The Dutch East India Company and the Tea Trade

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Tea, the most ubiquitous of drinks, preached as an elixir of life by the ancient Chinese and more a way of life than a beverage for the British, is more than a few leaves in boiling water. It's the determinant of entire trade routes and the success or failure of entire companies and even nations. Many are familiar with the Boston Tea Party and the Opium Wars, but well before the British East India Company ever amounted to the greatness it is remembered for, there was the Dutch. The Dutch East India Company, or VOC, was, for over a century, the largest company in the world. Initially specializing in its monopoly of various spices and near monopoly in others, VOC branched out into tea as European demand shifted. The Dutch Tea Trade grew to prominence out of the existing spice network and prospered through reorganization of the VOC. However, the VOC shifted its focus of trade toward tea. Tea was a market with different suppliers and different competition. The VOC was slow to change to the demands of the tea trade, but refused to exit the market, which contributed to their eventual collapse.

Many scholars cite widespread corruption of the VOC as a major, if not primary reason for its ultimate collapse. While there may have been more corruption than some of its competitors such as the English East India Company because of its different managerial design from its founding. The VOC had always had a single agent handle the purchasing process, while the EIC had a committee which would make the decisions together, thereby limiting the opportunity for corrupt deals designed around personal gain. Furthermore, the Dutch refusal to trade with Chinese merchants who dealt with other European powers undoubtedly led to long term relationships between Dutch agents and Chinese merchants, where personal loyalties could trump those of the company. These business methods, however, were initiated from the start of the company when the VOC’s Asian trade was highly profitable and were still in effect during its return to profitability after the reorganization of the Dutch trade around the China Committee. This suggests that while corruption may have led to inefficiencies, it was hardly the determining factor in profitability, assuming that corruption would have remained fairly consistent throughout the existence of these business practices. Moreover, the personal side deals by seamen were largely curtailed with a shift in policy regarding personal storage on board. To prevent sailors from bringing back excessive amounts of smuggled goods on board, the VOC instituted a policy of recognizance. It permitted all VOC servants to ship tea and other goods back on board and the VOC would then auction these goods at market and give 60% of the proceeds from auction to the servant in question, taking 40% for themselves as a freight charge. This policy was an immediate success and constituted up to 40% of all tea imported by the company in 1750.1

2 Ibid., 191.
Other scholars cite problems back in Amsterdam as the main cause of the collapse. Indeed, Mansvelt claims “the war might well have been the final blow for the company.” And, while the war may have been the final blow, the collapse of the VOC appears to have been predetermined prior to the Fourth Anglo-Dutch war in 1780. In the six years leading up to the war the VOC had lost 14 million on the Asian trade, which was equal to the company’s total profit in the prior decade.

Still other scholars conclude that the demise of the Dutch East India Company lay upon the hands of its rivals, such as the EIC. Els M. Jacobs specifically names the “successful duplication of their standard trade practices” by competitors as the need for the VOC to take a step backwards in the 18th century. However, the other European trading companies were almost all practicing a direct trade route with China as opposed to intra-Asian trade measured long established by the VOC. The cause for the Company’s reorganization was due to internal structural inertia from being built around the spice trade of Indonesia, as opposed to the tea trade of China. The pressure from competitors surely acted as a catalyst but increased costs and outdated business practices necessitated the reorganization of intra-Asian trade to fit the new tea focus.

So, what was the original business plan that had made the Dutch East India Company the single largest company in the world? Founded in 1602, the Dutch East India Company was not the first of its kind. Several nations had already established state trading companies, most prominently the British EIC just prior. The Dutch company had an initial capital of 6.5 million Guilders, ten times the capital of the EIC. With this comfortable financial advantage the Dutch expanded aggressively into Asian Trade largely at the expense of the Portuguese and native Asian traders. The VOC Governor General, Jan Coen, justified the ensuing situation: “There’s no trade without war; there’s no war without trade.” The ensuing trade wars between the Dutch, Portuguese, British and the various native people altered the history for much of the eastern Asia. The Dutch took the strategically located and spice rich Moluccas Islands from the Portuguese in 1631, giving the Company a monopoly on cloves, mace, and nutmeg. Later they would gain a monopoly on cinnamon upon the conquest of Ceylon. Indeed, by 1685 the Dutch had over 20 different settlements and military control of Ceylon, Java, and the Moluccas. Based out of Batavia, modern day Jakarta, the Dutch had the strongest position of Asian trade out of the European nations and were one of the only two European countries to have commercial goods the Chinese sought, Asian goods.

The initial capital was put to use in a very different and yet extremely effective strategy than many would believe. The Gentlemen Seventeen, the board of directors, sought a very long-term strategy without shortcuts for wealth. In contrast to the Portuguese, who attempted to limit military engagements and territorial expansion and thereby limit expenses, the Dutch were focused on obtaining and maintaining a monopoly on as many goods as possible. This goal involved

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3 Femme Gaastra, The Dutch East India Company (Walburg 2003), 173.
4 Ibid., 173.
5 Yong Liu, The Dutch East India Company’s Tea Trade with China (Boston: BRILL, 2007), 7.
6 Jacobs, A Merchant of Asia, 194.
8 Jacobs, A Merchant of Asia, 1.
9 Jacobs, A Merchant of Asia, 3.
multiple fleets sent out each year, all heavily armed, with the express purpose of destroying Portuguese possessions before accounting for their own profit-bearing venture. The Dutch spent 15 million Florins by 1619 on military expenditures in the Far East, resulting in 6 million Florins of debt. One must keep in mind that their entire initial capital was 6.5 million Florins. Easy access to the most extensive financial system of the day in Amsterdam allowed the VOC to take on this kind of debt almost entirely in short term one year loans and advances. This resulted in, at the time, an unparalleled level of expenditure for foreign trading. Their investment in long-term military conquests of territory was extremely successful, as the Portuguese were left with a mere 79 ships compared to 246 of the Dutch.

The Dutch continued this long-term approach and high expenditure well after the conquest, fortifying each of the settlements with impressive and expensive European style forts with walls up to 30 feet thick and as many as 12 Bastions. The Dutch lived up to their motto, “no profit without power,” without any concern of the cost. This fact was illustrated by the Company spending upwards of 50% to 70% of their annual expenditures on military costs alone and, in the case of the Moluccas, fortifications a third of their initial capital in 7 years time. These expenditures installed the Dutch trading network for the long haul and insured their monopoly on the spices of the Moluccas for decades.

With their vast eastern empire of largely ex-Portuguese trading posts, the Dutch were in prime position to act as middlemen for the far-reaching intra-Asian trade network. This position entailed many advantages including early and regular contacts with various Asian empires. Particularly, early contact with the Chinese Empire, which had a near monopoly on tea well into the 19th century, would prove crucial to the early success of the Dutch tea trade. Furthermore, their many various bases gave the Dutch access to goods, other than silver, that were sellable in China.

To paraphrase the Chinese Emperor Qianlong when replying to a letter sent by King George the III regarding British and Chinese trade, there is nothing we lack and therefore nothing to trade with you, the Europeans. Despite its terseness the Emperor was more or less correct, as the Europeans had little to offer the Chinese in terms of home made goods beyond precious metals like silver. The result was a huge trade imbalance between the West and the East with European silver going to China and returning with Chinese silks, tea, and spices. From the European mercantilist perspective, this was blasphemy and yet, they all had to comply, except for the Dutch. With their extensive intra-Asian trade, the Dutch could trade lead, carpets, textiles, and wool to other Asian nations through Batavia for tin, pepper, cotton, wax, and spices that were in demand in China. These goods accounted for a fifth of the cost of Chinese purchases, thereby decreasing the amount of precious metal being sent from the Netherlands. An extra bonus of this trade was that the reduced ballast or weight of the outgoing ships made the trip to the East substantially faster.

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11 Ibid., 106.
12 Ibid., 132.
13 Liu, The Dutch East India Company’s Tea Trade with China, 28-34.
The merit of the using intra-Asian trade to pay for Chinese goods is largely for cost reductive purposes. The sale of goods in China helped keep expenditures down, gold reserves back home high, and occasionally would get a higher than expected return. The Dutch entered into a niche market of low-grade teas. By keeping their costs down the VOC could, for much of its existence, make a healthy profit selling these cheaper teas. And, as tea became a drink of the people and, in the case of the English, a national pastime, the Dutch were able to undersell many other European teas for consumers willing to sacrifice quality. While the market remained unsaturated and demand outstripped supply, as was the case in England until 1740, this market niche was a viable business plan.\textsuperscript{14}

The first tea import to Europe was actually from Japan not China and is accredited to the Dutch in the year 1610.\textsuperscript{15} Tea, however, was initially relegated as a luxury good or medicine, as opposed to the common beverage it is today. Its market was relatively small for years, particularly in comparison to the big spice imports of the VOC of pepper, nutmeg, cinnamon, and cloves. A pound of Dutch imported tea cost 60 shillings in London in 1660 and with the average daily wage for a laborer less than a shilling a day tea was well out of the average price range.\textsuperscript{16} Tea was clearly a luxury good for much of its early European history. Indeed, the first English tea was a gift to the King from Dutch merchants in 1664. Popularity and opinion began to change as doctors began to write about its medicinal effects. Writers, such as, Dr. Bontekoe who, in 1683, claimed enough cups of tea could cure any fever.\textsuperscript{17} As tea went from the medicine cabinet of the apothecaries to the coffeehouses and salons of the day its popularity soared, particularly in England. As the English imposed an import tariff on tea, up to 119%, from which the EIC was not exempt, the Dutch tea market simply went underground. Half or even two-thirds of the tea consumed in England throughout the 1700s is thought to have been smuggled.\textsuperscript{18}

Despite being the first to import tea from Asia, the Dutch imports remained relatively small. It took almost 60 years, from the first tea import to the first public auction in Amsterdam in 1667, only two years before the first British auction. Fortunately, contrary to the VOC’s expectations, it found a ready market.\textsuperscript{19} Tea’s share of VOC ship traffic, however, remained relatively modest, filling about one full ship out of the 14 arriving from the East each year from 1690 to 1718. Meanwhile the EIC carried over 2,000 million pounds of tea in 1718 and far surpassed the Dutch at the beginning of the 18\textsuperscript{th} century.\textsuperscript{20} Furthermore, the EIC had issued more stock and raised its capital to 35 million florins, while the VOC had remained at their initial 6.5 million. Clearly, it was a time for reappraisal and reorganization from a Dutch perspective.

Sensing the need for change the Gentlemen Seventeen altered trading tactics. After more than a century of importing goods from China at their port in Batavia from Chinese traders, the

\textsuperscript{14} Jacobs, A Merchant in Asia, 190.
\textsuperscript{15} Hohenegger, Liquid Jade, 72.
\textsuperscript{16} Robert Martin, The past and present state of the tea trade of England and of the continents of Europe and America : and a comparison between the consumption, price of, and revenue derived from tea, coffee, sugar, wine, tobacco, spirits, &c (London: Nabu Press, 1832), 16.
\textsuperscript{17} Hohenegger, Liquid Jade, 69.
\textsuperscript{18} Ibid., 92.
\textsuperscript{19} Jan Parmentier, Tea Time in Flanders (Ghent, 1996), 78.
\textsuperscript{20} Ibid., 80.
VOC began a direct trade route from the Netherlands to the one free Chinese port, Canton. This was in hopes of increasing profit margin by direct trade, thereby cutting out the Chinese middlemen, increasing their bargaining power for quality goods, and decreasing transport time by going directly to the market. Instead of waiting on Chinese junks to arrive at Batavia according to their schedule, the Dutch were in control. This move to direct trade was substantially later than many of its rivals. In fact, the EIC had begun direct trade from London in 1664. This new trade strategy would be in direct control of the Gentlemen Seventeen for the next five years. Until yet another reorganization would take place.

From 1734 until 1756 the lucrative China trade would be under the control of the High Government of Batavia in an effort to increase flexibility of trade between the two empires by focusing the decision making locally. The Governor-General of the Batavian government, on payroll of the VOC, which controlled all the Dutch East Indian assets, had a free hand in the decision making process. In large part, due to the sheer distance between the two centers of commerce, it could take months for a ship, therefore a letter, to travel from one locale to the other and generally the point was moot upon arrival. The Governor-General need only send an annual statement to the Gentlemen Seventeen regarding costs and revenues. While this increased the flexibility of the VOC with faster major decisions, since most day to day activity was centered around the ship’s Captain and supercargoes, the incentives and goals of the High Government and the Gentlemen Seventeen were not always the same. There were events of the High Government keeping some of the higher quality goods within Batavia for local consumption or intra-Asian trade as well as hesitancy to supply extra precious metals to supplement the purchasing power of the VOC agents.

Despite this ongoing issue of corruption common among all European trading companies, the VOC faced an important dilemma of time at port. Since tea quality is greatly affected by the time of delivery, the increased time at port in Batavia had a major impact on the timeliness and quality of the return cargo to the Netherlands. While it is noted that many if not most European ships stopped at or near Batavia for supplies for the return journey, the Dutch ships were subject to increased inspections. Inventory needed to be taken and any discrepancies handled here instead of back in the home country. While this may not seem like a terrifically long time period, one must keep in mind that the competition was on its way since most expeditions left at approximately the same time of year to catch the same monsoon winds to carry them across the Indian Ocean. Meanwhile, the Company’s direct trading competitors would return to Europe a full two months earlier than VOC ships. The later arrival of the VOC ships could mean a decreased market price for their products, as much of the demand in Europe was already met by the previous arrivals. For the last 38 years of direct trade with China the VOC was reorganized around the China Committee.

This reorganization of the VOC direct trade with China would result in both the resurgence and eventual demise of the Dutch tea trade. The China Committee answered directly to the Gentlemen Seventeen and held supremacy in all issues relating to the China trade, surpassing those of the High Government of Batavia. A ship carrying the intra-Asian trade goods

21 Hohenegger, Liquid Jade, 91.
from Batavia would meet the direct trading vessel in open water for the transfer, instead of
docking at Batavia and increasing travel time.

During the direct trade era of the VOC from 1729 to 1794, tea made up roughly 70% of
the total purchase on the canton market by volume and 20% by value, but was only 14% of the
VOC’s total proceeds at auction on average. This is a testament to the sheer size of the VOC.
At the Dutch were the second largest importers of tea, after the British, with 22.5% of the
market. However, the increased competition and the Dutch niche of cheaper tea resulted in
much lower profit margins. The huge scale and expenditures of the VOC to control their many
far-flung outposts strained their capital investment, resulting in increased loans and advances.
This, in turn, culminated in the Dutch occasionally paying for their tea in kind. Typically, they
would trade with their monopolized Asian spices, which were still in demand in China. This
became a self-fulfilling prophecy, as this further decreased their purchasing power resulting in
ever-cheaper quality teas to market and therefore ever lower profit margins. Despite the temporary
boost in profits from the Seven Year’s War, reaching 135%, the boom years for the Dutch Tea
Trade were over soon after the European powers stopped fighting.

Which leaves us with the question, what caused the downfall of the world’s greatest trading
company? The venerable Dutch East India Company was organized around the 17th century
European-Asian trade in an 18th century world. The VOC was built and organized around the
prospect of monopolizing the lucrative spice trade of pepper, cloves, and mace, which had made
them so profitable. To do this they conquered and retained control of no less than 30 settlements
throughout Asia and the entire archipelago of modern day Indonesia. While this was an extremely
successful business model in the 17th century, the obtainment of monopoly positions through the
conquest of entire islands, it became a burden as time elapsed and focus shifted away from the
spice isles and towards mainland Asia. The VOC was slow to respond to this shift as it had
become “more of an administrator than a merchant,” with the vast holdings it was required to
defend. In 1625 the VOC had 2,500 servants settled in the east, by 1700 this had grown to
13,000 and by 1750 increased to over 20,000 men, hiring 5,000 replacements annually for those
who died or quit. This huge labor cost of soldiers, sailors, and clerks took a deep toll on the
profits in the East. Furthermore, the strategic value for many of these outposts had been drastically
reduced as the continent’s demand shifted from spices to the new hot commodities of tea and
cloth, which were found not in Indonesian Islands, but on the Asian mainland.

The Dutch were the first to bring tea into Europe, but its domestic market remained
relatively limited throughout the 17th century. It was often marketed as a medicine for headaches
and other illnesses, while coffee from the VOC controlled island of Java was the drink of choice
among the Dutch people. Perhaps, partially for this reason, the VOC was particularly slow to
adapt to the shifting European demand for tea. This hesitation allowed its main competitor, the

23 Liu, The Dutch East India Company’s Tea Trade with China, 3.
24 Jacobs, Merchant in Asia, 191.
25 Ibid., 196.
26 Ibid., 193.
28 Ibid., 77.
29 Ibid., 84.
Honorable English East India Company, to gain a major foothold in the tea trade, which centered around China. The Chinese had a near monopoly on tea exports until the mid 19th century, when plantations were founded in India and Ceylon. From 1719 until 1833 between 70% and 90% of all outgoing cargoes from Canton was tea. For the Dutch, roughly 70% of all purchases by the VOC from 1729 to 1793 were tea. A change from the 17th century, where spices comprised 60% of all cargo for the VOC, but less than a third by the end of the century despite no decrease in quantity. The VOC had expanded well beyond the market it controlled and was organized around the spice trade. At the turn of the 17th century the Dutch had virtually no trading relationship with Chinese merchants, after losing Taiwan in 1662 to the Chinese pirate Koxinga. Afterwards, the only point of trade between the VOC and China was through Chinese Junks visiting Batavia for trade. The Gentleman Seventeen’s failure to find alternative trade routes with China is inexcusable. At this time the VOC was the main tea importer into England as the EIC didn’t make its first direct Chinese trade until 1664, but shortly afterwards secured a factory at Amoy in the mid 1670s. The EIC quickly supplanted the Dutch as the primary importer of tea for England, soon to be the largest tea consumer in Europe. Despite this change in positions, the VOC failed to establish another trading point with the Chinese until 1720, well after being supplanted as the preeminent tea exporter by the British.

All was not immediately lost with the newfound competition of the EIC in the tea market, however, as the British government instituted an egregious tea tax beginning in 1660, which was incrementally increased throughout the years. This tax, however, was subject on tea from the EIC and led to a lucrative smuggling opportunity to foreign tea suppliers such as the VOC. With a relatively small home market for tea, much of the VOC’s tea was auctioned off to smugglers with the intent of bypassing the British tax and selling the tea in England for a large profit. This re-export market was lost in 1784 with the passage of the British Commutation Act, which reduced the import duties on tea from over 100% to 12.5% ending the profits of continental smugglers who bought VOC tea. While the law mandated that the EIC be able to provide all tea for the domestic market, it allowed the Dutch to sell some tea to the EIC directly when it was unable to satisfy all demand. However, it was only a matter of time before the EIC could provide enough tea for the entire British market thereby limiting the number of potential buyers for the VOC.

The problem of lower demand for VOC tea was deeper than taxation policies in England. Dutch tea was widely known for its poor quality across the continent. The VOC niche of cheap teas for the masses did not kill the company in itself, but made it particularly vulnerable to both supply and demand shifts by forcing it to rely on lower profit margins. The profit margin from 1660 to 1760 decreased by 60% after accounting for inflation. But why were the Dutch resigned to this market?

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33 Hohenegger, *Liquid Jade*, 92.
34 Liu, *The Dutch East India Company’s Tea Trade with China*, 152.
First, the Dutch resignation to receiving all its tea imports from Chinese junks trading in Batavia meant that they had little purchasing power, but were instead forced to buy what was brought to them, or not buy anything at all. Furthermore, it meant the tea wasn’t as fresh since it had spent a longer time in transit than the VOC’s competitors. Later, when direct trade with China resumed in Canton, the VOC demanded exclusivity agreements with any Chinese traders it did business with. This trading position may have been a successful strategy earlier in the Asian spice trade to gain monopolies, but it failed miserably with the huge increase in European competition within the tea market. The most acclaimed Chinese tea merchants could make more money playing the Europeans off of each other than deal solely with the Dutch and therefore were immediately excluded partners. This limited their supply of tea and excluded the VOC from many of the highest quality blends.

Beyond purchasing issues, the Dutch retained their previous business strategy of purchasing Chinese goods in full or in part with the proceeds of the intra-Asian trade well after it made economic sense, in order to cut down on precious metal shipments from the Dutch Republic. For much of the 17th century this remained a very viable alternative to exporting silver from Europe, because they could purchase silver in Japan with spices and other Asian goods under their control. This Japanese silver would then be used to purchase goods in China, since there was little Chinese demand for other Dutch owned products. After Japan limited its exports, even to the Dutch, who were the last remaining Europeans on the Island, the VOC could no longer use Japanese silver or metals to trade with China, which in its peak constituted 1.4 million guilders a year more silver than was taken from Europe from 1640 to 1670. This silver supplement was completely lost in 1670, yet the VOC was hesitant to use hard species of Dutch silver as a replacement. They instead attempted to make up for this loss with other, less demanded, Asian trade goods. As a result, they had to spend more time in Canton trading these goods before they could purchase tea.

The reasons for poor quality tea continue with a clear failure on packaging of the teas. While most of its rivals, including the EIC, packed their teas in large chests lined with lead to prevent spoilage, a method long understood by Chinese merchants, the VOC did not. They stored their tea in canisters lined with Bamboo. Despite recommendations from the Gentlemen Seventeen, this tradition continued. The bamboo resin would contaminate the tea and the tea therefore lost both “freshness and fragrance.” This oversight illustrates the difficulties in governing such an extensive body as the VOC, particularly from such great distances. Inertia continued poor practices.

Additionally, the insistence on retaining the supplementation of intra-Asian trade goods for Chinese purchases hurt their purchasing power, as some of the best tea merchants in Canton would not accept this trade in kind. After all, the European competitors did primarily use silver for tea purchases allowing them the first opportunity on the best teas leaving the Dutch with the leftovers. The use of better bartering material by its ever increasing competitors and the VOC failure to alter their business plan to the new reality drastically reduced their purchasing power. While the Dutch trading policy in China reduced their costs, it seriously damaged the quality of

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37 Glamann, *Dutch-Asiatic Trade*, 221.
their product, which resulted in lower profits upon sale of the tea back in Europe. With nothing but the cheapest teas, the VOC was reduced to working with much lower profit margins than many of its competitors and thus, was more susceptible to price changes. They attempted to remedy their quality issues introducing more silver in their cargo, increased pressure on their agents to purchase better quality teas, and packaging protocols but financial strains and sheer distance impeded the success of these reform efforts.

Ultimately, competition within the tea market doomed the Dutch tea trade. The other European trading companies’ large purchases of tea glutted the market. Supply exceeded demand even in Britain beginning in the 1740s, with 11 million pounds per annum. It diminished profits for everyone, but hurt the VOC more because of its inferior grades of tea. With the price so low for all, tea consumers bought the higher quality brands. Even back in the Netherlands, where VOC tea had a legal monopoly, smuggling of higher quality teas for the wealthy became widespread and became the biggest market of tea for the Flemish East India Company.\(^{38}\) As prices dropped universally for tea, the Dutch were hurt most. There was a brief reprieve during the Seven Years’ War, when the neutral Dutch could maintain steady supply for re-export while the agitators could not. Upon the end of the British and French wars, conditions returned and excess supply decreased profits once more. The EIC was henceforth more powerful as it had a better trading position with China and was better financed to purchase tea with silver than were the Dutch.

The final nails in the coffin for the VOC were events back in the Netherlands. A series of devastating wars with Britain dealt a heavy blow to the Dutch maritime trade. The much larger and more powerful British Navy captured 200 Dutch vessels in January 1781 alone.\(^{39}\) In the peace treaty the VOC lost their monopoly on access to the Moluccas and a key port on Ceylon. During the fourth Anglo-Dutch war, VOC ships were captured and virtually ended exports from Canton. The estimated loss of the VOC during this time was 43 million guilders.\(^{40}\) Finally, with the French invasion of 1795 the VOC was forced to be taken over by the Batavian Republic and was henceforth forced to sail under foreign flags. These domestic events appear to be almost after the fact. The VOC was well on its way to second-rate status before these events ever took place.

The Dutch tea trade itself killed the Dutch East India Company. The VOC failed to adapt their business model from one based on Indonesian spices to Chinese tea and yet insisted on remaining a leading member in the European tea market. They were too slow entering the Chinese tea market and remained convinced that their outdated model of intra-Asian trade goods to cut initial capital expenditures would increase profits well after their competitors proved catering to consumer demand was a better business model. As a result, when the European political climate turned against the Dutch Republic, there was little interest in retaining an unprofitable enterprise, even one as great as the VOC.

\(^{38}\) Parmentier, *Tea Time in Flanders*, 110.
\(^{39}\) Liu, *The Dutch East India Company’s Tea Trade with China*, 149
\(^{40}\) Ibid., 150