# TRADING IN AN EMERGING MARKET: E. JOHNSTON & CO AND THE BRAZILIAN COFFEE TRADE 1840-1880

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**ABSTRACT**

The article analyses the development of the coffee export business of the British company Edward Johnston & Co. in the years 1840-1880. Established in 1842 in the city of Rio de Janeiro, the firm's senior partner was the English merchant Edward Johnston. The departure of partners and the crisis of 1847 made Edward Johnston reorganise the firm in Brazil. In the 1850s, the company established itself as a family business based in Liverpool and then in London in the 1860s. The expansion of the coffee market in the United States made Edward Johnston create a network of firms which consolidated the company as a major exporter of Brazilian coffee by the late 1870s.

**Keywords:** Brazil, Brazilian coffee trade, exports, emerging market, English merchants

**JEL Code:** F10, N76

**RESUMEN**

El artículo analiza el desarrollo del negocio de exportación de café de la empresa británica Edward Johnston & Co. en los años de 1840 a 1880.

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Organizada en 1842 en la ciudad de Río de Janeiro, la firma comercial tenía como principal socio al comerciante inglés Edward Johnston. La salida de los socios y la crisis de 1847 hicieron que Edward Johnston reorganizara la firma en Brasil. En los años 1850, la compañía se estableció como una empresa familiar basada en Liverpool y después en Londres en la década de 1860. La expansión del mercado de café en los Estados Unidos hizo a Edward Johnston crear nuevas firmas y esta red comercial consolidó la firma como una gran exportadora del café brasileño en fines de la década de 1870.

**Palabras clave:** Brasil, comercio de café brasileño, exportaciones, mercado emergente, comerciantes ingleses

## 1. INTRODUCTION

Brazil's leading 19$^{th}$ century export was coffee, but few studies exist of British merchants in the trade. Coffee as a commodity has attracted attention but less has been paid to the individual mercantile participants in the supply chain (Clarence-Smith and Topik 2003; Topik and Samper 2006). This article analyses the strategies developed by the British firm of Edward Johnston & Co, founded in the city of Rio de Janeiro in 1842. It concludes at the end of the 1870s when the firm had become the market leader for coffee exports, almost at the moment of its founder's death, from which point the trade's market conditions began to change (Topik and Samper 2006). There are company histories to celebrate the firm's centenary in 1942 and its 150$^{th}$ anniversary in 1992 (Joel 1942; Bacha and Greenhill 1992). Two American historians and one Brazilian scholar have also referred to the firm. Richard Graham's main interest was its subsequent offshoot, Brazilian Warrant, formed in 1909, and Eugene Ridings referred to Johnston in his analysis of foreign business interests in Brazil (Graham 1968; Ridings 1994, p. 125), both using the small archive left by Johnston's manager in Santos, Edward Greene, which covers the years 1892-1905[1]. Guimarães analysed the firm in the 1840s when it began a strategy of specializing in coffee exports (Guimarães 2015). In contrast, this paper examines the firm's presence in Brazil over a longer period and exploits letter books previously unavailable to historians[2]. These are

[1] Edward Greene papers (copies of «out» letters in two volumes), University College London.

[2] Bound copies of Edward Johnston's letters during the period 1830-1851 are held privately by his descendants but are not now available for public scrutiny. There are four volumes of «out» letters covering the period 18451851 to which this paper refers. Three volumes (henceforth *CJ*) of «out» correspondence belonged to the late Christopher Johnston and cover the period 1845-1848. Only the first two are paginated. The fourth volume (1848-1851) belonged to the late Francis Johnston (henceforth *FJ*). A further «out» letter book of the 1830s was in the possession of

now supplemented by additional archival material in Britain, Brazil and Portugal and by recently published secondary material[3].

How did a small partnership come to dominate Brazilian coffee within 25 years of its formation and what does this case teach us about commercial intermediation in the coffee trade? The first half of the paper discusses the internal structure of Johnston's partnership, concentrating on three areas: the importance of business networks; Johnston's personal role as an entrepreneur; and, finally, the strengths and weaknesses of the family business. The second discusses essentially external issues: the firm's commercial approach and its specialisation and diversification strategies against a backdrop of the evolution of the international coffee trade. A final section indicates the company's significance for furthering our understanding of 19th century mercantile strategies.

## 2. BRITISH FIRMS IN 19th CENTURY BRAZIL

What was the commercial context for British businessmen in Brazil after 1800? The country, an emerging market in the 19th century, imported slaves, which promoted an active African trade, foodstuffs and basic consumer goods from Europe and the United States (Thomas 1997; Eltis and Richardson 2008). Brazil was also a major supplier of primary products, most notably sugar and gold. A heightened commercial enthusiasm occurred soon after 1808 when Brazil became the new centre of the Portuguese Empire with the transmigration of the Portuguese Court to the city of Rio de Janeiro and the conclusion of the 1810 Anglo-Brazilian commercial treaty, which gave wider access to foreign merchants (Robson 2011). Coffee overtook sugar as the main Brazilian export product during the 1830s (Bacha and Greenhill 1992) and the trade grew to the extent that Brazil became the world's largest producer during the decade with some 40 per cent of total output 10 years later (Marques 2016, pp. 120-122). By the second half of the century, coffee, a remarkably important staple, was second in value only to wheat and later oil as an internationally traded commodity[4].

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Veronica Johnston (henceforth *VJ*). We are grateful to members of the Johnston family for their permission to use these sources, which were first opened in the preparation of the company's 150th anniversary.

[3] Additional sources include archival collections cited in footnotes, Brazilian newspapers in the *Hemeroteca Digital* of the *Bibliotheca Nacional* in Rio de Janeiro (BN) (http://bndigital,bn.gov.br/hemeroteca-digital/) and Portuguese documents in the *Arquivo Nacional da Torre do Tombo* (henceforth ANTT) and the *Biblioteca Nacional in Lisbon* (henceforth BNL).

[4] Mergers and Monopolies Commission, *Soluble Coffee: A Report on the Supply of Soluble Coffee for Retail Sale within the United Kingdom*, CM 1459, HMSO, 1991, p. 24.

How easy was it to establish a merchant house in Brazil in the first half of the 19th century? Notwithstanding the assumptions of perfectly competitive markets, in practice commercial knowledge was held asymmetrically. Manufacturers used middlemen to avoid the cost of searching for trade partners at a time when international communications were slow and erratic. Manuel Llorca-Jaña identifies up to 200 British merchant houses in Brazil by 1810, a number much larger than Christopher Platt's earlier estimate (Llorca-Jaña 2016, p. 9 footnote 22; Platt 1972, p. 42). British merchants may have possessed some advantages in that Portugal, a long-standing ally of the United Kingdom, awarded them valuable trading privileges and lower import duties in Brazil. There was also the added benefit of Britain's international economic leadership as well as possible access to London's financial markets. However, British import duties in favour of imperial rather than Brazilian sugar and Britain's increasing preference for tea over coffee were obvious drawbacks.

The close of the Napoleonic wars and the declaration of Brazil's independence from Lisbon brought the arrival during the 1820s of more overseas merchants and investors attracted by fresh commercial opportunities (Dawson 1990). The British, in particular, manoeuvred to exploit the possibilities of freer trade as low entry barriers enabled new entrants to gain a foothold. In 1838, some fifty houses of all nationalities were recorded in Rio de Janeiro and consular surveys listed over forty-five firms of British origin (together with eighteen French and six American houses) during the 1840s while 25-30 British merchants resided in Salvador (Bahia), a centre for sugar exports in north-eastern Brazil[5]. At the mid-point of the 19th century, Schroders had seventeen mercantile clients in Rio de Janeiro and eight in Bahia (Roberts 1992, p. 50), while Huths had twenty-two correspondents in Brazil (Llorca-Naña 2016, p. 105). The United States firm of Maxwell Wright, then the leading house in Rio, whose partners were said to be «careful and good men of business», originally supplied ships and equipment for the Atlantic slave trade but from the 1840s concentrated on coffee (Graden 2007, pp. 9-35; Jarnagin 2008; Horne 2010; Santos 2014, pp. 43-63; Marques 2016, pp. 127-129, 139 and 165-166). Other large houses included Samuel Phillips & Co and Moon Brothers who had links with London and Liverpool (Guimarães 2012)[6].

[5] «Lists of British Merchant Houses in Brazil» by Acting-Consul Westwood (Rio de Janeiro), Consul Porter (Bahia) and Consul Cowper (Pernambuco), Foreign Office files (henceforth FO), 83 111 (1848), pp. 272-280, National Archives (henceforth NA); «Character of Firms at Rio», HC16 (1838), Barings Archive (henceforth Barings).

[6] A. Birckhead to Barings 19 January and 10 February 1838, HC4.2.1, Barings. Birckhead, a leading Rio merchant during the 1830s and 1840s, was an important correspondent with Barings.

Among those who came to Brazil in the 1820s was Edward Johnston. Born in 1804, he joined the Rio de Janeiro branch of the long-established Jersey-based import–export house of Francis Le Breton as a 17-year-old clerk before, in 1827, becoming one of its resident managers, the other being Charles Saunders (Cox 2009, p. 87; Guimarães 2015, p. 9)[7]. Johnston subsequently married Henrietta, the daughter of a leading Dutch coffee planter, Dr Charles Alexander Moke, who farmed the Nassau *fazenda* at Tijuca, then just outside Rio. When two of Le Breton's partners in Jersey retired, Johnston had insufficient funds to buy himself into the firm[8]. Consequently, he set up on his own account in 1831 and in September 1842 with William Joseph Havers and João Ignacio Tavares formed Edward Johnston & Co, which secured offices and stores in Rio's commercial centre[9]. Although Edward Johnston & Co was a relative latecomer, there was some first-mover advantage from his presence at the beginning of the coffee trade's expansion after market deregulation in the 1820s. «Most of the English here», wrote Johnston, «are my friends and I should get plenty of support»[10]. Johnston was the senior partner with 40 per cent of the firm's £5000 capital (44 contos of *reis* at 1842 exchange rates), small by British standards but not by Brazilian (Chapman 1992, pp. 104-105; Milne 2000, pp. 124-127). Having served his commercial apprenticeship, Johnston had entered the next stage of his career to trade with his own firm.

At first sight, the partnership's prospects seemed limited. Brazil appeared an overcrowded and highly competitive market for British and other overseas merchants. In reality, the competitive intensity among merchants at Rio may have been less than anticipated and the gaps in the market were wider with plenty of scope for newcomers. Few native dealers had overseas links and if the barriers to foreign entry were low, so were the barriers to exit. The life span of small commercial houses, usually sole traders or partnerships, was often quite short and their turnover rapid. Retirement or death, which dissolved partnerships and took capital out of a firm, the failure to secure a succession, managerial indolence, a poorly judged business decision or bankruptcy could easily bring a firm down. Merchants, impatient with a challenging business environment, simply gave up. A survey for Barings of British merchant houses in Rio in 1852 noted that several British firms there were doing little business: Naylor Brothers

[7] *Juizo da Conservatória* No. 11164, Maço 2.330, GAL, Slide 027-040, *Arquivo Nacional* (henceforth AN).

[8] Edward Johnston to Henry Masterman 27 May 1831, *VJ*, p. 34.

[9] Rua do Sabão and later Visconde de Inhauma. *Almanak Administrativo Mercantil e Industrial de Rio de Janeiro para o anno bissexto de 1844* (1845) pp. 223 and *de 1846* (1848), p. 259; *O Estado de São Paulo* 15 September 1942; *Diário de Santos* 15 September 1942; Edward Johnston & Co., *One Hundred Years of Coffee*, pp. 7-12.

[10] Edward Johnston to James Johnston 11 January 1833, *VJ*.



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«appears to want energy», Miller Le Coq had speculated unwisely, Le Breton had recently lost a large sum and Moon Brothers seemed to have retired[11]. Even Maxwell Wright was judged to be «too fast» in the 1850s and consequently lost ground to rivals before disappearing in 1864[12]. From the 1860s, Schroders turned their attention elsewhere, reducing their clients at Brazilian ports to nine out of a total of 596 (Roberts 1992, p. 92).

## 3. EDWARD JOHNSTON & CO., ITS CONNECTIONS AND EXPANSION

Three features of Johnston's business model stand out. First, it was obviously difficult for a small business to acquire capital and contacts, especially since it originated abroad rather than more usually from a domestic base in Britain. Unable to rely on his own resources, either for funds or managerial recruits, Johnston, like so many start-up entrepreneurs, created a support network through partnerships, the main organisational form for the conduct of foreign trade in the 19th century, within the mobile trading communities. Interlocking personnel, local alliances and family ties offset the disadvantages of small scale. Whereas larger companies internalise their business functions, sometimes through formal vertical integration, smaller firms entered versatile clusters of similar enterprises to widen their pool of resources and lower transaction costs. Merchants, with profitable opportunities but without the means to exploit them, could use a network to mobilise funds, spread their risks and improve their decision-making (Rose 2000; Pearson and Richardson 2001, pp. 657-679). The process was one of competition and cooperation, of formal and informal links and of implicit and explicit agreements based upon trust and shared beliefs and values.

Johnston needed commercial ties in Europe. He twice visited Britain during the 1830s to expand his contacts in the manufacturing districts, especially Manchester and Glasgow[13]. Indeed, many of the British merchant firms in Brazil were directly linked to a parent house in the main industrial cities since the most important outward cargo was textiles.

[11] «Mercantile Houses in Brazils», HC 16, 1852, Barings; on Moon Brothers, see correspondence of the Liverpool branch of the Bank of England (henceforth Bank), 31 January and 3 February 1845 and 5 December 1846, C129/6, pp. 29 and 42 and C129/7, p. 395.

[12] H. W. Gair to Rathbones 11 April 1859, Rathbone Archive, University of Liverpool (henceforth Rathbone); Entry 14 October 1864, C129/18, p. 167, Bank. Gair, a merchant based in Rio de Janeiro, was an important correspondent with Rathbones.

[13] *Diário de Rio de Janeiro*, 4 July 1838, p. 3, col 1 describes the auction of Johnston's furniture after he left on his second trip. See also letters in *VJ*. Johnston also visited Holland during his time in Europe.

Johnston formed partnerships with two families, the Ironsides and the Saunders, who provided capital and managerial expertise. In April 1844, leaving his Rio partners in charge, Johnston relocated to Liverpool, the dominant Anglo-Atlantic trading hub specializing in commodities and textiles[14]. At his Water Street offices, Johnston joined Charles Ironside who had an established reputation in the city as the President of its Brazilian Association, which defended British commercial interests[15]. Ironside exported textiles to Lisbon and shipped wine and other Portuguese products to Brazil (Guimarães 2015). Upon Ironside's retirement in 1845 and that of his son, Charles Calvert Ironside, in 1853, Johnston moved the partnership to the offices of Charles Saunders, his former colleague at Le Breton & Co[16]. When he brought one of his sons, Francis John, into the business in 1853, the Liverpool house style became Edward Johnston, Son & Co, retaining the discounting facilities at the Bank of England's Liverpool branch which Ironside had enjoyed[17].

Access to capital was crucial but in Brazil slow turnover and few sources of local funding restricted supplies of finance. While merchants generally hated tying up funds in loans, Johnston had to provide credit to buyers and loans to suppliers, the sums covered by the value of the shipments, to prevent them going elsewhere, although he sometimes avoided paying an advance to shippers[18]. Ironside's capital was fundamental to Johnston's business and was particularly important during the 1847 banking panic in which many firms had problems, including the Royal Bank of Liverpool where Johnston had an account. Without credit facilities and dangerously exposed by unsold cargoes of sugar and coffee, while urgently awaiting large remittances from Brazil, he might have gone under (Ward-Perkins 1950; Anderson and Cottrell 1975)[19]. Ironside discounted bills in London for Johnston and McCalmonts of Pernambuco agreed not to press for payment. Subsequently, staff were made redundant and shipments halted until the panic subsided. «The times», Johnston wrote,

[14] *Diário do Rio de Janeiro*, 17 April 1844, p. 3 and 30 April 1844, p. 4, column 4. Johnston together with his wife, four sons and two maids sailed on the English packet boat, *Senft*, Captain Douglas.

[15] *Gore's Directory*, 1845; letters 28 January 1845, C129/6, p. 36, 28 June 1847, C129/8, p. 193 and 11 and 13 December 1849, C129/10, pp. 255-256. Bank. The partnership was subsequently valued at £40,000-£50,000.

[16] *Gore's Directory*, 1859, p. 138, 1864, p. 171 and 1865, p. 199; *London Gazette*, 1845, III, p. 2000.

[17] Letters 23 February and 31 December 1853, C129/12, pp. 5 and 48, Bank. Charles Ironside retired on 1 July 1845 and his son, Charles Calvert Ironside, on 1 October 1853. Johnston had a £20,000 discounting limit at the Bank.

[18] Edward Johnston to James Napier 3 August 1849 and 4 January 1851, FJ, pp. 212 and 642.

[19] The impact of the 1847 crisis on Johnston's business is described in letters in *CJ*, III, especially October 1847.

«are enough to turn a man's head grey»[20]. On two further occasions, his solvency was questioned. In 1852, Barings noted that the partnership «enjoy a fair credit but lately people have refused to take their bills on their own house in Liverpool»[21]. In 1862, a false report in *The Times* that Johnston's bills were being refused soon sent him to the Bank of England's Liverpool branch to reassure the officials[22].

While cosmopolitan Liverpool with its Atlantic links as well as access to Britain's manufacturing centres was important, it was London where Johnston eventually located (Miller and Greenhill 2008, pp. 78-99). While some houses managed perfectly well with just a Liverpool office—there was little difference between the two cities in terms of bill discounting—London gave merchants crucial access to the City's money and capital markets for financing international trade and raising investment funds. It was also an entrepot from where coffee, Johnston's principal traded commodity, was re-exported to Europe. Hence, in 1862, he moved to London, leaving the Liverpool office to another son, Charles[23]. The Bank of England noted in 1865 that most of Johnston's business was done through London and that the partnership now had a value of £100,000, a large sum for a merchant[24]. Johnston's relocation enabled him to participate in the formation of the London and Brazilian Bank as an initial shareholder and, subsequently in 1867, as Deputy-Chairman. He was also an early subscriber to and director of the London, Brazilian and Mauá Bank in 1865, having been involved in the formation of the *Banco Commercial do Rio de Janeiro* in 1846 (Joslin 1963, pp. 64-71). These interests might have provided Johnston with easier access to working capital as well as yielding information about commercial rivals who used these banks, or as stand-alone profit-maximizing ventures.

Johnston also created a web of connected partnerships in Brazil and the United States (see Figure 1 below). The original arrangement with Havers and Tavares did not last as Tavares left to form his own brokerage firm. A second partnership with Havers in 1846 gave Johnston a two-thirds share of approximately £6,000 (53 *contos* of *reis*) capital but Havers died within 12 months, forcing Johnston to send for his brother Henry. Business at one port, even Rio, was unlikely to be sufficiently profitable, so merchants created further partnerships in other ports. Thus, Johnston took a controlling share in Ironside Napier at Bahia, later dissolved and restyled as Johnston Napier with a value of £12,000, 113 *contos* at 1846 prices[25] (Guimarães

20 Edward Johnston to James Napier 1 June 1847, *CJ* III.
21 «Mercantile Houses in Brazil», HC 16 (1852), Barings.
22 Entry 30 September 1862, C129/17, p. 137, Bank; *The Times*, 1 October 1862 6a.
23 Entry 6 September 1865, C129/18, Bank; *Gores Directory* 1864, p. 171 and 1865, p. 199.
24 Memorandum 12307, C129/20 (1868-9), p. 94, Bank.
25 *The Law Times*, 15 March 1845.

**FIGURE 1**
Johnston partnerships and main agencies, c. 1855-1860.


2015, p. 19). Subsequently James Napier left Bahia for Rio where he remained the resident partner until his retirement in 1857, while the Bahia house was run by Francis Saunders, the son of Charles Saunders, as Johnston Saunders. Johnston highly valued Napier's contribution to their business despite their frequent differences of opinion. «I am sorry Napier is leaving …», wrote Johnston, «as we shall not find anyone who can supply his place, and although he is very touchy at times, there is no doubt that he is an excellent man of business …»[26].

In addition to these formal arrangements, Johnston established informal, non-contractual reciprocal relations with «correspondents» in other Brazilian ports, like McCalmonts (who had supported him in 1847 and

[26] Edward Johnston to Francis Saunders 17 August 1850, *FJ*, p. 522; Edward Johnston to N. Rothschild 1 October 1857, XI/120/6B, Rothschild Archives (henceforth Rothschild).

were linked to Charles Saunders), based as much on trust and friendship as on cash or legal arrangements, which allowed him to mobilise more resources and widen his range of activities. They might cooperate on an *ad hoc* basis. Johnston seems to have used agents at the various European ports, but in the United States, his largest market for coffee, it was no coincidence that he preferred to create two further partnerships, at the main ports of entry, New Orleans (Johnston Moke) with his brother-in-law and New York (Napier Johnston), as shown above.

By the 1850s, these interlocking branches, agents and multiple connections at key points created a flexible but cohesive network for the conduct of business in the Brazilian trades. Johnston was at the core of a regional constellation of activities in the Americas and Europe spanning various ports, which attracted trade, linked a large number of firms, gave access to a range of products and supplied commercial information. This presence within formal and informal relationships yielded external economies, which merchants could exploit.

## 4. EDWARD JOHNSTON'S BUSINESS STRUCTURE

A second feature is that Edward Johnston's business structure seems to be decentralised rather than centralised (Milne 2000, chapter 5). Controlling a business thousands of miles away from its headquarters at a time of slow communications and conducting trade that did not necessarily pass through home ports created considerable managerial problems. It was inevitably difficult to judge the probity and trustworthiness of business associates from a distance. The various partnerships overlapped and were linked but each appeared largely self-contained and separately named, a technique frequently employed during the 19$^{th}$ century, especially where commercial risks were high, so that bankruptcy in one part of the business would not lead to the collapse of the whole. Equally, the structure enabled Johnston to offset cyclical difficulties in one place by successful trading in another. Brazil in the 1840s was in fact a collection of regional markets conducive to independent management, each requiring different commercial techniques and expertise.

In reality, Edward Johnston was at the centre of his firm over which he exercised close personal attention. Johnston was «said to have a good property and to be an excellent man of business»[27]. The partnerships were essentially extensions of his head office in which the partners shared the profits and losses. This was an owner-managed business, albeit informal, with a limited hierarchy and a wide span of managerial control. Letters

[27] Entry 28 June 1847, C129/8, p. 193, Bank.

to partners, managers and agents contained a mixture of advice and admonition. «It is only by watching the market», he once wrote, «that we can expect to do any good. You must see what your neighbours are doing as that will be a guide in some measure for your own operations».[28]

It is, however, very difficult to assess the contribution of one man to any company's success, so much is he dependent on circumstance as well as the economic environment over which he has little control. Starting any business, especially on the periphery of the world economy in the 1840s, needed imagination, ambition and a support network. Johnston spoke and wrote Portuguese, possessed considerable commercial skill and had a good local knowledge of Brazil. The dynamics of the coffee trade suited the talents of powerful personalities but how did he keep his commercial knowledge up to date? Once in Britain, Johnston had to rely on the decisions of his partners and the reports and judgements of his agents in Brazil. He needed confidence in his suppliers and preferred to purchase once coffee had reached a port of shipment rather than on the *fazenda*. Coffee is a speculative business in which the decision to buy or sell and the ability to ascertain quality were down to an individual's judgement. A shipper's honesty and knowledge were crucial to the confidence clients needed before they placed cash against shipping documents on a sight unseen basis and undertook repeat business. What letters can reveal is how hard someone works. Long hours, few holidays and a daily stream of correspondence, even on Christmas Eve, were the lot of merchants. Edward Johnston's role was clearly pivotal. «It does not do», he told Henry, his brother, «to be away from the office so much as I was last year».[29]

## 5. EDWARD JOHNSTON & CO: A FAMILY FIRM

Third, of course, Johnston preferred a family business. The question of family presence is a feature of Britain's commercial past. The third-generation arguments and the Buddenbrooks syndrome embellish the literature of business history. The problems for family businesses are well-known: their intrinsic conservatism, their introspective visions, their resistance to new ideas and outsiders, their emotional attachment, secrecy, the narrow base for recruiting business leaders and their inability to generate investment funds in addition to reinvested profits. In particular, there are the twin problems of managing succession and corporate governance. The founder cannot be easily expelled, or the children and grandchildren may be reluctant or unable to take control when he finally retires or

[28] Edward Johnston to William Havers 9 December 1845, *CJ* II, p. 85.
[29] Edward Johnston to Henry Johnston 6 April 1850, *FJ*, p. 414.

dies. The family business culture may also resist any organisational transformation to a streamlined administrative structure.

However, a recent reassessment of the contribution and efficiency of family-run firms has painted a more complex picture (Church 1993; Rose 1994; Casson 1999; Milne 2000, p. 126; Colli *et al*. 2003). Family dynasties, the bedrock of the Victorian economy, were probably well-suited to managing small- and medium-sized merchant houses in the mid-19th century when markets were localised, capital requirements were relatively low and most business functions could be internalised. In an age of commercial uncertainty, a family dynasty made considerable sense, if only to reduce transaction costs. Members of a family, a known quantity and easy to recruit and train, could exercise a wide authority under standardised procedures without a costly bureaucracy to delay decisions but with a rapid response to commercial opportunities. There are also issues of loyalty, responsibility and trust—crucial in a business where contracts had to be honoured. If Edward Johnston himself could not be in Rio or the United States, it was important to have a relative there. Linking the family's prosperity to the firm's was a way, too, of providing incentives so that personal interests complemented corporate ones. Family members with a secured succession provided a longer perspective, vital when trading reputations, rather than short-term profit maximisation, counted for much and the business remained within family control. It is so much easier for a family member to continue the public identity and corporate culture that reinforces the broad image of the firm for fair dealing and quality of service. Reputation for honesty and prestige really mattered in the commodity trades where trust was crucial to ensure contract fulfilment and the delivery of the specified quality and quantity of coffee. «It will not do», Johnston wrote, «to get a bad name … as it will affect us for some time»[30].

Although early on he exploited his links with the Saunders and Ironsides, their withdrawal from business enabled Johnston to recruit close relations and extended family, which produced a knowledge transfer over the generations. He had already brought in his brother Henry in Rio after Havers's death and subsequently went into partnership with his brother-in-law, George Moke, in New Orleans during the 1850s. More important, he recruited four of his sons, each one having a spell in Brazil before being admitted to full partnership. The eldest, Charles Edward, born in Brazil in 1829, represented the house in New Orleans and in 1862 became responsible for the whole United States market, returning to Britain 2 years later as a full partner. Francis John, the third son, who joined the firm in 1853, was sent to Rio and also became a partner until ill health forced his retirement in 1866. Reginald Eden,

[30] Edward Johnston to William Havers 8 October 1845, *CJ* I, p. 354.

the seventh son, born in Liverpool in 1847, and Cyril Earle (1854-1928), the youngest, also entered the business. Johnston was astute enough to realise that a merchant required experience and trading, sending Charles to Valparaíso to serve a commercial apprenticeship before he entered the family business. «I find», he wrote, «that young men when abroad occasionally presume on their being partners' sons, and are not likely to do so well as when they feel that they are entirely dependent on their own exertions»[31].

However, Johnston was not blinded by family loyalties and nepotism. Careful selection excluded incompetent relatives from the partnership and promotion was through ability not kinship[32]. Recognizing that Henry, his brother, was still too inexperienced to be left on his own in Rio, Johnston informed Napier in 1847 that he did not «wish [him] to take any prominent part in the business at present»[33]. Henry's heart was never in the coffee trade and he retired early to become an artist, his real love. Aside from the four sons in the firm, Johnston's other children, including five daughters, had to pursue independent careers.

However, neither his network of interlocking partnerships nor his family preferences solved all Johnston's managerial problems. In the years before the submarine telegraph linked Brazil to Britain and Europe, the return of post by sailing ship took 3 months or more, during which time market conditions could change rapidly, and the establishment of steamship links to Brazil in the 1850s brought no immediate improvement (Ahvenainen 2004; Forrester 2014). Notwithstanding duplicate correspondence, imperfect information might lead to strongly differing views in Brazil and Britain about business prospects and to somewhat intemperate language as Johnston's letters were apparently ignored by partners in Rio. Without rapid and secure communication, the spread and adjustment of coffee prices between markets posed considerable difficulties. While Johnston agreed to let the Rio office judge the coffee trade with the United States, he insisted that his instructions be followed «for our own vessels and on our own account»[34].

Johnston was at times forced to hire salaried managers, preferring «men of business not just good counting house men», who would not subsequently set up in business for themselves taking his clients with them. Outsiders can make or break a family business. The right people bring

[31] Edward Johnston to Heatley 30 December 1848, *FJ*, pp. 77 *et seq*. It transpired that Charles Johnston received £60 *per annum* at Dunbars paid anonymously by his father!

[32] Edward Johnston to James Johnston 17 March 1831, *VJ*, p.31. In reference to his brother, Tom, Johnston wrote that «I should not like to have him out in Rio as he might be a means of leading Henry astray.»

[33] Edward Johnston to James Napier 6 December 1847, *EJ*, III.

[34] Edward Johnston to James Napier 26 June 1849, *FJ*, p. 298.

innovative ideas and new levels of professionalism to guide the next generation or act as a bridge between family members. After Havers died in Rio but before Henry could depart for Brazil, Johnston hired Andrew Steele, a decision he quickly regretted. He confided in letters to his brother-in-law, George Moke, that affairs in Rio were being badly mismanaged. «I should have wished», he told Steele, «that you had remained … but after a twelve month trial I find you are of too quick and easy a disposition to be left entirely to yourself in the management of a large business»[35].

However, in hiring outsiders Johnston inevitably came up against the principal-agent problem. The risk was that agents might deliberately or accidently overlook the advice of their principals. When information was held asymmetrically, it was difficult to monitor whether an employee was working in the principal's interests or whether, using his superior knowledge of local conditions, he was engaged in opportunistic commercial transactions of his own. How should a manager be rewarded? Partners could charge commission on any business with another branch and trade on their own account as long as they, and not the firm, bore the risk. Johnston also allowed salaried employees a commission if a business showed a profit but strictly forbade their trading on their own account without authorisation. William von Sachs, who worked for Johnston in New York, soon invoked his principal's displeasure because of his opportunism against the firm's interests. «I distinctly stated to you», Johnston wrote, «that you could not expect us to pay you a commission on … business on which we made a loss besides paying you £300 per annum. You would naturally be anxious to do as much business as possible, whether profitable to us or not as you would always in that case have been certain of your commission. You say you have no permission from us to do any business on your own acct (sic)—of course you do not … you surely cannot expect that we should pay you a salary that you may transact business for yourself»[36].

## 6. IMPORT STRATEGIES

The second half of this paper discusses Johnston's trading strategies. What sort of business did he establish? To what extent was it similar to or different from his rivals? Johnston's early trading was typical of that of the many small general merchants in Brazil who handled imports on a commission basis (as a percentage of the selling price) for principals in the United Kingdom. «I shall eventually establish as a «General

[35] Edward Johnston to Andrew Steele 11 October 1848, *FJ*, pp. 4-7.
[36] Edward Johnston to William von Sachs 18 October 1849, *FJ*, p. 269.

Broker»», he wrote, «which is the thing I am most likely to succeed in and which does not require much capital ...»[37].

For importers, the commercial conditions in Brazil in the middle of the century were not easy. The city of Rio de Janeiro, the capital and the richest city of the Brazilian Empire, with a population of approximately 270,000 inhabitants in the 1850s (Florentino 2002), had purchasing power and the capacity to absorb imported manufactured goods. Because of the concentration of income, which did not differentiate Brazil from other Latin American nations at the time (Abreu and Lago 2010; Tombolo and Sampaio 2013), there was an effective demand among the rich and a trade resulting from luxuries, but the market was not large and quickly became saturated. The need for a variety of goods and the ever-present threat of a financial crisis, such as that of the 1840s, as slump followed boom, made trading in Brazil, as elsewhere, a risky venture, reinforced by the long lines of communication between the Americas and Europe[38].

Table 1 below indicates the pattern of Johnston's cargoes in Rio de Janeiro from 1842 to 1875. He clearly worked a mixed import business of basic foodstuffs such as codfish (a staple in the local diet and his most frequent cargo), flour and salt as well as basic manufactured goods, including hardware, ceramics, iron and steel, machinery and even small arms, as well as timber and coal[39]. Like so many British merchant

**TABLE 1**
LEADING GOODS IMPORTED BY EDWARD JOHNSTON & CO, 1842-1875
(BY SHIPLOAD NOT VALUE)

| **Product** | **1842-62** | **1862-75** |
|---|---|---|
| Cod | 22 | 55 |
| Yarn | 12 | n/a |
| Flour | 11 | 16 |
| Coal | 10 | 10 |
| Pine/wood | 4 | 40 |
| Salt | 7 | 10 |
| Wine/spirits | 2 | 10 |

*Source*: Diário do Rio de Janeiro, 1842-1875.

[37] Edward Johnston to James Johnston 11 January 1833, *VJ*, p. 35.
[38] Edward Johnston to James Napier 25 August 1845, *CJ* I, p. 314; Edward Johnston to Francis Saunders 2 December 1848 and 27 January 1849, *FJ*, pp. 52 and 112 *et seq*.
[39] James Napier to Rothschilds 12 November 1853, XI/120/5B and Bahia Market Report 18 April 1857, XI/120/6A, Rothschilds.



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houses, however, and despite the appearance of product diversification, his most important high-value cargoes were textiles, second only to codfish by shipload but far more significant in terms of value (Absell and Tena-Junguito 2017). Johnston's firm was allegedly the largest importer of cotton into Brazil during the 1850s, providing specialist goods for particular markets. He dispatched shirtings, lengths of cloth and «fancy prints which were printed expressly for Pernambuco»[40]. Data for the period 1862-1875 indicate a similar mixture of imports but an increase in the number of shiploads.

Table 2 below shows the source of these trades during the same two periods. Although Johnston loaded at a wide variety of ports, he clearly focused on shipments from Britain and the United States. Liverpool, as might be expected, provided the largest number of his departures in both periods with Hamburg and Copenhagen assuming importance in the later years. New York was a major source in both periods but Gaspe in Canada also became significant. In addition, Johnston's ships called at intermediate ports *en route* for Rio such as Lisbon, the Cape Verde Islands and Bahia. He also loaded from Chile and the ports of the Rio de la Plata, calling additionally at Rio Grande do Sul and Santos.

**TABLE 2**

ORIGIN OF JOHNSTON'S IMPORTS, 1842-1875 (BY NUMBER OF VOYAGES)

| Ports of origin | 1842-62 | 1862-75 |
|---|---|---|
| United Kingdom | 32 | 73 |
| Canada/United States | 30 | 70 |
| Continental Europe | 10 | 85 |
| S. America/Caribbean | 8 | 34 |
| Other | 1 | 1 |

*Source*: Diário do Rio de Janeiro, 1842-1862.

What marked Johnston out in the import trade was his decision to trade as a principal, buying, shipping and selling goods on his own account while many British traders, especially in Latin America, continued the risk-averse status of commission merchants, as they imported British goods for local sale. Barings indicated that merchant houses buying rather than handling consigned goods remained the exception rather than the rule[41]. Maxwell Wright, for example, «have left off trading, as a general

[40] Edward Johnston to Francis Saunders 27 January 1849, *FJ*, pp. 112 *et seq* and letter 26 September 1849, p. 250.

[41] HC 16 (1838), Barings.

rule, on their own account and confine themselves almost exclusively to their Commission business—which is quite adequate to their wants»[42]. Arranging business for other people conferred moderate profits; operating on one's own account, or jointly with other firms, under an independent pricing strategy, posed higher risks and incurred transaction costs but created the potential for greater returns which did not have to be widely shared. In part, own account trading was forced upon Johnston since some British manufacturers, being unwilling to consign goods to Brazil, given the long delay for payment, would only sell directly to merchants[43].

There were obvious risks: the legal problems of recovering debts overseas and weak contract enforcement as well as the usual transport and communications problems. Cross-border financial issues, though manageable, were substantial in the form of price fluctuations, exchange variations and long lines of credit to retailers, both to conduct trade and attract new customers, which absorbed capital (Casson and Lopes 2013). A further difficulty was making decisions on what to buy in Britain based upon out of date information from Brazil. Johnston urged Havers in 1845 to «go among the shopkeepers and find their wants and procure samples». He required Napier to send home patterns of anything selling well in Rio as a guide for future shipments. «By buying only what is suitable for the market», he explained, «we are sure never to have many goods on hand and have the pick of the shopkeepers as purchasers»[44]. Inevitably, things did not always go to plan. «Had your letters been at all more encouraging», Johnston rebuked Napier in 1848, «I should have increased the shipment of goods … but really your letters give me the blues»[45]. It added insult to injury when Napier subsequently accused Johnston of paying too much for textiles in England, which enabled rival houses in Brazil to undersell them.

## 7. THE FIRM'S EXPORTS CONCENTRATION ON COFFEE

Of major significance was Johnston's strategy to develop a return export trade from Brazil. While selling manufactured goods in Brazil, he was indistinguishable from many other houses but fewer intermediaries handled Brazilian products. However well informed merchants were when shipping dry goods from Britain, not all understood or had experience of commodity trading. Moreover, exporting local commodities in

[42] «Mercantile Houses in Brazil», HC 16 (1852), Barings.
[43] Edward Johnston to James Napier 21 February 1849, *FJ*, p. 129.
[44] Edward Johnston to James Napier 18 January 1849, *FJ*, pp. 97-100.
[45] Edward Johnston to James Napier 2 November 1848 and 6 July 1849, *FJ*, pp. 28 and 199.



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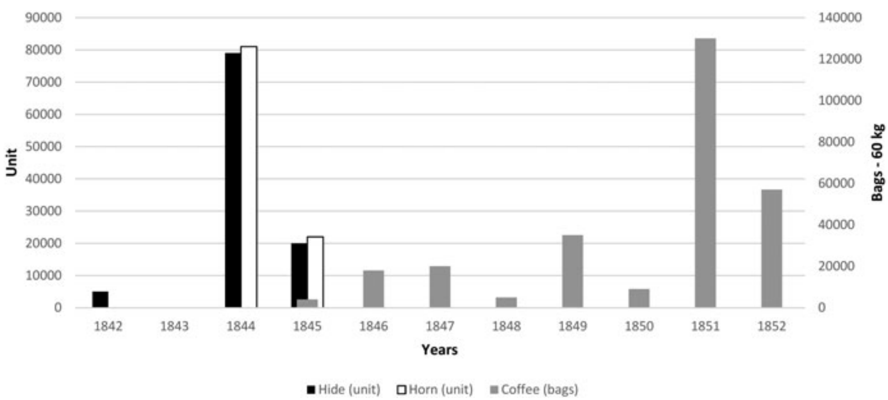
return for manufactures closed a payments gap by reducing the shipments of specie. From the start, Johnston loaded a wide diversity of local commodities such as tallow, timber, salted and dried hides and horn for processing in Europe, as well as dried beef or jerky (*tasajo*) from the Rio de la Plata and southern Brazil. Connections with merchants on the Pacific coast yielded occasional cargoes of copper, nitrate and guano. He delivered hides to a range of ports such as Antwerp, Gothenburg and New York in 1842 and hides and horn to Cowes and Copenhagen in 1844[46]. These commodities dominated Johnston's export shipments during the firm's early years—their extent between 1842 and 1845 is represented by the left-hand scale of Figure 2 below—but they were essentially low-value trades.

**FIGURE 2**
Export products: Edward Johnston & Co, 1842-1852.



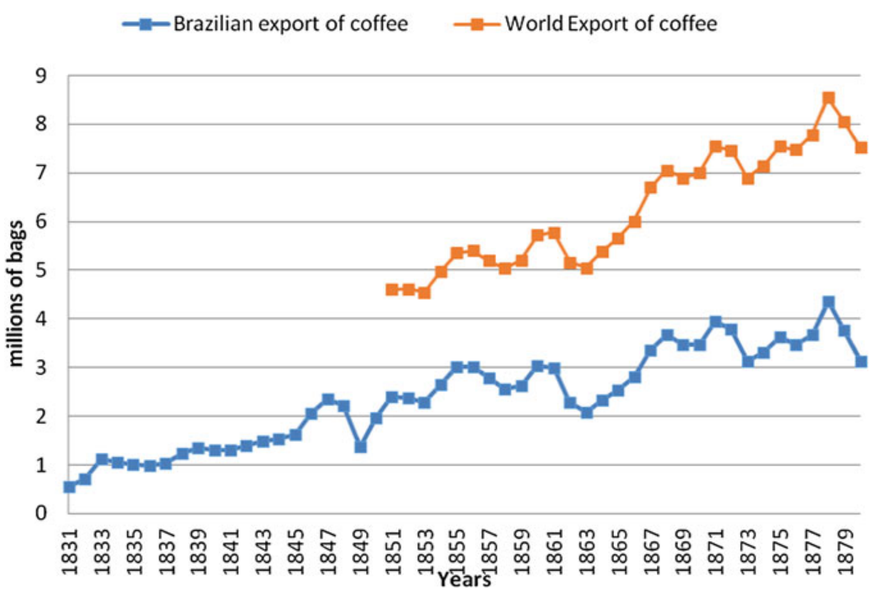

*Source*: Jornal do Commercio, 1842-1852.

Subsequently, he sought more valuable cargoes among a changing commodity composition which yielded a better return. «Next year», Johnston wrote to Napier in 1845, «we shall give up the brokerage business and turn our attention entirely to coffee», a strategy evidenced by the changing pattern of the firm's shipments indicated above in Figure 2. Such early specialisation was uncommon among merchants. Although Johnston was not listed among the chief coffee shippers in 1846[47], within 5 years, as shown on the right-hand scale, he was handling over 30,000 bags of coffee,

[46] *Diário de Rio de Janeiro*, 24 January 1842, p. 2.4; *Jornal de Comercio*, 5 October 1842, p. 3.2.
[47] *Jornal de Comercio* 26 January 1846 quoted in Marques, *The United States and the Atlantic Slave Trade*, pp. 155 and 191, footnote 23. Seven firms (Maxwell Wright, Charles Coleman & Co, Miller Le Coq, F. Breton & Co, Phipps Brothers, Schroeder & Co, and Astley Algorri & Co) accounted for 50 per cent of Brazilian coffee exports.

a commodity which came to dominate his exports. This increase in business accompanied the expansion of exports of Brazilian and world coffee, shown in Figure 3, and, according to Johnston, coffee required less working capital than trading in manufactures where remittances were tied up in shopkeepers' hands[48]. Moreover, the strategic advantage of his marriage gave him access to the family's Tijuca estate, alerting him to the dynamic nature of coffee's commercial prospects even if he could not have predicted its subsequent overwhelming importance. Ten years of commercial experience in Brazil with Le Bretons, who shipped coffee, and his father-in-law's connections enabled him to tap into the trade, performing a crucial link between suppliers and users. Coffee also yielded a year-round business. Although the beans ripened at certain but not always predictable times of the year, they could be stored after hulling without perishing or becoming unusable. Hence coffee could be warehoused and shipped according to market demand and remained suitable for long-distance trade.

**FIGURE 3**
World export and Brazilian exports of coffee, 1831-1880.




*Source*: Bacha and Greenhill (1992, p. 324-325).

[48] Edward Johnston to James Napier 30 August 1850, *FJ*, p. 328.



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Through a probable combination of luck and foresight, Johnston's entry into the Brazilian coffee trade was well timed. Under increased world production during the 1820s[49], prices fell until the late 1840s as market conditions deteriorated. However, from a floor of 5.45 cents per pound f.o.b. in 1848, there appears to have been a long-run secular rise in prices to 16 cents or more by 1876, making coffee an increasingly attractive commercial proposition as an internationally traded commodity. Cheap land in the Paraiba Valley and slave labour kept costs low while output expanded. By the middle of the 1840s, coffee was said to be «taken off as quickly as it arrives»[50]. In 1849, Maxwell Wright, who bought for Barings, expressed their regret that market conditions, owing to the sustained rise in prices in Rio, «prevents the execution of your orders»[51]. Consequently, Brazilian shipments rose from an annual average of 1 million bags in the 1830s to nearly 3 million per annum in the 1850s when coffee yielded around half of Brazil's export earnings (Bacha and Greenhill 1992, pp. 354-355). «Coffee», reported Henry Gair in 1855, «seems to combine the advantages of ... business with simplicity and I think it cannot fail to prove profitable in the long run ...»[52]. The third quarter of the 19$^{th}$ century experienced a particularly active market as demand outran supply. Traders thrived on high margins as Brazil annually shipped nearly 4 million bags during the 1870s (Luna and Klein 2014, pp. 371-373).

It was not, of course, all plain sailing. Traders had to be aware of the variable quality of coffee and the volatility of prices. The analysis and reliability of samples were very much rule of thumb, influenced by local market knowledge and appearance as much as by expertise. Johnston's partners were urged «to keep yourself *au fait* of the market you must always be buying a little». Johnston set price and quantity limits and was particularly sensitive about the grade of coffee shipped from Rio, recognizing that his reputation depended on quality. The introduction of the transatlantic cable in the 1870s and falling transport costs gave rise to further trading opportunities enabling merchants to exploit small price differences. There were efficiency gains in improvements in information and risk management at the sacrifice, perhaps, of earlier commercial advantage from information asymmetries and «insider» knowledge. The creditworthiness of firms with whom merchants did business and the extent to which cash payments should be made against consignments were also problematic. There were obvious risks in entrusting letters of credit to

[49] A. Birckhead to Barings 20 March 1830, HC 4.2.1, Barings.
[50] A. Birckhead to Barings 10 February 1835, HC 4.2.1, Barings.
[51] Maxwell Wright to Barings 9 October 1849, HC 4.2.8, Barings.
[52] H. W. Gair to Rathbones 21 August 1855, Rathbones. See also Gair's remark in his letter of 7 January 1853: «I think well of coffee».



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agents and managers abroad to finance coffee shipments. Johnston very much preferred to do business with what he called «respectable parties»[53].

Coffee trading in Brazil depended not only on prices there and in Europe but also on exchange rates. Transactions undertaken over long distances and time periods were difficult as merchants invoiced clients in sterling while paying local costs in *milreis*. If the local currency appreciated, which added to the buying costs in sterling terms, Johnston would send out bullion purchased in Britain for conversion to *milreis* at a fixed rate, a well-known 19th century arbitrage technique.[54] The timing of remittances back to the United Kingdom also depended on prevailing exchange rates. Just as favourable movements might increase profits, so a loss might follow adverse fluctuations. In one case, Johnston recognised that if he had held back a cargo instead of selling immediately, he could have made more money as prices rose unexpectedly but, as he told his brother, «it is no use regretting these things»[55].

Coffee remained at the centre of Johnston's trading, and the rapid expansion of the business enabled him to reap economies of scale as larger shipments were handled with no significant increase in fixed costs. The fact that coffee importers did not deal directly with growers and were ignorant of each other's identities obliged each side to use an intermediary. Coffee was collected from the many *fazendas* by *comissarios* (local merchants) and brought to Rio where exporters like Johnston collected the appropriate quantity and quality for shipment overseas (Sweigart 1987). Any advances to *fazendeiros* or intermediaries to secure coffee were subsequently deducted, together with the exporter's costs, before remitting to the supplier what remained from the sale price. Johnston bought on his own account or shipped in joint ventures with other houses and, if there were no overseas orders, he would speculate to sell later when buyers had been found[56]. The shift in emphasis also required Johnston to restructure his business in Brazil. He withdrew from Bahia to concentrate his resources in Rio, leaving Francis Saunders to continue brokerage and commission work in the north, which Johnston regarded as incompatible with the firm's coffee business[57].

Where did Johnston sell his coffee? At this time, only a small proportion of the Brazilian output that reached urban markets was consumed in Brazil, although part of each crop was retained on *fazendas* for domestic use. The British market for Brazilian coffee was small, preferring West

[53] Edward Johnston to William von Sachs 20 July 1849, *FJ*, p. 12.
[54] Edward Johnston to James Napier 3 November 1849, *FJ*, p. 276.
[55] Edward Johnston to Henry Johnston 14 November 1849, *FJ*, p. 298.
[56] Edward Johnston to William Havers 10 October 1845, *CJ* I, pp. 298-345; Edward Johnston to James Napier 19 January 1849, *FJ*, p. 103.
[57] Edward Johnston to William Havers 1 September 1845, *CJ*, II, p. 320.



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Indian or Asian suppliers. Johnston once reported that Brazilian coffee sent to British dealers «had been returned not being found adapted to the consumer's taste»[58]. His specialisation was not therefore to return cargoes directly to the United Kingdom but to buy Brazilian coffee for sale in Europe and the United States as shown in Table 3 below. Johnston, seeking business opportunities abroad wherever they might lead, quickly realised that there need be no clear connection between the market where goods were sold and the nationality of the merchants who sold them (Guimarães 2015, p. 15).

**TABLE 3**
DESTINATION OF E. JOHNSTON & CO EXPORTS, 1853-1872 (NUMBER OF CALLS)

| **Destinations** | **1853-62** | **1862-75** |
|---|---|---|
| United States | 182 | 183 |
| Continental Europe | 85 | 324 |
| United Kingdom | 24 | 21 |
| S. America/Caribbean | n/a | 70 |
| Africa | n/a | 48 |

*Source*: Jornal de Comercio, 1853-1875.

Port analysis reveals a wide range of destinations. The United States quickly became the largest buyer of Johnston's coffee. If not quite in at the start of the Brazilian coffee trade with North America, Johnston recognised the significance of this market at a very early stage. A high-income elasticity of demand and a low-price elasticity together with the arrival of coffee-drinking immigrants steadily increased *per capita* consumption (Marques 2016, pp. 108 and 122)[59]. Economies of scale emerged, too, from the largest coffee producer selling to the largest single consumer. Johnston informed Napier in 1847 that he intended to turn «to the American trade which is … likely to be a more profitable employment of our capital»[60]. However, he needed reliable intermediaries. «We can do no business yet», he told Napier in 1848, «as we have no regular agent. I am on the lookout for a decent influential person to act for us»[61]. Johnston's subsequent partnerships in New Orleans and New York, with

[58] Edward Johnston to Charles Saunders 13 June 1839, *VJ*, pp. 42-43.

[59] Partners Notebook, HC 16 1853 and HC 2/577, pp. 36 *et seq*, Barings; H. W. Gair to Rathbones 11 June, 30 October, 13 November and 18 December 1855, Rathbone.

[60] Edward Johnston to James Napier 14 December 1847 and 14 July 1848, *CJ*, III.

[61] Edward Johnston to James Napier 13 October 1848, *FJ*, p. 13. See also letters 2 November 1848 and 18 January 1849, *FJ*, pp. 97-100.



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further representation in Baltimore, Charleston and Mobile, enabled him to expand shipments rapidly (Guimarães 2015, p. 18)[62].

His foresight was recognised by Henry Gair who discussed the prospects for British merchants in the Brazil–New York coffee trade and noted the importance of Johnston who had outflanked competitors like Moon Brothers and Maxwell Wright. «There is great difficulty», Gair wrote, «in the way of your entering with advantage into the trade … and much is the competition you [will] meet with from partners who have houses at every branch …»[63]. Johnston also stressed the importance of the American market to his brother Henry. «You must», he wrote, «be very particular and attentive to this branch of our business and not allow the House to lose the good character it now has for shipping good coffee»[64]. In a recognisably modern fashion, Johnston wanted the Rio office to send a monthly circular to the United States to keep the partners there informed of market developments.

The Civil War temporarily halted the growth of the American market and the Union blockade of Confederate ports forced Johnston to concentrate his shipments in New York where he sent his eldest son in 1862. The temporary fall in demand in the United States and an import duty, which caused the closure of Johnston's American offices and Charles's return to Liverpool, may explain the flatlining of his shipments after 1862. However, by the late 1860s, sales there recovered to an annual import of 1.5 million bags from Brazil and the American market remained crucial to the firm.

Johnston's shipments to continental Europe, relatively weak before 1862 but much stronger thereafter, reflected his sales network at the main consuming centres in northern Europe such as Antwerp and Hamburg and at Mediterranean ports like Constantinople and Trieste. Scandinavia was a most active market and agents are recorded in Gothenburg in 1846 (James Sinclair & Sons) and in Copenhagen in 1849[65]. Johnston also loaded for British ports from where coffee was probably transshipped to the continent.

In total, what emerged was effectively a transatlantic network which embraced the coasts of South America, the eastern seaboard of the United States and Canada, Europe and Africa, as shown in Table 3, enabling Johnston to develop a profitable triangular trade in place of simple bilateral trades. Exporting coffee to ports like New York and Baltimore,

[62] *Jornal de Comercio* records Johnston's first shipments to New Orleans (29 October 1845), Baltimore (26 February 1846) and New York (27 October 1849).

[63] H. W. Gair to Rathbones 9 May 1853, Rathbone. See also letter 13 March 1855.

[64] Edward Johnston to Henry Johnston 7 January 1851, *FJ*, p. 652.

[65] Edward Johnston to James Paton 13 October 1848, *FJ*, p. 13 and letters 2 November 1848 and 18 January 1849, pp. 28-100.

he picked up wheat, flour, timber and cotton for sale in Liverpool, before once more returning to Brazil with not only a range of British manufactures but also codfish from Newfoundland, wine from Portugal and salt from the Cape Verde Islands loaded *en route*. This pattern enabled Johnston to offer competitive rates on all three legs of the round trip, success depending on loading a full ship from Rio to Europe via the United States and back. «The profits on the shipment of their goods from Manchester», Gair reported, «enables them [E. Johnston & Co] to do business on better terms than any house who only undertake one branch of it»[66]. The result was that Johnston became a market leader. By the 1860s his firm was among the top 10 coffee exporters from Brazil, and in the 1870s, when four of the leading five traders were British, Johnston was already the largest, see Table A1 in the Appendix.

Although Johnston's increasing coffee exports enabled him to exploit economies of scale, he also realised economies of scope. Clerks in Rio could just as easily handle other primary commodities for export as they did coffee. Johnston encouraged speculative buying when Brazilian exchange rates dipped, which cheapened purchases in sterling terms, when there was money to be made during temporary shortages or simply as a conscious effort to spread his risks through diversification. The linked partnerships in Bahia and Pernambuco enabled profitable trading in cotton, cocoa, tobacco and pre-eminently sugar. Despite the colonial preferences enshrined in Britain's duties, Johnston's letters between 1845 and 1850 record sugar delivered to refiners in Greenock and Glasgow as well as to European ports.

While diversification provided some protection from market uncertainty and yielded profits on a two-way or even three-way trade, vertical integration provided further business opportunities. Johnston avoided fixed assets, which absorbed funds and made it difficult to extract a share of the capital should the partnership be wound up or ownership transferred. He did not invest in backward linkages (such as plantations) or forward linkages (such as warehouses) but traded instead from a small fixed-asset base. Only later did the scale of Brazilian coffee and the pressing need for storage justify long-term acquisitions upstream and downstream (Greenhill 1995). However, Johnston inevitably required a range of business services, which had to be internalised since few local facilities existed, thus saving brokerage fees and exploiting existing resources. He supplied short-term credit and successfully operated ships, some chartered and others owned outright, which called at a host of ports between, say, Liverpool and Rio. Cargoes would be sold afloat and, via existing mail services and later the transatlantic cable, the ships

[66] H. W. Gair to Rathbones 9 May 1853, Rathbone.



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directed to the appropriate port or simply to await instructions. If there were insufficient goods for a full load, or as a strategy to spread his risks, Johnston divided his cargoes and shared shipping space in joint ventures with other merchants[67].

Johnston later represented other companies, which sought agencies where insufficient business existed for a wholly-owned branch to exploit the reputation and experience of those merchants who were likely to be their largest customers. For Johnston, combining intermediation with internalisation under one or two clerks supplied a steady commission income and complemented commodity trading. It lowered transaction costs in the search for suitable business services, required little capital outlay and provided quality assurance. He collected shipping agencies and arranged bunkering facilities for local Brazilian steamship companies. The need to protect cargoes brought insurance work and the agencies of firms like Guardian Assurance and Royal Exchange. Trade and the provision of credit inevitably led to banking services. Through Johnston's involvement with the London and Brazilian Bank, the House acted as agents in Rio de Janeiro to provide credit facilities and take deposits. In addition, Johnston offered discount services to holders of commercial paper and, along with his first partner Tavares and other Rio houses, speculated substantially in Brazilian public debt (Summerhill 2015, p. 100).

## 8. CONCLUSIONS

Letter books are often coy about prosperity and profitability, concentrating instead upon catastrophe and commercial problems, the very matters which concerned merchants. While Johnston did not become fabulously rich nor figure in the first rank of commercial importance, quantitative indicators of success exist even if annual profit figures do not. The sale of his goods in Rio in 1844 before he left for Liverpool reveal a wealthy man and Johnston later admitted that «the accounts for 1845 are most satisfactory»[68]. He once regretted an unwise speculation that lost him £700 but by 1850 was good for substantial credits. With a family of fourteen children to support, although two died in infancy, Johnston was sufficiently wealthy to become the tenant of Allerton Hall outside Liverpool before he moved to London[69]. A personal estate of £76,000, quite apart

[67] *Jornal de Comercio* 24 October 1842 3.2, 11 March 1844 3.3 and 12 September 1846 3.1 record Johnston chartering the *Helen Jones* (1842) with Cornilles & Co and *Taymouth Castle* (1846) with F. Le Breton.

[68] Edward Johnston to James Napier 28 April 1846, *CJ* I, p. 233.

[69] *Gores Directory*, 1859, p. 138. On his return from Rio de Janeiro Johnston first lived at 11 Abercrombie Square in Liverpool, now part of the History Department of the University of Liverpool see *Gores Directory*, 1847.

from the assets in his business, made him a respected and influential London merchant[70]. The line between success and failure, however, was narrow as Johnston nearly went under on three occasions.

Johnston's achievements can also be measured qualitatively. He started from scratch with limited capital and no family connections, riding out market cycles amid a changing business environment. Surviving the perils of trading in Brazil, where many houses failed and having overcome his competitors, he secured the successful transition of the family business, a critical step in the development of a small firm. «The provision of a smooth, generational transmission of leadership», remarks Mary Rose, «is an important determinant not only of a family firm's future prosperity but its very survival» (Rose 1993, p. 128). Johnston had created assets in and generated income streams from trade which remained at the core of the business well into the 20th century when the second and third generations of the family managed the firm. E. Johnston & Co was the start of a remarkable, if not quite unique, continuous presence of a British company in Brazil over 150 years in a commodity which has experienced a volatile history and a high firm turnover (Bacha and Greenhill 1994). The firm's history parallels the movement of Brazilian coffee from an emerging to a mature commodity.

How can Johnston's survival and eventual success be explained? Clearly there are some causative factors common to many 19th-century British merchants: the formative partnerships and networking, hard work, entrepreneurial flair, decision-making in conditions of uncertainty and a refusal to panic in a crisis. His direct access to British manufacturers and their surplus production for export probably gave him an advantage over, say, American houses, given the United States' later industrialisation. Moreover, the case study reinforces the significance of family capitalism and the adaptability of businessmen in a changing and sometimes hostile environment.

What, though, makes this enterprise essentially different from many others? Why did Johnston prosper while others failed? Firms may have access to different sources or even insider knowledge. Even if they possess the same information, they may analyse it differently and reach opposite decisions (Casson 1999, pp. 12-13). What seems clear is that Johnston's accumulated commercial experience after working on his own account from the 1830s and the important strategic advantage of a fortunate marriage gave him a competitive edge. A talented and versatile man, he was in the right place at the right time to exploit new opportunities within the dynamic business environment of Brazil's burgeoning coffee trade. His

[70] Edward Johnston's will is available at Somerset House (London).

willingness to take risks as a leader rather than a follower also seems significant.

How does Johnston's firm extend our understanding of British and Brazilian mercantile performance? The study indicates the ease with which British firms entered Brazilian markets and the relative openness of the Brazilian economy. That a variety of commercial strategies can be successful yields clear added value in Johnston's story. He began abroad rather than from a domestic base. He traded on his own account rather than on commission, which most merchants preferred. He quickly realised the potential of the return commodity trades when others concentrated on outward cargoes. He specialised when commodity and geographical diversity might have spread his risks and allowed him to weather market fluctuations. Finally, Johnston remained in trading when other merchants like Huths and Schroders moved increasingly into banking and finance.

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# APPENDIX

**TABLE A1**
THE FIVE LARGEST COFFEE EXPORTING FIRMS, 1859-1879 (60 KG BAGS)

| 1859 | | 1860 | | 1861 | | 1862 | | 1863 | |
|---|---|---|---|---|---|---|---|---|---|
| **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** |
| Maxwell Wright & C. | 322,179 | Maxwell Wright & C. | 169,733 | Phipps Irmãos & C. | 135,708 | Estienne & C. | 111,712 | Schwind McKnnell e Rudge | 125,362 |
| Phipps Irmãos & C. | 188,625 | Phipps Irmãos & C. | 159,517 | Maxwell Wright & C. | 129,528 | Phipps Irmãos & C. | 105,238 | Phipps Irmãos & C. | 123,895 |
| Rustron Dutton & C | 176,297 | Estiene & C | 118,726 | G. & W. Helmann | 103,057 | Maxwell Wright & C. | 81,972 | Boje & C. | 93,642 |
| E. Johnston & C | 106,135 | G & W Heyman | 107,882 | Estienne & C. | 100,756 | E. Johnston & C. | 71,160 | G & W Heyman | 65,159 |
| G & W Heyman. | 102,252 | Warre Schwind & C | 96,956 | Mosle Leckmann & C. | 89,856 | G & W Heymann | 70,115 | E. Johnston & C. | 61,198 |

| 1864 | | 1865 | | 1866 | | 1867 | | 1868 | |
|---|---|---|---|---|---|---|---|---|---|
| Firms | Exports | Firms | Exports | Firms | Exports | Firms | Exports | Firms | Exports |
| Phipps Irmãos & C. | 141,570 | Phipps Irmãos & C. | 212,539 | Phipps Irmãos & C. | 264,648 | Phipps Irmãos & C. | 357,280 | Phipps Irmãos & C. | 222,183 |
| Maxwell Wright & C. | 112,995 | Schwind Mac Kinnell & Rudge | 164,741 | Ed. Johnston & C. | 137,180 | Wright & C | 223,424 | Schwind Mac Kinnell & C | 190,455 |
| E Johnston & C. | 93,814 | E. Johnston & C. | 133,062 | Wright & C. | 97,987 | E. Johnston & C. | 158,231 | Wright & C | 146,825 |
| W G Baird & C. | 70,525 | Boje & C. | 122,450 | Boje & C. | 94,781 | Schwind Mac Kinnell & C. | 121,530 | E. Johnston & C. | 140,819 |
| Schwing Mack Kinnell & Rudge | 69,148 | F & Rodocan-achi | 91,329 | W. G. Baird & C. | 70,009 | Boje & C | 86,750 | Boje & C | 136,696 |

| 1869 | | 1870 | | 1871 | | 1873 | | 1874 | |
|---|---|---|---|---|---|---|---|---|---|
| **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** |
| Phipps Irmãos & C. | 344,262 | Phipps, Irmãos & C. | 392,997 | Phipps Irmãos & C. | 357,039 | Phipps Irmãos & C. | 219,778 | Kern, Hayn & C. | 240,064 |
| E. Johnston & C. | 216,388 | Schwind Mc. Kinnell & C. | 211,693 | E. Johnston & C. | 240,439 | Wright & C. | 169,920 | Phipps, Irmãos & C. | 228,779 |
| Boje & C. | 187,661 | Ed. Johnston & C. | 176,587 | Boje & C. | 201,035 | Kern Heyn & C. | 165,687 | John Bradshaw & C. | 208,797 |
| Wright & C. | 173,982 | Wright & C. | 169,233 | S. Mc. Kinnell & C. | 193,439 | J. Bradshaw | 154,833 | E. Johnston & C. | 202,672 |
| Schwind Mac Kinnell & C. | 164,477 | Boje & C. | 121,023 | Wright & C. | 194,464 | E Johnston & C. | 150,777 | Schwind, Mac Kinnell & C. | 141,920 |

| 1875 | | 1877 | | 1879 | |
|---|---|---|---|---|---|
| **Firms** | **Exports** | **Firms** | **Exports** | **Firms** | **Exports** |
| Phipps, Irmãos & C. | 363,200 | Phipps, Irmãos & C. | 312,983 | E. Johnston & C. | 382,036 |
| Ed. Johnston & C. | 331,481 | E. Johnston & C. | 283,322 | Phipps, Irmãos & C | 346,058 |
| John Bradshaw & C. | 301,380 | John Bradshaw & C. | 197,221 | Mac Kinnell & C | 270,302 |
| Wright & C | 268,696 | Mac Kinnell & C | 192,065 | Wright & C | 262,430 |
| Kern, Hayn & C | 225,770 | Kern, Hayn & C | 187,644 | John Bradshaw & C. | 229,256 |

***Note***: (1) The Annual Retrospects of 1872, 1876 and 1878 don't have in the *Jornal do Commercio* of Rio de Janeiro. (2) With the death of Joseph Maxwell, the firm Maxwell Wright & C. was dissolved being reorganised around Wright & C.

***Source***: Retrospecto Annual. *Jornal do Commercio*, 1860-1880.



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