers from Hamburg went down to that region. The purpose of the reciprocal visits was to create mutual comprehension of each other's necessities. Five years later, in 1886, representatives of the same Hamburg Chamber of Commerce visited the industrial centers of Saxony for a similar purpose.<sup>33</sup>

As Hamburg had developed into the biggest German port of entry for raw materials and the most important port of departure for manufactured goods, surely the interest in these encounters was not just coffee. But, as it seems, coffee was one of the most significant and urgent items discussed. As the Hamburg Chamber stated: "Following all the reports, the factories are working to their capacity, harvests were everywhere excellent, so one should believe that the working class, or in other words the main consumer of coffee, ought to be in favorable conditions."<sup>34</sup>

Even with relatively low coffee prices, coffee consumption in the interior of Germany had dropped by 9 500 000 pounds, largely due to the stagnation of wages.<sup>35</sup> The years between 1879 and 1884 were marked by worker income reductions of up to 8% from wages paid in 1873.<sup>36</sup> This considerable setback was bad for the German coffee traders who lost part of their clients, but also for the German industry for two reasons that called for immediate action. First, industrialists had received many orders from the Defense Ministry and needed a functional workforce. Second, important financial resources were lost for Germany's overall development due to increased importation of apparently lower-priced coffee from France.<sup>37</sup> The weakened purchasing power of the workers made the German industrial magnates look for cheap and abundant coffee supplies for their facto-

<sup>32</sup> See Handelskammer, "Jahres-Bericht", 1887-1900.

<sup>33</sup> Handelskammer, *Hamburgs*, 1881, p. 4, and, 1886, p. 4.

<sup>34</sup> *Ibid.*, p. 45.

<sup>35</sup> *Ibid.*

<sup>36</sup> Wage statistics, see Wehler, *Deutsche*, 1996, vol. 3, p. 591.

<sup>37</sup> Ratzka-Ernst, *Welthandelsartikel*, 1912, p. 106.

ries, and Hamburg merchants rushed in to assure their important clients, that the instable international coffee market would not affect their capability to supply necessary coffee at reasonable prices. And they already had a plan for how to guarantee constant and adequate supply without damaging their own financial interests.

#### TAKING CONTROL OF THE COFFEE MARKET

The strategy of the Hanseatic coffee firms to assure steady profits had three components. First, they would step up importation of low-quality coffee from Brazil. At the same time, they would make a direct incursion into high-quality coffee production in order to control that part of the coffee commodity chain. Third, they would create a bifurcated consumer market in Germany, where more profitable sales of high-quality coffee would compensate the lower prices and potential risks of importing lower grade coffee.

The first strategy, buying more cheap coffee from Brazil, where abundant slave labor guaranteed growing levels of production, did not present any mayor difficulties. New coffee plantations were constantly opened and with the Hanseatic number one coffee trader and ship owner Theodor Wille firmly established in Brazil, chances to increase coffee acquisition and export to Germany were excellent.<sup>38</sup> Profits were practically guaranteed since German industry also used Wille's and other Hanseatic ships to deliver their growing export merchandise to Brazil. In fact, by 1890 German naval companies already dominated the exportation of Brazilian coffee, leaving England in the second place.<sup>39</sup> Following the lead of London, New York and Le Havre, as well stimulated by the increased trade with Brazil, the Hamburg Coffee Exchange was opened in 1887, formed to enable Hamburg to compete in bidding for coffee futures. Following its establishment, the quantity of coffee traded in Hamburg from this South American country tripled during the following decade, thus covering the German industrial need for low priced coffee.<sup>40</sup>

At the same time, the greater financial risks involved in trading futures nourished fear among Hanseatic coffee traders and, consequently, led to their growing interest in counterbalancing the menace. The coffee harvest

<sup>38</sup> Zimmermann, *Theodor*, 1969, pp. 103 ff.

<sup>39</sup> *Ibid.*, p. 128. A part from owning his own sailing ships, Wille was bondholder of the *Commerz und Disconto Bank* in Hamburg, the *Deutsch-Südamerikanische Dampfschiffahrtsgesellschaft* and representative of several other navigation lines from Hamburg like *Kosmos* and *Hapag*.

<sup>40</sup> "Futures" are forward contracts on a commodity, implying transactions payables at a future date fixed in the contract.

of 1888 gives an example of Hamburg's dilemma. Erroneous information about a shortage of that year's world coffee harvest had led to wild speculation and finally to a severe financial crisis in the newly founded Hamburg Coffee Exchange. Average coffee prices rose within days from 59 pennies/pound to 185 pennies/pound and at least one contract was signed for 240 pennies/pound, almost five times the real value of the coffee traded. Another challenge faced by the coffee exchange in Hamburg was that inland retailers in Germany could now directly acquire the coffee they needed in detriment of Hanseatic coffee trader interests.<sup>41</sup>

As to balance the above-mentioned disadvantages and erratic market behavior, and to safeguard their profits, German coffee traders increased their direct influence on high-quality coffee production in Central America to satisfy the rising demand of German upper and middle classes ready to pay substantially higher prices for a coffee of their liking. They had seen that the mild-washed Arabica coffee beans from the West Indies and Central America consistently fetched high prices on the market. Up until then, the high-quality coffee had been acquired by way of France and Holland, with a minimum bought directly from producers. If Hamburg was to compete on equal terms with these other nation it needed to obtain direct control over the product.

#### GETTING CONTROL OVER CENTRAL AMERICAN COFFEE PRODUCTION: POLITICS, LABOR, LAND, AND FINANCE

Coffee production in Central America actually started in the 1840s but had to wait for almost 30 years until it finally gained a solid reputation in the international markets. Even though there was some Central American coffee coming to Hamburg in the 1860s, it did not start to become really known and appreciated until the late 1870s. But from then on, the change was striking. In 1882 the official publication of the Hamburg Chamber of Commerce commented: The coffee from Guatemala was "favored by a good demand, because consumers prefer this variety because of its flavor [...] and [it] reached the highest prices ever calculated for directly imported coffees".<sup>42</sup> The same publication stated shortly after that the "extraordinary quality of Guatemalan coffee" resulted in such eminence "as to satisfy the highest requirements" turning it into the preferred type "before all other competing varieties".<sup>43</sup> In the following years such appraisals were

<sup>41</sup> See Blass, "Entwicklung", 1907, pp. 206 ff., and Freytag, *Entwicklung*, 1906, pp. 87 ff.

<sup>42</sup> Handelskammer, *Hamburgs*, 1882, pp. 27 ff.

<sup>43</sup> *Ibid.*, 1883, p. 50.

constant, applauding the increase in high quality coffee imports from this country.<sup>44</sup> By 1888 coffee imports from Guatemala had risen to 17 500 000 kilograms and industrial exports from Germany to Guatemala were also on a constant rise. That same year Germans managed to control 33% of all the imports and exports of Guatemala.<sup>45</sup> Hanseatic coffee traders were so interested in Guatemalan coffee that they even signed letters of intent for three consecutive harvests at a time.<sup>46</sup>

During the previous two decades, while Guatemalan coffee was gaining a reputation for excellence, the liberal Guatemalan governments of Garcia Granados y Rufino Barrios had prepared the ground for international investment in the coffee and sugar sectors. In 1871 the secularization of Church and community lands was decreed, opening up extensive lands for profitable export agriculture. Maintaining forced labor laws and enacting new ones (1876, 1877), the would-be investors could count on official help to recruit cheap Indian labor.<sup>47</sup> Finally in September, 1887, Guatemala and the German Empire signed the Friendship, Trade, Navigation and Consular Treaty that stipulated the rights of “most favored nation” status to members of both states. It guaranteed liberty of trade and the right to own and exploit property without limit.<sup>48</sup> For the same year, the German consular reports from this Central American country emphasized indirectly the importance of the aforesaid treaty when reporting on the coffee business: “Guatemalan coffee gained, especially in Hamburg, very good prices, and even though these were lowered in the second half of the year, producers and traders made excellent bargains [...] 41% of the coffee exportation was managed by German ships [...] In Guatemala, everything has to do with the coffee harvest: business turnover, imports and merchant shipping all depend on it”.<sup>49</sup>

<sup>44</sup> “[Coffees] from Guatemala are preferred to all the other competing proveniences and planters may recognize this favor as a compensation for their praiseworthy efforts”, *ibid.*, 1884, p. 51. “Business with the Central American Republics Guatemala, Costa Rica, San Salvador and Nicaragua takes a gratifying upswing”, *ibid.*, 1886, p. 107.

<sup>45</sup> “Hamburgs”, 1890, pp. 136-137.

<sup>46</sup> “Quetzaltenango”, 1896, p. 145.

<sup>47</sup> Dr. Karl Sapper, administrator of a German coffee finca en Alta Verapaz, Guatemala, described vividly how populated land was obtained including its Indian population as an obligated workforce for the newly founded fincas. As well he illustrated the collaboration between finca-owners and local administrations in guaranteeing the necessary Indian work force. Sapper, “Soziale”, 1891, vol. 37, pp. 44-46.

<sup>48</sup> “Freundschafts-, Handels-, Schiffs- und Konsularvertrag zwischen Seiner Majestät dem Deutschen Kaiser, König von Preußen u. s. w., im Namen des Deutschen Reichs und der Republik Guatemala”, *Deutsches Reichsgesetzblatt*, num. 38, 1888, pp. 238-262.

<sup>49</sup> “Guatemala, Handelsbericht für das Jahr 1887”, in *Deutsches Handels Archiv (DHA)*, num. 2, 1888, pp. 500 ff.

A year later the same informant stated that because of constantly high coffee prices, coffee growers had made considerable profits, making it desirable for Germans to obtain coffee properties outright.<sup>50</sup>

In 1889 the test moment had come. The year before, the overthrow of emperor Pedro in Brazil provoked the first and most serious crisis in the Hamburg Coffee Exchange.<sup>51</sup> With political stability and cheap slave labor at stake in the principal coffee producing nation and irrational speculation in the Coffee Exchange, tendency among traders to counterbalance the risk by strengthening the direct trade with Guatemalan high quality coffee, rose considerably. With prices less volatile and higher consumer prices guaranteed, Central American coffee was considered a safeguard against eventual losses while trading in futures.<sup>52</sup> It was not a question of replacing Brazilian coffee with Guatemalan coffee but to satisfy the growing demand in a potentially bifurcated consumer market. Already in 1880, the Hamburg Chamber of Commerce, voicing the opinion of their supporting members in the coffee trade, stated that if Central America would produce more of this excellent coffee it could be sold without harming any other coffee interests.<sup>53</sup>

But in order to obtain maximum security and to be able to serve German high and middle class with prime coffee and to optimize profits, it was necessary to control the whole chain of coffee production and trading.

Thus, in the late 1880's, Hanseatic coffee-traders and financiers began buying and managing coffee plantations in Central America, especially in Guatemala. Some German coffee traders simply took over plantations from owners who had been indebted to them; others started from scratch, looking for virgin lands on which to build up complete new plantations. Investment money which in other times had been given to native coffee producers as an advance on the future harvest now found new and less risky receivers: the employees or German partners of the Hanseatic coffee traders. Young and trustworthy employees, often family members, were sent out to Central America where they took over "coffee fincas"<sup>54</sup>

<sup>50</sup> *Ibid.*, pp. 506 ff.

<sup>51</sup> For a discussion on the effects of the 1897 coffee crisis on Hamburg Coffee Exchange, see Blass, "Entwicklung", 1907, pp. 206 ff.

<sup>52</sup> Analyzing the coffee crisis of 1897, the German envoy in Guatemala states: "Because of its excellent quality Guatemalan coffee resisted for a long time the drop in prices on world market for this product, but then as well prices went down. Even though, last year [1900] this situation has again improved". Erckert, "Wirtschaftlichen", 1901-1902, p. 272. Brazils 1887-1888's harvest produced just 3 200 000 bags, against 6 000 000 the year before. See Topik and Clarence-Smith, *Global*, 2003, tables 13 and 21 about Brazilian production and exportation. Handelskammer Hamburg, "Jahres-Bericht", 1889, p. 115.

<sup>53</sup> Handelskammer, *Hamburgs*, 1880, pp. 16-25.

<sup>54</sup> "Finca" is the local term used for an exportation oriented [coffee] plantation in Central America.

or bought new ones, starting coffee production that became organized by home country interest.<sup>55</sup>

German companies also invested in other sectors along the coffee producing and commercializing chain in order to obtain an all-embracing control of the Central American coffee trade. They did not merely own the coffee plantations, but also transported the coffee within the producing countries, exported it to Europe and to the United States, warehoused it until hulling and hand sorting would take place, and finally sold it to the coffee roasters. The necessary capital for these ventures already existed and was ready to be invested. There were steam ocean liners connecting Hamburg and Bremen directly with the principal producing countries like Brazil, the Caribbean and Central America.<sup>56</sup> There were merchant banks created by Hamburg coffee investors that financed and guaranteed the coffee transactions.<sup>57</sup> There were big storage facilities in Hamburg Free Port recently negotiated and developed by coffee merchant Sigmund Robinow (the Robinow Plan).<sup>58</sup> And there was the constantly growing railway network all over Germany and Europe for distribution purposes. Last but not least, there was the newly founded Coffee Stock Exchange (1887), right in the center of the Hamburg harbor facilities. As these different private and public developments converged, they created an impressive and fully integrated enterprise.

#### GERMAN COFFEE PLANTATIONS IN GUATEMALA

As mentioned above, at the end of the 1880s Hanseatic capital began a systematic “invasion” of Central America, especially of Guatemala. Between 1889 and 1897 five big plantation companies with interests in Guatemala were formed and registered in Hamburg: The Hanseatische-und Guate-

<sup>55</sup> “Bericht des Kaffeekaufmanns Michahelles”, in Staatsarchiv Hamburg (here forth STAAH), Verein der am Kaffeehandelbeteiligten Firmen, 3 B7; Niederschrift über Vorstands- und Kommissionssitzungen, 1066-1067 Sitzung, 1934-1937.

<sup>56</sup> Hamburg Südamerika Dampfschiffahrtlinie, Hapag, Kosmos-Line and several small shipping companies.

<sup>57</sup> To name some of the merchants banks, that were normally as well import/export companies: Oetling Gebrüder; L. Behrens & Söhne; Nottebohm Gebrüder; Berenberg-Gossler & Co.; M. M. Warburg, Theodor Wille.

<sup>58</sup> Sigmund Robinow, was one of the principal coffee traders during the second half of 19th century in Hamburg. He was strongly interested in Central America and financed coffee harvests in Guatemala and Chiapas (Mexico). Robinow convinced Hanseatic traders and the German government to maintain a Free Port in Hamburg in compensation for the integration of this city into the German Customs Union.

mala Plantagen Gesellschaft, 1889;<sup>59</sup> the Guatemala Plantagen Gesellschaft, 1889;<sup>60</sup> Chocola Plantagen Gesellschaft, 1891;<sup>61</sup> the Osuna Rochela Plantagen Gesellschaft, 1895,<sup>62</sup> and the Plantagenengesellschaft Concepcion, 1897.<sup>63</sup> The first wave of founding plantation companies stopped in 1897, when the coffee crisis broke out, but just two years later, when coffee prices started tending upwards, Hanseatic capital resumed investing, founding the The Pensamiento Plantagenengesellschaft in Hamburg mbh, 1899;<sup>64</sup> Libertad Plantagen Gesellschaft mbh, 1902; Plantagenengesellschaft Cecilia mbh, 1904,<sup>65</sup> and eventually the Mittelamerikanische Plantagen Aktiengesellschaft, 1910, and the Aktiengesellschaft für Plantagenbetrieb in Central Amerika.<sup>66</sup>

Apart from the plantation companies, German immigrants, most of them close relatives of Hanseatic coffee traders, had already bought 176 properties or fincas covering a total area of 2 725 square kilometers in Guatemala. Foreign powers became alarmed as can be seen in this 1889 dispatch from the U.S. Consul General of Guatemala to its State Department about the pervasive German influence there: “The Teutonic element of the foreign population of Guatemala is a financial and commercial ab-

<sup>59</sup> “Hamburgische”, 1894, p. 473. This company was formed by fifteen Hanseatic coffee traders and the Berlin banker, Ivan Gans. See STAAH, HR G II, 919, B. 155, Hanseatische Plantagen Gesellschaft in Guatemala. Deutsche, *Deutsche*, 1937.

<sup>60</sup> This company bought from the widow of president Barrios the coffee plantation El Porvenir with 6 600 hectares for 2 000 000 marks. Schütze, “Kolonialpolitik”, 1911, pp. 232 ff. One of the principal shareholders was again the Berlin banker Ivan Gans who held 25%; co-founders were coffee merchants L. Behrens & Söhne, banker Johann Carl von Merck, the director of the Nationalbank für Deutschland Julius Stern, Alfred Michahelles, coffee merchant in the port of Hamburg, and J. Friedrich Gerlach, coffee planter in Guatemala. In 1921 the company was sold to the Central American Plantation Corporation (CAPCO) (Schlubach); STAAH, HR G II, 892, B 154.

<sup>61</sup> The company was registered for the purpose of acquiring José Guardiolas’ finca Chocóla and neighboring grazing lands with an extension of 2 500 hectares. During the first seven years a total of 108% dividends were paid and 100% of its coffee production went to Hamburg. Schütze, “Kolonialpolitik”, 1911, pp. 232 ff.

<sup>62</sup> This company was formed by Hamburg coffee merchants; H. Meyer & Co; L. Behrens & Söhne, Federico Gerlach, Guatemala, and the Nationalbank für Deutschland, STAAH, HR-B 186 G II, 1089.

<sup>63</sup> The company was registered for the purpose of acquiring the former properties of the German envoy Werner von Bergen and those owned by Baron Xavier du Teil: La Concepción, El Colorado, Muzunga, Chaquite, Rivera, San José, La Presa with a total extension of 4 500 hectares. The company paid a regular dividend of 6%. Schütze, “Kolonialpolitik”, 1911, p. 234, and Deutsche, *Deutsche*, 1937.

<sup>64</sup> STAAH, HR G V, 1348, C 123; STAAH, Bestand Amtsgericht Hamburg, Handels- und Genossenschafts-register, 1943-670

<sup>65</sup> STAAH, HR G V, 1766, C 391 [A35].

<sup>66</sup> STAAH, Amtsgericht Hamburg, Handels- und Genossenschaftsregister, B 1961-7, Bd 1. Finally in 1921 the last two mentioned companies merged with the Guatemala Plantagen-Gesellschaft, Rochela Plantagenengesellschaft and the Chocola Plantagenengesellschaft, into the Central American Plantation Corporation (CAPCO), owned by the Hanseatic company Schlubach & Dauch in New York. See Deutsche, *Deutsche*, 1937.

sorbent of an Octopus nature, which threatens to grasp in its tentacles, and swallow up all that is worth having among the possibilities of enterprise and development throughout this Republic.” By 1897 the French commercial *attaché* in Guatemala reported that about 500 Germans who owned the mayor coffee plantations had made “a veritable German farm out of Guatemala”.<sup>67</sup>

In the case of the plantation companies, the Hanseatic coffee trading houses together with their business partners from the banking sector were the direct owners of the plantations. They invested their own capital in the material structure of the coffee hacienda, sent their trusted administrator, and received a full business report and check for cash at the annual shareholders’ meeting in Hamburg. From the beginning, the traders and their supporting banks were the sole owners of the coffee produced and could dispose of it at their discretion.

The traders were well aware that their profits depended on their ability to lower production costs without losing quality. Labor and transportation costs, the two biggest expenses of production, had to be lowered as to achieve maximum gains. This was accomplished by establishing strict control over the local labor recruiters and by maintaining close relations with the different levels of government officials involved in enacting and enforcing laws that permitted and regulated forced wage labor. Another method of acquiring the necessary work force was to buy so called “waste land” areas from the government and to bind the Indian populations that lived on them to the finca that was being established. This was done by ceding the Indians small parcels of land for the production of their own staple food.<sup>68</sup> In 1901, the German envoy von Erckert, when talking about the coffee production stated: “If you know how to hook the Indians, [tie them down with debts] there are still enough of them to guarantee the expansion of agriculture.”<sup>69</sup>

Success in creating a German-managed transport system within Guatemala was assured by getting control of the regional systems. Investments were made by Deutsche Bank in railroad projects managed by American capital. In 1893 the German Nordagentur Gesellschaft formed a shipping company that organized the coffee transport between Panzos and Livingston. In 1896 this company merged with the German Verapaz Bahn-Gesellschaft that controlled the 64 kilometers railroad running from the Verapaz region to Tucurú. In 1898 German investors took over the Ocos

<sup>67</sup> Dosal, *Doing*, 1993, p. 25, and Schoonover, *Germany*, 1998, p. 105.

<sup>68</sup> Castellanos, *Coffee*, 1985, especially the chapter on “mandamientos”, pp. 183-235. Sapper, *Aussichten*, 1909, pp. 45 ff., and STAAH, Auswanderungsamt, I. C II, 9.1, Schriftenblatt des Reichs-versicherungsamtes, num. 23, Berlin, December 12, 1920, pp. 825 ff.

<sup>69</sup> Erckert, “Wirtschaftlichen”, 1901-1902, p. 271.



railroad that managed coffee transport from the Coatepec coffee region to Ocos. A third route, the Occidental Railroad that connected the Champerico harbor with the two important coffee regions of Quetzaltenango and Retalhuleu, was co-financed and constructed by German capital and engineers. Eventually the company had one major German bondholder who also acted as the director of the railroad.<sup>70</sup> Coffee hauled to one of the four principal ports –Livingstone on the Caribbean coast and San Jose, Champerico and Ocos on the Pacific coast– was received by German ships from the Kosmos o Hapag Line<sup>71</sup> and transported to overseas ports, where the bags were received by company representatives and stored in company warehouses. This relatively closed system guaranteed control over production, internal and international transport, reception in port and final processing before selling, so that external influences on pricing were reduced to a minimum.<sup>72</sup>

Because German plantation companies were directly financed by the German exchange houses, they were not dependent on external lines of credit as were the national growers or companies. Cash advances on the coffee harvest were given by the home company at extremely low rates. Transfers and payments were facilitated by the bank branches of German import/export companies, like Nottebohm Brothers from Hamburg, or by Hanseatic banks set up specifically to link with branch offices in the coffee-producing countries. In 1900, 18 000 000 marks were paid in advance for the next coffee harvest. To increase exports to Hamburg or other ports (e. g. San Francisco and London) the German plantations additionally lent money and bought the coffee harvest from neighboring fincas, often processing it in their own ‘beneficios’ (processing plants). Even though Germans had direct control over about one-third of the national coffee production, they handled more than two-thirds of all the coffee exports, giving Guatemalan coffee second place in the strategic market of Hamburg.<sup>73</sup>

As risks were deemed low, the producer-traders could expect considerable profits on their investment, as shown in the following plantation company reports. The Chocola Plantation Co. reported that during their

<sup>70</sup> Dix, “Zentral-Amerika”, 1907, p. 446.

<sup>71</sup> *Ibid.*, p. 446. Both lines had strong participation of Hanseatic coffee capital among their bond holders. See Zimmermann, *Theodor*, 1969, p. 98.

<sup>72</sup> A rudimentary version of the closed system between Hanseatic buyers and financiers on the one hand and German producers on the other had already been in practice by 1886, see Sanborn, *Winter*, 1886, p. 169.

<sup>73</sup> In 1897 the Hamburg Senat was informed by coffee traders that  $\frac{3}{4}$  of the overall coffee production of Guatemala were sold via Hamburg. STAAH, Acte Deputation für Handel, Schiffahrt und Gewerbe II, Spez XIX, B.7.7. Biechler states for the year 1930 that Germans controlled 25% of the coffee plantations in Guatemala, stood for 75% of the coffee export and had an overall participation in coffee export of about 80%. Biechler, “Coffee”, 1970.

first seven years (1891-1897) annual dividends reached 20%, turning this finca into one of the most productive ever in Guatemala. It produced an average of 17 000 bags of *café oro* per year (henceforth, the term “bag of coffee” will refer to high-quality green coffee, in the amount of 46 kg per bag). Owners of this successful investment were the family of Berenberg-Gossler, one of the most highly respected coffee bankers in Hamburg, together with the German coffee investors Friedrich Gerlach from Guatemala, and Gustav Müller from Hamburg.<sup>74</sup> As well profitable, the Hanseatische Plantagengesellschaft paid an almost constant 4% dividend each year, even during the First World War, having a production surpassing 10 000 bags a year. In 1913 that company reported that it had already sold 6 000 bags of the next year’s harvest.<sup>75</sup> The Osuna Rahela Plantagengesellschaft, owned by a group of four Hanseatic coffee merchants with the financial support of the German National Bank, in its peak years produced up to 30 000 bags of coffee, and even though there were times when the company did not pay any dividends, gains were sufficient to keep the company in business until the world economic crash of 1929.<sup>76</sup> The Guatemala Plantagengesellschaft was owned by seven Hanseatic merchants and had the financial support of the German National Bank and the Commerz & Disconto Bank; it made more than 500 000 marks during its first year alone, and produced between 8 000 and 15 000 bags of coffee each year after that. In 1913 the company still paid its investors dividends of 5%. All together in 1913, the Hanseatic plantation companies produced 82 800 bags of coffee, which sold at 70 marks per bag, worth a total of 5 790 000 marks.<sup>77</sup> In 1919, the seven principal plantation companies together with seven privately own German fincas registered an annual overall production of 154 000 bags of coffee.<sup>78</sup>

Alongside the plantation companies were extensive properties bought and/or developed by individual German investors who had come to Guatemala even before the invasion by coffee plantations, and which contributed considerably to overall coffee exports to Germany. Families with the names Lüttmann, Giesemann, and Dieseldorf, could also expect company backing from Hanseatic coffee importing houses. These lent advances on harvests and sometimes entered into a sort of association with the German

<sup>74</sup> STAAH, HR G II, 960, B173, Chocola Plantagengesellschaft. J. v Berenberg-Gossler was the head of a family merchant bank with strong interests in coffee financing and maritime transportation. In 1912 J. v. Berenberg-Gossler was registered as the richest merchant in Hamburg with a personal capital of 40 000 000 marks.

<sup>75</sup> STAAH, HR G II, 919 B 155; *Kaffee-, Tee, und Kakao-Zeitung: Kateka*, num. 5, 1913, p. 3, and num. 25, 1913, p. 7.

<sup>76</sup> STAAH, HR B. 186, G II, 1089.

<sup>77</sup> Küsel, *Kaffeehandelsorganisation*, 1939, p. 36.

<sup>78</sup> “Guatemala”, 1920.

plantation owners. Others basically received advances on the next harvest for which they had to mortgage the finca as collateral and finally pay off the working capital and its interest with coffee. But still, this way of financing the coffee production was less risky and a lot cheaper than the credit lines that other producers, especially the Guatemalans, could obtain. In times of crisis, German planters were considered more trustworthy because their liability bound them to the German mother company; they were advanced the money they needed to stay alive and maintain the finca in working condition, whereas other owners had to sell their fincas.<sup>79</sup> Germans could also obtain investments for improving production methods. Importing sophisticated machinery from England, the United States and Germany, for example, was far easier for them than for any national planter. So from the beginning, this unequal competition gave mayor advantages to the German investors and German producers who could produce first class washed Arabica coffee, favorably traded in the Hanseatic market.

In 1898 the German envoy to Guatemala, von Erckert, calculated investment by his compatriots in Guatemala at 183 000 000 marks.<sup>80</sup> Taking into account the small size of the country and its rather low population density he made an interesting statement: "Without exaggerating, we can say that in no other region, including our own colonies is there any other property concentration in German hands as high as there is in Guatemala."<sup>81</sup>

The number of the principal individual investors was calculated by the envoy at 150. Thus, the economic activities of just these 150 persons in Guatemala plus those working in plantation companies were considered more successful than any official investments made by the imperial German government in its African or South Sea colonies. By 1914 the Reichsversicherungsamt in Berlin calculated that total German investment in Guatemala had risen by approximately another 50 000 000 marks to 230 000 000. This included the rural property of Germans valued at 90 000 000 marks, railway investment at 6 000 000 marks, German import/export, mining and other industries at 94 200 000, and 40 000 000 marks invested in credits.<sup>82</sup>

<sup>79</sup> The German economic report for the region of Coban in 1882, states: "taking into account the constantly worsening reports from the coffee markets oversees, every way of saving money and time is important and this way it has been possible [...] to avoid serious financial catastrophes", in "Cobán (Guatemala)", in *Deutsches Handels Archiv, Jahresbericht für 1882*, num. 2, Berlin, 1883, pp. 520 ff.

<sup>80</sup> The Guatemalan coffee historian, Castellanos Cambranes, calculates for the same year just 121 000 000 mark. Castellanos, *Imperialismo*, 1977, p. 251.

<sup>81</sup> Erckert, *Wirtschaftlichen*, 1901-1902, p. 225.

<sup>82</sup> STAAH, Auswanderungsamt, I. C II, 9.1., *Schriftenblatt des Reichsversicherungsamtes*, num. 23, Berlin, December 12, 1920, p. 828.

During the First World War, German fincas in Guatemala were threatened with expropriation, but the government did not take action until the 12<sup>th</sup> of February, 1919, after the war had ended. So German plantations and traders did not have to interrupt their business activities and were able to keep on selling part of their harvests, now by way of the United States and Scandinavia, to Germany.<sup>83</sup> But with an increasing yield and a market more and more limited after 1917 to the United States, the war years resulted in a relative over production that depressed export coffee prices from twelve English pounds per bag in 1914 to just six pounds in 1918.

All told, World War I had a strongly negative impact on the German coffee trade. Direct importation was reduced by enemy blockades and by Latin American countries that shifted sales to the United States. With less coffee coming into Germany, political authorities were reminded of the strategic role that this product had acquired. They ordered that the German military and heavy industry were to be given priority. To guarantee that decision, government and coffee traders formed the “Kriegsausschuss Kaffee” that controlled incoming coffee from the producing nations and the coffee expropriated in countries occupied by German forces. What before had been the sole concern of industrialists and coffee traders, had developed into a vital necessity for the war-waging state. Coffee, given to the workers at wholesale prices or even distributed without charge by the companies, was needed to secure the high productivity of Germany’s heavy industry work force as well as to help its soldiers endure the horrors of the battleground.<sup>84</sup>

Once the war was over, with their commercial infrastructure intact, but with their warehouses empty, Hanseatic coffee traders were instantly ready to restart business. It took a while, however, before things went back to normal. Especially in Guatemala, business seemed to worsen right after the war. In February of 1919, the Guatemalan government published a decree to expropriate and sell at public auction most German properties, especially those of the plantation companies, though by the end of 1920, that decree was declared void and the already-expropriated lands were returned to their former owners. Still, coffee exports to Germany did not recover their pre-war levels until 1926. Though it dealt a blow, World War I did not effectively dismantle the infrastructure that had enabled Germans to control the whole coffee commodity chain from production to sale; this was reactivated after 1919. The accumulation of coffee wealth in both pre-

<sup>83</sup> Pendergrast, *Café*, 2002, pp. 150 ff.

<sup>84</sup> See “Ausschaltung”, 1919, p. 194. This recognition of the strategic value of coffee for warfare was not limited to Germany. Pendergrast describes vividly the use of coffee in the American army during World War I. Pendergrast, *Café*, 2002, pp. 149 ff.

and postwar years was considerable and confirmed the wisdom, in business terms, of that strategy.

From 1879 German participation in Guatemalan coffee exports amounted to only 15% of the total; it rose to 64% in 1897 and reached 75% in 1901. Average German participation in the country's coffee exports between 1884 and 1911 equaled 57%. The reported value of coffee exported from Guatemala to Germany grew from a value of 2 400 000 marks in 1879 to reach an all time high of 26 300 000 marks in 1896. Six years later, in 1902, even with depressed world coffee prices, imports into Hamburg still reached a level of 18 500 000 marks.<sup>85</sup>

#### EFFECTS OF THE GERMAN COFFEE INVESTMENT STRATEGY

Though it is difficult to establish precisely when Guatemalan coffee stopped being a specialty item purchased by members of the upper class to being an integral part of the diet of all Germans, it is possible to state that by 1911 it was an indispensable part of almost every coffee blend sold in the country.<sup>86</sup> Coffee experts pointed out the wide acceptance of Guatemalan coffee, especially the variety coming from German plantation companies whose production quality had conquered a considerable market share.<sup>87</sup> Guatemalan coffee exports to Germany three-folded rising continuously from 160 000 bags in 1884 to 542 000 bags in 1909.<sup>88</sup>

Just how successful and permanent the introduction of Guatemalan coffee into the German market was can be seen in an article published in 1925 in the specialized trade journal *Kateka* about German coffee preferences. That year the German Coffee Exchange reopened its doors and coffee imports from Guatemala came close to their pre-World War I level. "German taste prefers two main provenances: Brazilian coffee and the washed coffee from Central America [...]. In Germany there is a notorious preference for Guatemalan [coffee], being considered as the incarnation of quality coffee by retailers and consumers [...]. In consequence sales of this coffee are considerably higher than those of any other washed variety [...]"<sup>89</sup>.

<sup>85</sup> For the value of Hamburg coffee imports see Blass, "Entwicklung", 1907, p. 225.

<sup>86</sup> "Kaffeeanbau", 1924, pp. 4 ff.

<sup>87</sup> Schütze, "Kolonialpolitik", 1911, pp. 231 ff. Still in 1939 the German coffee expert Küsel emphasized that especially the Guatemalan brands "are highly quoted" in Germany. Küsel, *Kaffeehandelsorganisation*, 1939, p. 43.

<sup>88</sup> Wagner, *Historia*, 2001, pp. 110, 142, and Berth, *Biographien*, 2010, pp. 91, 119.

<sup>89</sup> "Deutschen", 1925, p. 1.

When the world economic crisis hit in 1929, the German coffee plantations were, of course, affected. Austerity measures were taken to save money and stay afloat. But as W. Lengemann, an employee of the San Andres Osuna Plantation wrote, even though production costs were reduced to one-third during most of the crisis, returns remained reasonable.<sup>90</sup>

Obviously coffee exports from Guatemala were not the whole story. The German export houses established in Guatemala City were more than just coffee traders. They were, as well, importers of manufactured goods from German companies and deeply involved in the banking and credit business. The reports of different political envoys agreed. The French Chargé d'Affaires Challet described how "German settlers and commercial houses contributed to the home country's well-being, when importing German products in exchange for coffee and sugar grown on German fincas, via two German transatlantic shipping companies".<sup>91</sup> The German envoy confirmed this assessment and gave information stating that between two-thirds and three-fourths of all the said companies imports coming into this country came from German factories, especially hardware such as machetes, machinery and nails, but also wool and cotton cloth, beverages (beer), drugs, canned foods, etc. Almost one-third of all Guatemalan imports were managed by these few German houses, an important factor for a nation like Germany that depended on the export of manufactured goods.<sup>92</sup> In 1900 the German minister of the Interior, Reichsamt des Innern, concluded that German industry and trade had a considerable advantage because of the existence of the German coffee plantations in Guatemala, not to mention the considerable profits obtained by the German railway and maritime companies that transported the coffee that Guatemala produced.<sup>93</sup>

Responsible for this qualitative change in coffee imports and consumption, the Hanseatic coffee traders managed not only to safeguard the leading position of Germany in the international coffee market, but also to obtain enormous personal benefits. In 1903, coffee expert Schönfeld states that Hamburg coffee traders were among the most influential merchants in the city.<sup>94</sup> A brief review of the list of leading millionaires in Hamburg, confirms that those traders involved with the Guatemalan coffee plantation companies, were among those heading the directory.<sup>95</sup>

<sup>90</sup> "Guatemala", 1935, p. 12.

<sup>91</sup> Schoonover, *Germany*, 1998, p. 100.

<sup>92</sup> "Hamburgs", 1890, p. 136.

<sup>93</sup> "Deutsche Interessen in Guatemala", *Berichte über Handel und Industrie*, February 15, 1900, p. 322.

<sup>94</sup> Schönfeld, *Kaffee-Engroshandel*, 1903, p. 61.

<sup>95</sup> Martin, *Jahrbuch*, 1912, and Stein, "Interessenkonflikte", 1978, pp. 55-89.

The German two-pronged strategy of going into Central American coffee production and substituting it for the (diminishing) production of high-quality coffee from Java, Venezuela and Santo Domingo, and that of obtaining an almost complete and exclusive control over the entire coffee production process worked to perfection. In record time they managed to gain control of and manage almost two-thirds of the overall coffee production and exportation of the country, putting Guatemalan coffee firmly in second place in the German market. Their calculation that prices for washed coffees from Guatemala would be more stable and could balance the great fluctuations in Brazilian coffee prices proved correct. During the 80's and 90's traders could thus rationalize making limited profits on their Brazilian coffee imports, so important for the growing industrial and popular consumption, because they knew they would be able to increase profits selling high-end coffee from Guatemala to a large middle and upper class population. As a result of German investment, Guatemala increased its world market share in "mild" washed coffees from 7.0% in 1889 to 14% in 1905.<sup>96</sup>

Even though this business was quite profitable it never represented a serious challenge to the front running position of Brazilian coffee in Germany or elsewhere, but the incursion into production and its artful manipulation of the German consumer market has to be considered an effective method to safeguard primary German industrial interests as well as coffee traders' financial interests.

## CONCLUSIONS

As we have seen, coffee interests during the 19<sup>th</sup> century influenced or even controlled local and state economic politics on both sides of the Atlantic. These interests defined overall strategies to assure the German presence and access to coffee lands, and to control production and trade so as to satisfy specific German needs. Coffee traders chose to invest their money in Central America, and not in the newly acquired German colonies in Africa and Asia.

In countries like Guatemala the production and exportation of coffee came to define all areas of public, and consequently private, life. With coffee as the main export product almost all aspects of everyday politics had to do with it: to guarantee a stable government, provide security for foreign investments, create tax incentives, create internal transport systems, and open up sufficient coffee land by declaring Indian land as wasteland and installing a contracting system that could guarantee the availability of

<sup>96</sup> Mosk, "Coffee", 1975, p. 12.

an ample labor force needed to work on the coffee haciendas. These last two efforts had an especially profound and enduring effect on almost every Indian village in Central America.

Long before 1880 the beverage considered “nice and cozy” by the German upper class had been turned into a necessary soft drug that enabled the lower classes to be more productive. Because coffee was sold in the factories, workers developed the habit of drinking it, guaranteeing a constantly growing coffee market. All over Germany, especially in industrial areas, the so-called *Kaffeeklappen* (canteens) sprang up, the workers version of the cafés. Coffee had become a necessary drug to maintain an individual’s competitiveness in the constantly worsening labor situation. For the industrialist, the use of coffee was a means to safeguard a high level of production and thus to achieve international competitive advantage.

In a risky international coffee market, Hanseatic coffee merchants implemented a strategy which allowed them to obtain large quantities of Brazilian coffee at economic prices for the German labor sector and to produce and commercialize more profitable high-quality Guatemalan coffee for the German middle and upper classes, thus constructing a solid dual coffee market. These strategies helped enlarge and stabilize that market. Everyone got what they were looking for: German industry received a constantly growing supply of lower quality Brazilian coffee; the German middle and high class was enchanted by Guatemalan coffee and ready to pay higher prices for it, and Hanseatic coffee merchants got high returns on their investments with comparatively few risks.

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