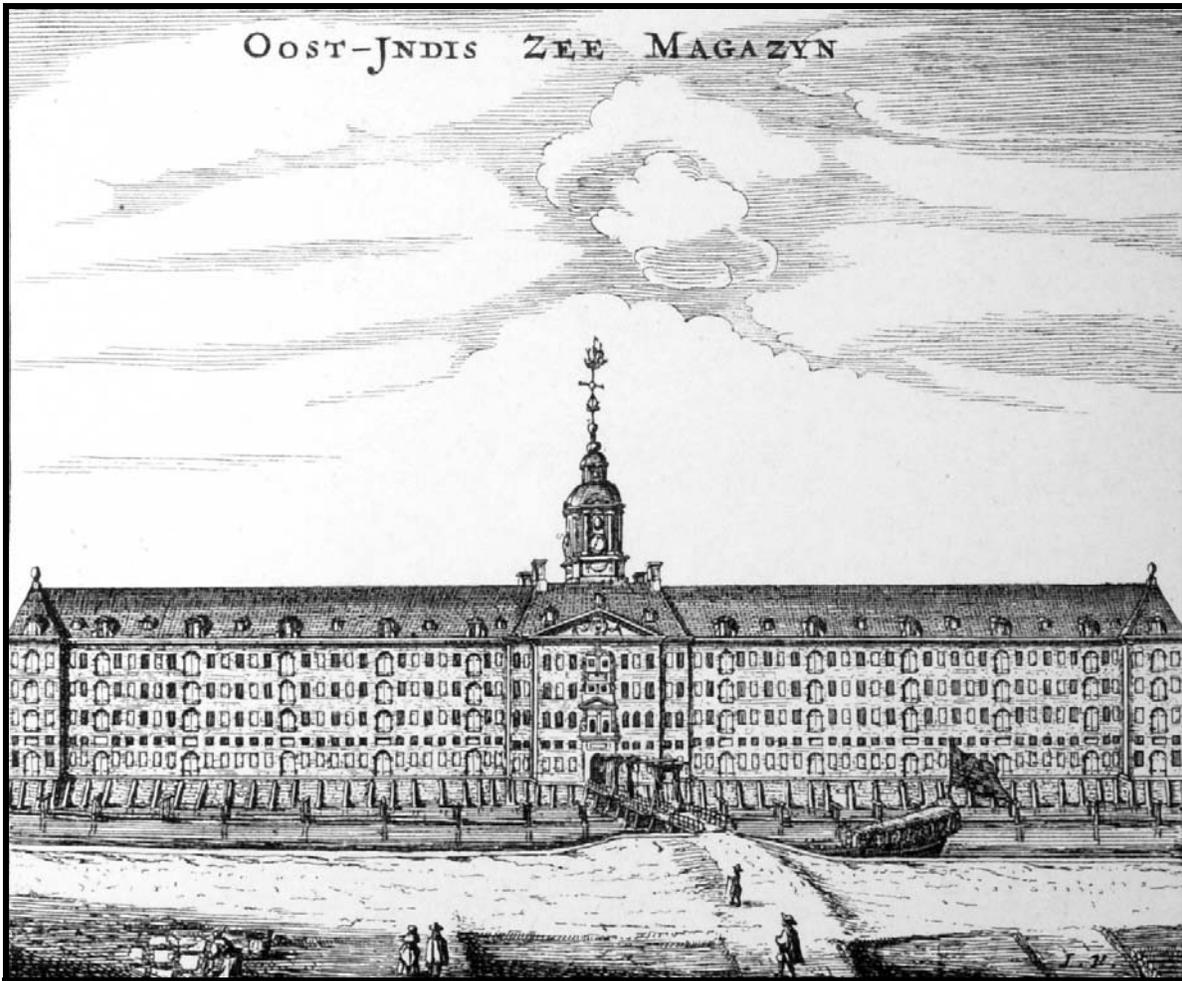


## Reversals of Fortune in the Tea Industry

### *Part V: The Golden Age of the Dutch Republic*



*The Warehouse of the Dutch East India Company, 17th Century*

For about 150 years, the Dutch East India Company (*Verenigde Oostindische Compagnie*, or VOC) was the dominant player in Asia-European trade by sea. Spain and Portugal were weakened by costly wars, and were busy protecting their colonial interests in the New World. This created an opportunity for the Dutch Republic to overtake strategic holdings in the Indian Ocean and the South China Sea. Their success was the envy of Europe by the early 1600s, but their rapid rise to power would be followed by a precipitous decline in the 1780s.

*Please turn to page 46.*

## *Reversals of Fortune in the Tea Industry, Part V*

Part IV of our series concluded with the founding of the Dutch East India Company (*Verenigde Oostindische Compagnie*, or VOC) in 1602. The rapid rise of this joint-stock company is remarkable, for in the course of a few decades the Dutch were able to wrest from their Iberian competitors the bulk of the western European spice trade. Their success was due to an unprecedented level of organization and innovation with a single focus: efficiency (and profitability) in long-distance maritime trade. Others who entered the competition, such as Britain and France, found the Dutch to be a tenacious rival.

Advances in banking, including foreign exchange contracts, letters of credit, stock and options contracts, and fractional ownership of assets, were all instrumental to Amsterdam's ascent to the financial hub of Europe. Moreover, Dutch advances in shipbuilding afforded them a fleet of merchant ships that cost less to build and less to operate than any of their competitors. By the middle of the seventeenth century, Holland had overtaken Spain and Portugal as leaders in southeast Asian trade. In fact, according to Jan de Vries (*The Economy of Europe in an age of Crisis, 1600-1750*), "The size of the Dutch merchant fleet in the 1670s probably exceeded the combined fleets of England, France, Spain, Portugal, and Germany."

Few writers of tea lore give proper credit to the Dutch for their contribution to the early development of the European tea market. This is largely due to the later success of the British *East India Company*, EIC, which eventually overtook the VOC and perfected the mass-marketing of tea. When the British finally developed tea plantations in India and Ceylon in the mid-1800s, they rightfully earned their place at the head of the tea table. But for many decades, VOC tea dominated the European market.

Early success of the VOC was stimulated by a sizable financial commitment from the founders, who collectively raised 6.5 million guilders as initial capital. This was ten times the capitalization of the British EIC, and it ensured the Dutch a commanding lead.

For several years, the VOC concentrated on shipping spices and silk, for which there was already a significant demand within the Netherlands and throughout Europe. Their lower transportation costs gave the Dutch an advantage over

their competitors, which included Portugal, Spain, England, France, and Germany. Profits from imported silk and spices lured the VOC to escalate the pace, and each year more ships were sent to the spice islands.

The Dutch established a number of trading bases in the Indian Ocean and the spice islands, many of which were former Portuguese strongholds. Jonathan Israel, in *The Dutch Republic, Its Rise, Greatness, and Fall (1477-1806)* states:

...by the 1640s, the Dutch were solidly entrenched in the Indian subcontinent and Malay peninsula, as well as in Indonesia (and until 1662 Taiwan). In the 1650s the Company continued to concentrate its main military effort in fighting the Portuguese in Ceylon [and soon] ... controlled the whole of the cinnamon-producing zone of the island. During the war of 1657-61 between the United Provinces and Portugal (chiefly over Brazil) and its epilogue of fighting in south India, the Dutch not only completed their conquest of coastal Ceylon but conquered and annexed the whole of the string of Portuguese fortified bases. ... From around 1660 until the 1720s, the Dutch were to remain the leading European power in India.

Their success produced predictable consequences. By the mid-1600s Dutch warehouses were glutted with a three-year supply of pepper and spices. It was clear that the VOC needed to diversify into other markets, including tea. During the second half of the seventeenth century, VOC cargo space for pepper and spices dropped from 66% to approximately 11% of capacity as other commodities added to the profits of the VOC (de Vries).

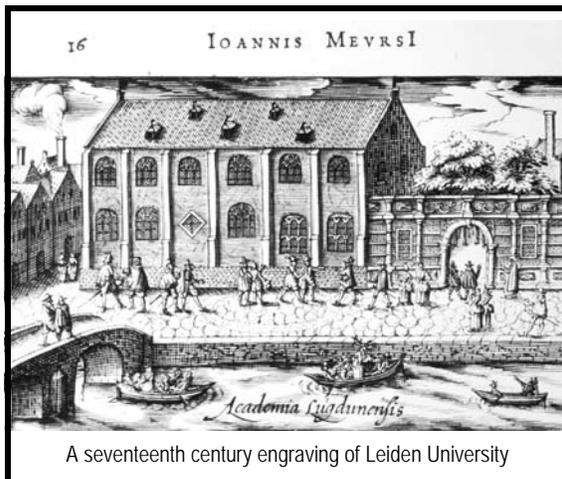
Tea was hardly a priority during the early years of VOC. Simply put, demand for tea could not exist until consumers were aware of its pleasures, and until prices became affordable to the majority of households. The market for tea developed slowly, but in time tea would become one of the most important cargoes for the VOC.

The date for the introduction of tea to the Dutch market is unclear, but as early as 1637 a brief sentence in a letter from the directors of the VOC suggests that there was some awareness of tea by that time. It states, "As tea begins to come into use by some of the people, we expect some jars of Chinese as well as Japanese tea with each ship". This brief note clearly indicates that, by this time, tea was already recognized as a potential market. As stated in our last installment, Dutch tea was the first to reach England, in

1657, twenty years after this VOC directive, clearly illustrating the Dutch leadership in the early years of the tea market.

The Dutch Republic's lead in international commerce was evident to all, and would continue for over a century. Jonathan Israel states:

Those eager for economic success studied Dutch methods of commerce and finance and borrowed much that they found. From the 1590s down to around 1740, for roughly a century and a half, the Republic exercised a general primacy in world shipping and trade and was the central reservoir of goods of every conceivable type. It was the central storehouse not only of commodities from all parts of the globe but also of information about them, techniques for storing and processing them, methods for classifying and testing them, and ways of advertising and negotiating them.



Holland's leadership was not limited to commerce. One of the symbols of her supremacy was the stature that the University of Leiden held during much of the seventeenth century. At its zenith, the mid-1600s, the University of Leiden lured some of the greatest mathematicians, scientists, and philosophers of the time. With this prestige, Leiden was attracting more foreign students than any other European university. From 1626 until 1650, over half the enrollment of 11,000 students was non-Dutch.

During the Dutch *Golden Age*, other European cities were often a pace behind Amsterdam in prosperity and safety (e.g. Amsterdam was the first European city to install public street lamps). But Amsterdam's egalitarian view toward upward mobility, combined with their progressive view of women's rights and their tolerance of religious

diversity, were perceived as a threat to European traditionalists, who were defined by their noble lineage rather than their accomplishments.

But perhaps the *biggest* threat to the rest of Europe was the fact that by the mid-1600s the balance of power within western Europe had rapidly shifted to the Dutch Republic, and the Dutch were not shy about applying muscle to secure their position. When possible (and often when impossible), Dutch officials tried to secure exclusive deals with sources in the spice islands. If an exclusive contract was not signed willfully, force was often applied, and a contract secured by force was likely to dictate prices that were ruinous to the supplier. These contracts were usually ignored, to the dismay of the Dutch, who considered such contracts legally binding. Predictably, a stable trading partnership was elusive.

The Dutch were also ready to use force against competitors, especially when they sailed under the flag of a country with which they were at war, and they were often at war during the seventeenth century. Possibly the most threatening force applied against competing countries was that of the *Dutch privateer*, a private merchant or seafarer who operated independently of the VOC and the Dutch navy, and often at the fringes of Dutch law. Their enterprise was attacking enemy ships and securing their cargoes for the benefit of the Dutch Republic.

On the surface, there was a clear distinction drawn between *piracy* and *privateering*. Piracy was a crime, punishable by severe penalties, including public execution. Privateering was officially commissioned by Dutch authorities only in time of war, and under strict guidelines. According to Virginia Lunsford (*Piracy and Privateering in the Golden Age Netherlands*), each privateer took an oath to "... be obedient, and ... moreover, to do everything that good, pious Captains, Officers, Warriors, Soldiers, and Sailors are bound to do and ought to do, So help us truly, God Almighty." But Lunsford also points out that privateers often acted as pirates and interpreted what "Sailors are bound to do and ought to do" as they saw fit.

Privateers were an outgrowth of the *sea beggars* that harassed and plundered Spanish ships during the *80 Years War*, which extended into the first half-century of the Dutch Golden Age. The guerilla warfare of the sea beggars against the heavily-armed Spanish warships were considered integral to the victory of the Dutch over Spain. Indeed, the sea beggars were lionized as heroes.

But one privateer might be a hero in time of war, and another a miscreant operating as a pirate for personal gain. Most operated somewhere between these extremes.

A Spanish ship, laden with silver, was a prize target. The silver could be used in trade or to pay for war expenses. The ship, if still serviceable, could be impounded for military service. A Portuguese ship carrying spices was also a good target. Even if the ship and cargo were lost in the battle, there would be less competition in the market for Dutch goods. To the privateer, there was no distinction between merchant and military ships -- both were targets of value.

By 1669, rivalry between England and the Netherlands over trading rights, trade routes, and territories had turned the former allies into enemies. The climate between the Dutch and the English from the mid-1600s was stormy. Three Anglo-Dutch wars (1652-1654, 1665-1667, and 1672-1674) were fought at the height of the Dutch Republic's power, but during this time the Dutch navy was declining, while the British navy was gaining power. The Dutch Republic became more reliant upon the services of the privateers.

As the seventeenth century progressed, the Dutch found themselves entangled in a variety of costly skirmishes, including battles over their Asian base in Taiwan, war with the Portuguese over Brazil, and ongoing conflicts with the British over their settlements (New Netherlands) in North America. Stretched beyond their limits, the Dutch were forced to consolidate their "empire" and scale back their military ambitions. It was also increasingly difficult to manage the privateers, who by their very nature tended to be brash and aggressive. Many crossed over the line and became "freebooters", or pirates.

It should not be assumed that only the Dutch had opportunistic privateers or pirates. Privateering was a common practice of most (if not all) maritime countries and piracy was rampant, especially along the coast of Africa and throughout the South China Sea.

Regardless of the efforts of the Dutch to curtail competition, it was inevitable that their dominant position in maritime commerce would be successfully challenged. Perhaps the greatest threat to Dutch supremacy was the relatively small size of their domestic market. The vast scope of their commerce made them highly reliant upon markets outside of the Netherlands. But just as the Dutch were keen to bypass Portugal for spices and silk by the end of the 1500s, so

were the British, French, and Germans anxious to bypass the Dutch by the end of the 1600s.

One of the motivators for the British EIC to establish a stronger presence in the South China Sea was the fact that, in the early seventeenth century, more Dutch ships were sailing into the port of London than were English ships. It would take over a century for England to overtake the Dutch lead, and during two-thirds of that century, the Dutch would be the primary supplier of tea to the European market, including England! The British EIC did not bring a commercial shipment of tea to London until 1669, and then it was a mere 143½ pounds. But this was enough to give the British a taste for tea's profits. That same year England passed a law prohibiting the importation of Dutch tea.

However, smuggling was rampant, and VOC tea found its way into the British market for over a century beyond the 1669 edict. In fact, smuggled tea had a distinct price advantage over legally-imported EIC tea, which was subject to an import duty in excess of 100% of the value of the tea! Attempts to curtail smuggling failed miserably, and by some estimates over two-thirds of the tea entering the British market in the first half of the 1700s was smuggled into the country. The VOC supplied much of this tea.

From the culmination of the third Anglo-Dutch war, until 1780, England and the Dutch Republic remained officially at peace. Furthermore, the Dutch remained neutral as England and France battled over territories in the New World. On December 20, 1780, England declared war on the Dutch Republic, ostensibly for supporting the American Revolution. This war, often called the fourth Anglo-Dutch war (1780-1784), was ruinous to the Dutch economy, and it never quite recovered. The Golden Age rapidly ended as the VOC lost their English market and other international markets were going to competitors.

In 1784, British Parliament passed the Commutation Act, reducing the import duty on tea to 12.5%. It also set limits on the profits to be had from tea. Moreover, it required the EIC to increase imports to satisfy all demand, including that formerly supplied by smugglers. The price advantage of smuggled tea was no longer an incentive to flout the law, and the EIC finally had the British tea market to themselves.

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.