

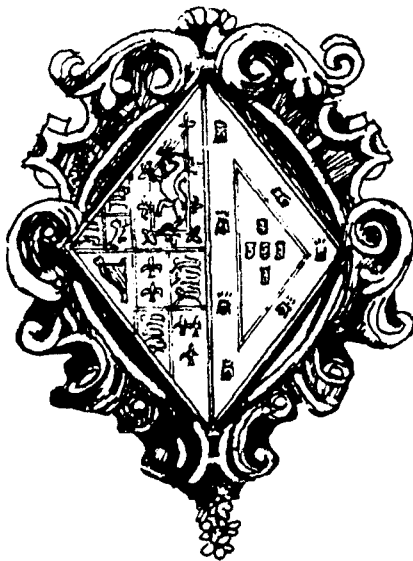
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## THE HISTORICAL CONTEXT OF THE TREATY OF METHUEN

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During the course of the so called “long” 18<sup>th</sup> century the historic context of the Anglo-Portuguese alliance, within which the Treaty of Methuen was negotiated and administered, was fundamentally conditioned by the geopolitical, economic and imperial constraints, that were imposed on any Portuguese ruler of the time by the country’s geography, in the western extremity of Europe and open to the Atlantic Ocean, and by the ever present continental threat of Spain in the Iberian Peninsula. For the protection and upholding of Portuguese independence, maritime Atlantic allies were essential, and these allies were also even more important in protecting Portugal’s maritime access to its overseas territories, a factor vital for national prosperity, since they provided a vital component of the treasury of the Portuguese State. For Portugal the English alliance, in particular, prevented the European isolation in which Spain wished to place Portugal. For England the advantages were no less important as well - the English needed Portuguese ports, particularly throughout the eighteenth century during the great rivalry between Great Britain and France for dominance. The Spanish War of Succession revealed this process: a confrontation, as already analysed by the Portuguese historian Jorge Borges de Macedo, between the Great Alliance (which can be called an Atlantic Alliance) and the Franco-Spanish agreement (which can be considered as the Continental Bloc of the West).

Notwithstanding this geopolitical and strategic context, the Treaty of Methuen of 1703 was the most simple and short treaty in the history of international relations, merely composed of commercial clauses. As one of the most famous treaties of the called “mercantilist” period, it was in fact an extremely concise document,

composed of two short paragraphs. (The third paragraph involved the timing for the Treaty's ratification, also very short by any international standards.) In flagrant contrast with, for example, the named Treaty of "Free Trade" of North America of 1994, which is a 741 page document (with a total of 1,700 pages, if one includes all annexes).

Curiously, the Treaty of Methuen was also, from the beginning, an extremely controversial treaty. And why? Partly the explanation has its origin in the acute eighteenth century disputes between the Portuguese and the British over commercial trade and the attempts of the Portuguese government to stimulate manufacturing. These two subjects generated great controversy during most of the eighteenth century, with the veiled use of propaganda to influence public opinion. Both sides used leaflets, espionage and industrial sabotage. These cases drew enormous attention to the image of Portugal in Great Britain and, by extension, in British Historiography. It is important to emphasise that even today it causes great controversy among Portuguese historians. Anglo-Portuguese commercial relations, one cannot forget, were also strongly involved in debates at the moment of the formation of economics as an academic subject, involving even Adam Smith and David Ricardo.

But was this attention of such illustrious figures for English woollen fabrics and Portuguese wines justified?

In fact, with the English *feitoria* in Porto the business of exporting wine to England began in 1678, as a substitute for the re-export of sugar and tobacco from Brazil, a business which the merchants had lost to the competitors from the English West Indies islands who, pursuant to English Navigation Laws, were entitled to privileged treatment in the English domestic market. In 1667, due to the pressure from Parliament in London, English merchants who operated in Portugal also obtained a customs tariff over the import of wines which benefited them.

The Treaty of Methuen amplified this advantageous tariff for Portuguese wine in the English market in 1703, which also revoked the prohibition of importing woollen cloth from English manufacturers into Portugal. In exchange, Great Britain applied an extremely preferential tariff to Portuguese wines. All taxes and rights levied over the import of Portuguese wines would be lower in one third to the taxes and rights levied on French Wines. The results were impressive. The exports of Portuguese wine to England increased on an average of 632 caskets per year in 1678-1687, up to 17,692 caskets in 1718-1727, 29,388 in 1758-1676, 40,055 in 1788-1789. And, between 1756 and 1760, Port Wine represented 72 percent of all the wines consumed in Great Britain. Consequently, the North of Portugal saw a significant increase in viticulture and the conquest of the English market by Portuguese wine. And, on the other hand, during the first half of the century woollen fabrics represented two thirds of British exports to Portugal.

The fundamental objective of the treaty, a trade of reciprocal benefits for both sides, was achieved in this way. For Portugal, economically, relations with England brought great benefits as English consumers were in fact forced to drink Portuguese wine due to the discrimination against the overabundant wine from France and Spain. The wine was then, as it is today, an added value product. Why the criticism then? The main reason is that another factor enters this context: Brazilian gold. In the decade of 1690 the rich alluvium deposits of gold were found in the torrents, which came down *Serra da Mantiqueira* in the interior of Portuguese America. When the news spread out, in one decade the first gold rush of modern history was in full progress. Remittances of Brazilian gold increased regularly during the first half of the eighteenth century, reaching its peak in the beginning of the decade of 1750. Diamonds had been discovered in 1729 in the same area of the Brazilian interior, increasing the flow of riches that was then forwarded from the Brazilian *sertão* to Lisbon.

From 1730 this great flow of gold and diamonds from Brazil exaggerated the imbalance of trade between Portugal and Great Britain. Commercial deficits started being compensated, and the

acquisition of English products was made easier by the entrance of gold which, as Henry Fielding observed when he arrived in Lisbon, "Portugal distributed in such a liberal manner all over Europe." Purchasing power was dramatically increased. During the first half of the eighteenth century only Holland and Germany surpassed Portugal as consumers of English exports. Only in the critical moments of the Seven Years War (1756-1763) did the movement of British ships in the port of Lisbon fall below fifty percent of the overall. The value of Portuguese business with Great Britain was obvious and well known, and was almost all attributed to the Treaty of Methuen. "With this treaty", wrote, for example, Charles King, "we obtain more profits from Portugal than from any other country."

But it is necessary to disaggregate this image. For the Portuguese of this period it wasn't the trade itself that provoked criticism, but the manner of its entrepreneurial organisation. The British *feitorias* in Lisbon and Porto constituted, in fact, privileged communities, powerful and resented. The 1654 Treaty between Portugal and England, then a republic governed by the Lord Protector Oliver Cromwell, guaranteed English merchants not only "the same liberties, privileges and exemptions of which Portuguese merchants benefited in metropolitan and colonial commerce", but also guaranteed them religious freedom and, in a secret article, forbade custom taxes applied on English articles to be "above 23 percent." Some of the clauses agreed remained inapplicable, especially those which referred to the presence of English merchants in the Portuguese possessions in the colonies, but the 1654 treaty and the subsequent treaties certainly created a favourable environment for the development of powerful communities of foreign merchants established in Portugal.

However it is important to remember that none of this was new. Neither was it a creation of the Treaty of Methuen. The English were not the only community of foreign merchants to establish itself in Lisbon with privileges. There had been communities of foreign merchants in Portugal since the formation of the Portuguese nation, and foreign merchants resided, with special privileges, in all European ports, including in London. Yet there is no doubt that up to

1750, the British *feitoria* in Lisbon, due to the significant commerce of gold, included some of the most ancient and influential British companies of the time, among which: Bristow, Ward and Co., agents for John Bristow of London; Burrell, Duckett and Hardy, agents for Burrell and Raymond; Chase and Co., agents for T. Chase. In 1752, Lord Tyrawly observed, after having completed a diplomatic mission in Lisbon, that "a great number of subjects of His Britannic Majesty reside in Lisbon, rich, opulent, and increasing their fortunes and widening their businesses each day." Anticipating Noël Coward by about a century and a half, Arthur William Costigan observed in 1787, "it is common to hear natives saying that, except for those of a more modest condition, one cannot see anyone walk in hours of great heat except for dogs and Englishmen."

The gold from Brazil, while conferring Portugal the financial means to sustain the balance of payments with the British, was not the only link between Great Britain and the Portuguese colonial complex in the South Atlantic. A significant percentage of English products exported to Brazil through Portugal was smuggled directly to the Spanish colonies in South America. In the peak of its prosperity, the functioning of the system took silver from Spanish America, of vital importance for the European trade with Asia, to Great Britain, via Brazil and Portugal. In 1760, in accordance with an estimate, there were at least thirty coastal ships used in smuggling between Brazil and the River Plate. The fortified Portuguese colony of Sacramento, an advanced post in front of Buenos Aires, on the other side of the River Plate estuary, had been for a long time a favoured port of call for all smugglers, both British and Portuguese, and Luso-Brazilian.

To better understand the basic factors involved in any evaluation of the positive or negative impact of the Treaty of Methuen in Portugal and Great Britain, I believe it is important to briefly analyse the economic policy of the Marquis de Pombal after 1750. Pombal is frequently perceived as one of the most ferocious critics of English influence in Portugal, which in fact, in many aspects, he was. But in what concerns the Treaty of Methuen, it was a treaty that the marquis himself had approved. But why? Precisely

because of the privileged position from which Portuguese wine benefited in the British market, a result, in the end, of a manipulation of taxes which favoured Portuguese wine, which was exactly the kind of reciprocal commercial advantage which merited the approval of Pombal. In his governmental decisions there was never the will to, for example, prejudice this access to British markets. To remove British exporters from the Port Wine circuit was not even one of the purposes of *Companhia das Vinhas do Alto Douro*.

But the most lasting achievement of the Marquis, in this period and within this context was to make the advantages created by the Treaty of Methuen in the British market permanent. Favourable circumstances of treaties generally do not last forever, but in this case it managed to alter the preference of the British consumer towards Portuguese wines. He achieved this during the decade of 1750 in a manner up to then unseen, creating a demarcated region in Alto Douro with the objective of guaranteeing quality and stabilising the prices of wine products in the Douro region. With this innovation he created an exclusive reputation for the Douro wines, in fact the origin of Port wines. It was in this period that Port wine itself conquered a permanent place in British tastes, a preference, which remains up to the present days, three hundred years after the Treaty of Methuen.

All of this had an enormous impact on the entire European wine industry, as the Douro region was the first geographical area entirely dedicated to the production of specialised wine - something the French only implemented more than a century later! That is to say, the gold from Portugal was not only the gold from Brazil, which ran out. The Douro ended up being a source of real Portuguese gold and Port wine a valued export product, with a more lasting trajectory than the Treaty of Methuen itself, even more lasting than English woollen manufacturers, almost all of them nowadays closed for more than two centuries. Thus we can say that, during the long course of history, the Portuguese were the ones who won with the treaty, and not the English!

The objective of Portuguese economic policy would never be the elimination of commercial trade with Great Britain; it would always be an attempt to obtain reciprocity of treatment. Even in its famous list of complaints of Portuguese subjects in Great Britain, Pombal thought that the negative effects over the Portuguese entrepreneurial capacity had not been caused by the Treaty of Methuen. His economic rules and laws, the Marquis affirmed, pointed towards the objective of the treaties, which was to obtain mutual advantages, while at all times using legal means, and his policy of strengthening the position of Portuguese merchants was part of this process. The opposition to this strategy, according to him, roused among some elements of the Lisbon merchant community, who abused the privileges from which they benefited as British subjects to negotiate in products from other European countries and in gold. These merchants were not worthy of Great Britain's protection, he stated. And, in the end, in this position, Pombal was supported by the special envoy of Great Britain himself, Lord Tyravly, who reached the conclusion that the merchants close to the English *feitoria* of Lisbon did not deserve the special consideration from which they benefited as they were not exclusive merchants of British products, which, in the end, was the reason for them to be granted their privileges protected by treaties between the two countries.

In effect, Pombal's position was extremely intelligent and precocious, as the measures of the Marquis were based on a careful analysis of the economic and diplomatic factors it involved. Pombal understood that the relationship with Great Britain allowed him enough flexibility to take essential decisions for the protection of Portuguese national interests. He did not intend to alter or relinquish the historical connection between Lisbon and London. If he could keep a distance towards "measures more prejudicial for the *feitoria* than to Great Britain", as the traveller William Dalrymple wrote, he knew he risked provoking any serious diplomatic incident with the British government.

To create its policy, Pombal used a considerable part of the theory and practice of classic mercantilism, of British origin. But the

term "mercantilist" is not entirely appropriate for this designation. Mercantilism, in its strictest definition, refers to a policy in which foreign commerce is regulated, taxed and subsidised by the State, in order to promote the entrance of gold and silver into the country. In a more general terminology, the objective is to obtain a favourable trade balance with the outside. Pombal's policy had a more precise intention. His objective was to use mercantilist techniques - monopoly companies, regulation, designated production areas, taxes and subsidies - to ease the accumulation of individual capital by Portuguese merchants and consequently to strengthen the country's negotiating power within the Atlantic commerce system. Nothing in the Treaty of Methuen barred this objective.

For an enlightened economic nationalist, which is perhaps the most correct formula to define Pombal, the problem was not in the obtainment of precious metals; this was seldom a problem for someone who had to set up Portuguese policies in the eighteenth century. The dilemma was precisely the opposite, which is to say, the Portuguese had to set up the means to retain capital within their own economic system and, simultaneously, accentuate positive aspects and diminish the negative aspects of being producers of precious metals. In spite of everything, the theory and practice of mercantilism were creations of countries from North-eastern Europe, which did not possess precious metals. The application of the theory and practice of mercantilism to the Iberian countries, which had abundant gold and silver, was fundamentally different from the purposes of the initiators of this practice. The Iberians were determined to retain gold, and North-eastern Europeans were determined to get it.

In fact, Pombal's policies reflected the particularities of Portugal's position within the Luso-Atlantic system in the eighteenth century, especially the impact which gold from Brazil had on the commercial class in a period comprised from 1700 to 1760. In essence, Pombal, the omnipotent minister, placed the power of the State serving one of the factions in which Portuguese businessmen had divided into as a consequence of the abundance of gold in the economic system. He placed himself side by side with the

established large merchants, leaving behind the small merchants, who were considered foreign front-men, representatives or their agents. He hoped the great merchants, with the support from the State, could, in the future, be worthy adversaries of the foreigners, in their own territory.

His economic policy was logic taking into consideration Portugal's standpoint in the international commercial system. He protected the mutually beneficial external trade, such as the exports of Portuguese wine, but he also procured to create a class of powerful tradesmen, with capital and commercial capacity to compete in the national and international markets with foreign businessmen, specially with the British established in Portugal.

Therefore it is necessary to separate, on one side, the enormous economic impact of the Treaty of Methuen over the wine sectors, and in another, the impact of Brazilian gold over English exports to Portugal, two factors which were homogenised by analysts during the eighteenth century itself. This reality is clear if we look at the last two decades of the century after the dramatic fall in the production of gold in Brazil, which began in the decade of 1770. The tax on gold in Brazil had exceeded 100 *arrobas* during the decade that began in 1750. But, in the following years, the fifth tax yielded an average of only 86 *arrobas* of gold; between 1774 and 1785 the average continued to fall to 68 *arrobas*. In the year 1772, the French ambassador in Lisbon informed "the diminution of revenue from Brazil was immense." The quantity of gold coins in circulation significantly declined in the decade 1770, between 1771 and 1782, the issuing of gold coins dropped by more than 50 percent.

The exhaustion of alluvium gold and the incapacity to find techniques more adequate to an economy excessively dependent on the richness in gold of the Brazilian *sertão* had extremely serious consequences. Above all, the diminution of the production of gold entailed a prolonged decline of Portugal's importing capacity, especially of importing British products. But this circumstantial alteration also allowed Portugal to reach one the objectives of

Pombal's nationalist policies: an equilibrium in the balance of trade between Portugal and Great Britain.

The collapse of the gold sector had immediate effect on the businessmen whose field of activity depended on this metal to sustain themselves: the route which established the connection of British merchants with the gold from Brazil and the network of smuggling gold/silver from South America. The reduction of British commerce was, in fact, almost a catastrophe. Between 1760 and 1770, the overall value of exports from Great Britain to Portugal fell by half. The value of British woollen fabrics, which represented 70 percent of the value of the total exports from Great Britain to Portugal, which had reached an yearly average of more than one million pounds at the end of the decade of 1750, fell to 709,000 in the period between 1761 and 1765, and to 459,000 between 1766 and 1770. In 1760, only Holland and Germany had bought more British products than Portugal; fifteen years later, Holland, Germany, Spain, Italy and Flanders had relegated Portugal to a sixth place among British foreign commercial partners, while Africa, the West Indies, Ireland and the American colonies, were, by far, the best buyers of English products.

We can therefore perceive that, from 1750, two factors which were not notably caused by political actions or the implementation of commercial treaties such as Methuen, ended the enormous favourable commercial balance to Great Britain, due to the gold from Minas Gerais and the silver obtained through smuggling with Spanish America, through Buenos Aires. Both were simultaneously disturbed. Ironically the British, whose total comprehension of the extent of Pombal's economic legislation was recent, blamed him for being the initiator of the misfortunes which affected external commerce. It was ironically the other side of the argument of the English economists, such as for example, Charles King, who had praised the Treaty of Methuen for the significant growth of English exports during the first half of the century. Thus, a consequence of this erroneous vision was a violent propaganda campaign against Pombal, of which the publication of confidential memorandums addressed by the British *feitoria* in Lisbon to British

ministers in London, criticising his administrative creations, such as the *Companhia dos Vinhos do Alto Douro*, was part. But, in fact, the cause of the misfortunes of British commerce in Portugal was another one, quite different. Pombal himself, needing British military and political support at the end of the decade of 1760, had in vain tried to explain the change of economic circumstances to those who criticised him in England. In 1767, when the British ambassador in Lisbon complained to Pombal and its Foreign Secretary, Luís da Cunha Manuel, that "several innovations which affected the business of British subjects had been decreed [and] that it was certain that the commerce with Portugal had suffered an enormous reduction", the minister Luís da Cunha Manuel replied that he considered that to be true, but attributed the reasons for the diminution of the commerce with England - and the words are his:

"After the earthquake, the war, the fire at the Customs Office (1764), but mainly the fact that business with Rio de Janeiro and Nova Colónia [do Sacramento], before quite significant, has now halted... and for such reason the business had practically stopped through the River Plate, which had diminished the remittances of [precious metals] from Rio de Janeiro and the consumption of British products."

However, these new economic conditions produced a favourable environment for the growth of Portugal's manufacturing industry. It was the opposite of what had happened to the Conde de Ericeira at the end of the seventeenth century. Then economic circumstances had brought negative consequences for the new Portuguese industry of manufacturing, as its competitiveness was destroyed by the easy way by which Portuguese consumers bought imported articles, due to the abundance of gold arriving from Brazil. By contrast, in the decade of 1770, Portuguese domestic manufacturers were more competitive due to the dramatic reduction of Portugal's importing capacity.

And now, ironically, it was Great Britain which complained over reciprocity. In October 1791 Robert Walpole, the English ambassador in Lisbon, told Lord Greenville: "This might be

considered as a kind of phenomenon, the remittances of gold from England to Portugal." The Board of Trade in London had, since 1788 searched for a new commercial treaty with Portugal to replace the Treaty of Methuen, something that the Portuguese government did not accept. It was the inversion of positions that certainly would have enchanted an old and subtle Marquis of Pombal, were he still alive; but which certainly would not constitute a surprise for the father and son Methuen. That is so, because the mutual benefits were, despite everything, the purpose of the treaty which bears their family name, a merchant's name, for a treaty, not about arms, territory or war, but basically, over prosaic products, practical and enjoyed by the consumer: woollen fabrics and Port wine. It was therefore, in the practical and European vision of our days, a surprisingly modern treaty.

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