

MILITARY DICTATORSHIP AND CORRUPTION: THE CASE OF THE ACQUISITION OF THE VOSPER FRIGATES BY BRAZIL¹

DITADURA MILITAR E CORRUPÇÃO: O CASO DA AQUISIÇÃO DAS FRAGATAS VOSPER PELO BRASIL

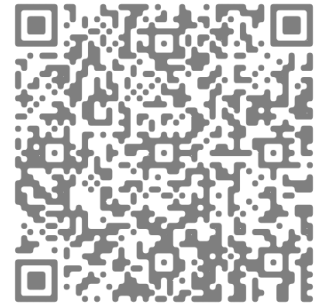
DICTADURA MILITAR Y CORRUPCIÓN: EL CASO DE LA ADQUISICIÓN DE FRAGATAS VOSPER POR PARTE DE BRASIL



João Roberto MARTINS FILHO²
e-mail: djrm@ufscar.br

How to reference article:

MARTINS FILHO, J. R. Military Dictatorship and Corruption: The Case of the Acquisition of the Vosper Frigates by Brazil. **Teoria & Pesquisa: Revista de Ciência Política**, São Carlos, v. 32, n. esp. 2, e023013, 2023. e-ISSN: 2236-0107. DOI: <https://doi.org/10.14244/tp.v32iesp.2.1071>



| **Submitted:** 08/05/2023
| **Revisions required:** 29/08/2023
| **Approved:** 19/10/2023
| **Published:** 05/12/2023

Editor: Prof. Dr. Simone Diniz
Deputy Executive Editor: Prof. Dr. José Anderson Santos Cruz

¹ This article received support from FAPESP (process 2011/07520-4). The opinions, hypotheses, and conclusions or recommendations expressed in this material are the responsibility of the author and do not necessarily reflect the view of FAPESP. I would like to thank Ludolf Waldmann for the careful reading of the first version.

² Federal University of São Carlos (UFSCar), São Carlos – SP – Brazil. Retired Full Professor. Ph.D. in Social Sciences (UNICAMP).

ABSTRACT: Based on a diplomatic dossier dating from 1978, found in the National Archives in Kew, south London, the text brings to light the case of an investigation by Hampshire police in the UK into allegations of corruption in the purchase of Vosper frigates by the Brazilian Navy, with its diplomatic consequences. The analysis is based on extensive and detailed documentation, which points to a mystery: why did the Brazilian Navy refuse to collaborate with an investigation that could have resulted in significant compensation being paid to Brazil, for fraud in the purchase of equipment, configured in overbilling for third-party supplies, with the agreement of the Brazilian Naval Commission in London? In this way, what began as research into technological aspects of the history of the Brazilian Navy ended up revealing yet another murky case of the misuse of public money under the military dictatorship of 1964-1985, for which there is still no official explanation, nor any documents that reveal how this matter was dealt with by the Brazilian government.

KEYWORDS: Brazilian Navy. Navy and technology. Post-1964 dictatorship.

RESUMO: *Com base em um dossiê diplomático datado de 1978, encontrado nos National Archives em Kew, sul de Londres, o texto traz à luz o caso de uma investigação da polícia de Hampshire, no Reino Unido, sobre alegações de corrupção na compra das fragatas Vosper pela Marinha brasileira, com seus desdobramentos diplomáticos. A análise baseia-se em farta e detalhada documentação, que aponta para um mistério: por que a Marinha do Brasil se recusou a colaborar com uma investigação que poderia resultar em pagamento de significativas indenizações ao Brasil, por fraudes na compra de equipamentos, configuradas em superfaturamento de fornecimentos de terceiros, com a concordância da Comissão Naval brasileira em Londres? Dessa forma, o que começou como uma pesquisa sobre aspectos tecnológicos da história da Marinha brasileira acabou levando à revelação de mais um caso nebuloso do mau uso do dinheiro público sob a ditadura militar de 1964-1985, para o qual até hoje não existe uma explicação oficial, ou tampouco documentos que revelem como esse assunto foi tratado pelo governo brasileiro.*

PALAVRAS-CHAVE: *Marinha brasileira. Marinha e tecnologia. Ditadura do pós-1964.*

RESUMEN: *Basado en un expediente diplomático de 1978, encontrado en los Archivos Nacionales de Kew, al sur de Londres, el texto saca a la luz el caso de una investigación de la policía de Hampshire, en el Reino Unido, sobre las acusaciones de corrupción en la compra de fragatas Vosper por parte de la Marina brasileña, con sus consecuencias diplomáticas. El análisis se basa en una amplia y detallada documentación, que apunta a un misterio: ¿por qué la Marina brasileña se negó a colaborar con una investigación que podría resultar en el pago de una importante indemnización a Brasil por fraude en la compra de equipos, consistente en la sobrefacturación de suministros de terceros, con el acuerdo de la Comisión Naval brasileña en Londres? De este modo, lo que comenzó como una investigación sobre aspectos tecnológicos de la historia de la Marina brasileña acabó revelando otro turbio caso de malversación de fondos públicos bajo la dictadura militar de 1964-1985, para el que hasta hoy no hay explicación oficial, ni documentos que revelen cómo fue tratado este asunto por el gobierno brasileño.*

PALABRAS CLAVE: *Marina de Brasil. Marina y tecnología. Dictadura posterior a 1964.*

Introduction

On September 29, 1970, with the presence of the Brazilian Minister of Finance, Delfim Neto, and the Minister of Defense, along with the high command of the British Navy, Brazil and the United Kingdom signed a contract for the purchase of six frigates. Four of them were constructed at the Vosper shipyards in Woolston, near Southampton, and two at the Navy Arsenal in Rio de Janeiro (AMRJ). Among these ships, the *Niterói* (F-40), which gave its name to the class in Brazil, was launched on February 8, 1974, and incorporated on November 20, 1976, followed by *Defensora* (F-41), *Constituição* (F-42), and *Liberal* (F-43). In Brazil, the *Independência* (F-44) and *União* (F-45) were also constructed.

This business was the result of the Brazilian Navy's favorable view of the British Navy, given the difficulties Brazil faced in convincing the United States to provide state-of-the-art equipment rather than obsolete ships transferred through the lend and lease scheme since World War II. It also resulted from the British government's effort to support the transaction, ensuring a bundled negotiation with British banks that secured financing.

The British government attributed great importance to this acquisition due to the significance of the naval defense industry for the UK's economy. As Sami Faltas highlighted in his book on the European arms market from the 1960s to the 1980s, unlike the United States and France, where the aerospace industry predominates, "in Britain and the Netherlands, and to a lesser extent in Italy and West Germany, the naval industry can be a more useful focus for the arms industry as a whole. Its relative importance is greater in these countries, and it is commercial and outward-looking".

Until 1960, Britain was the only European country capable of producing its own ships. In the subsequent decades, it lost this advantage due to the development of the naval industry in various European countries, and its comparative competitiveness decreased. Additionally, the acute internationalization of markets played a role (FALTAS, 1986, p. 30-p. 52).

The sale of warships constitutes a decision of the State. As Faltas (1986, p. 58, our translation) reminds us:

Considerations of foreign policy and other political factors affect each specific decision to import or export ships. Buyers and sellers can use arms sales negotiations to reinforce or challenge existing spheres of influence. Arms sales negotiations are usually linked to other types of negotiations involving political-military and economic relations.

Political factors are evident in the case of naval relations between Brazil and Britain during the frigate era. In 1978, when a police investigation surfaced regarding allegations of

fraud involving the Vosper shipyards precisely in the frigate deal with Brazil, state reasons became clear in the efforts of the British ministries of Industry, Defense, and Foreign Affairs to control the potential damage that could be caused by the UK Attorney General's decision to interview Brazilian authorities about the details of the negotiation, as we will see later on.

Arms negotiations are a two-way street:

The major arms-supplying states use arms transfers to increase their influence over other states, both within and outside their sphere of influence. On the other hand, arms importers use arms supply negotiations to secure or expand support from a major power for their policies or to become less dependent on a single supplier. Acquiring military equipment from various suppliers makes a country less susceptible to pressure from a single source (FALTAS, 1986, p. 59, our translation).

In the case of frigates, it was a negotiation that fit into the broader context of the quest for autonomy by various developing countries during this phase, leading them to seek an alternative to the transfer of obsolete naval material, whether American or Soviet.³

The Shipyards

In this effort, it's evident that these countries were not looking for nuclear submarines or large surface ships. The sales we are referring to here primarily concern smaller ships: conventional submarines, destroyers, frigates, corvettes, fast-attack craft, minesweepers, amphibious boats, and coastal patrol vessels, etc.⁴ It is worth noting, however, that purchases of escort vessels were still evenly divided between used and new material, even in the late 1970s⁵. On the buyer's side, there were fewer countries capable of acquiring escort vessels than smaller attack boats. On the supplier side, in the early 1970s, the trend of concentrating the new warship industry in Western Europe, where the technology for this equipment originated, began to solidify. At the same time, exports were the backbone of the European military naval industry.

³ Faltas (1986, p. 59) refers to “Indonesia and several Latin American countries” that “turned to sources in Western Europe to supplement their equipment of American origin”, anticipating a path later followed by India, Taiwan, and Egypt. Op. cit., p.59.

⁴ The same author (FALTAS, 1986) describes the market share of these types of ships in the period 1960-1980 as follows: 10% for conventional submarines; 28% for escort ships; and 61% for fast boats. (Op. cit., p.66).

⁵ “In the field of destroyers, frigates, and corvettes, we find little evidence of changes in acquisition methods during our period” (1960-1980). It continues: “It is interesting to note that the imports of used ships in the late seventies still accounted for half of the total demand for escort ships for the foreign market, while domestic production and new imports retained a comparatively small share of the market” (Faltas, 1986, p. 67).

According to the author Faltas (1986, p. 69, our translation), we have been citing, “without the export of warships, most naval industries could not continue in their present capacity, and several of them could not survive, simply”. Another important trend on the supplier side in the period we are examining is the “transfer” of technology, more precisely the manufacturing of some ships of the same class in shipyards located in the buyer countries: “The period under review witnessed an increase in the number of transfers of warship construction technology from one country to another, an increase in the number of countries exporting such *know-how*, as well as in the number of importing countries”, said Faltas (1986, p. 73, our translation), referring to the 1970s.

In the first three decades of the post-war period, the number of countries, mainly from the Third World, constructing ships of the types mentioned above (from 9 to 37) increased significantly. In turn, the participation of European suppliers in this market of “transfer” of warship technology would rise from 10 to 70 percent during this decade, with a focus on West Germany, whose share rose from nothing to 40 percent, mainly producing submarines and fast-attack ships.⁶ Some specificities mark the German naval industry: the long tradition in submarine and other ship construction; independence from the state; and, to a lesser extent, restrictions on the export of military equipment. In any case, a fundamental factor for German success was the willingness of its naval industry to satisfy the desire of buyer countries, such as Argentina and Turkey, to manufacture their submarines (FALTAS, 1986, p. 79).

By the end of the decade, the importance of this type of business had grown to the point where European navies had changed their own equipment, keeping an eye on its attractiveness to external buyer markets⁷. Another topic to be analyzed would be the increasing importance of equipment in shipbuilding. Europe was also able to maintain hegemony in this area, but in this case, the difference between the armaments and other equipment installed on its ships and those installed on boats sold to foreign navies posed scale problems for European naval production, which we cannot examine here (FALTAS, 1986, p. 160).

The British, on the other hand, were particularly well-positioned to meet the demand from navies like Brazil for frigates of advanced technology because their own Navy had demanded this type of ship in previous years. Indeed, in the context of NATO’s efforts to

⁶ On the buyer’s side, while in the 1950s countries like Brazil received virtually no “technology transfer”, by the late 1970s, at least half of these deals were going to countries without advanced naval industries. Among them, Argentina, Brazil, Colombia, India, Ireland, Malaysia, Peru, Portugal, Singapore, South Africa, South Korea, and Turkey stood out (FALTAS, 1986, p.75-77 and note 14, p. 95).

⁷ This was the case for British submarines *Type 2400* and frigates *Type 23* (FALTAS, 1986, p. 83 and note 29, p. 96).

counter the Soviet Navy, the construction of escort ships was especially relevant for the British naval industry⁸. Some authors attribute this characteristic to the post-war economic situation, which led the country to focus on more affordable alternatives, as well as naval strategy reasons: the prevailing belief in the supremacy of air power, which led to an emphasis on aircraft carriers, which in turn required escort ships⁹. In any case, most of the ships produced by British shipyards during this period were frigates. This was the context in which the British developed the *Leander* frigates, built between 1961 and 1971 and considered a landmark in this type of ship.¹⁰ Hence the early interest of the British government in strengthening its naval industrial base by selling frigates to countries like Brazil. Being a member of NATO, evidently, did not mean that Britain did not actively compete with its allies in seeking markets for its ships (FALTAS, 1986, p. 27). In the end, Brazilian purchases may have contributed to the brief peak in British naval military exports in the early 1970s.

In 1965, the so-called Geddes Report, produced for the British government, recommended that the domestic naval industry focus on a small number of specialized shipyards, three in the case of surface vessels. In the following years, the British Navy consolidated the trend of manufacturing “*lead*” ships (first in a class) in these shipyards and “*follow-on*” ships in a slightly larger number of firms. According to Faltas (1986, p. 204, our translation),

for specialized warship manufacturers – *Vickers, Vosper Thornycroft, Yarrow, and Brooke Marine* – specialization meant virtually complete dependence on the government for Royal Navy orders and assistance in securing warship export contracts.¹¹

The same author argues that in the 1970s, the militarization of some of the largest and most modern shipyards was evident, guaranteed by national and international orders¹². Among

⁸ As Eric Osborne pointed out (2005, p. 139), “The naval power with the highest production was Britain. In this period (1955-1967), destroyers and smaller frigates came to represent the majority of the British surface fleet”.

⁹ According to another author, “right or wrong, the main goal of NATO naval doctrine seemed to be to prevent a replay of the Battle of the Atlantic, with Soviet submarines taking the place of German U-boats”. See Sami Faltas (1986, p. 28.).

¹⁰ The *Leanders* were an evolution—in design and radar and air control facilities—of the British general-purpose frigates known as *Type 12*, developed in the 1950s. The *Type 12* frigates' design, “in its various incarnations, provided the backbone of the Royal Navy from around 1965 to 1985”. See Eric Grove (1993, p. 50-51). Osborne (2005, p. 252) states that some experts consider the frigates of this class “among the best of their kind built in the missile age”, op. cit., p. 252. Twenty-six ships were launched, plus fourteen for export (six were made in the Netherlands and six in India). Measuring 372 feet, they carried two 4.5-inch guns, four Seacat SAM missiles, an MK 20 Limbo, and a Wasp helicopter. They displaced 2350 tons. Some units were still in use in smaller navies in the early 21st century.

¹¹ See table 27 in Faltas (1986, p. 204: “*Especialização na construção britânica de navios de guerra*”).

¹² Between the mid-1950s and mid-1970s, the percentage of this type of construction in the overall production of British shipyards increased from 16% to 42%. See Faltas (1986, p. 205).

British companies, in the early 1970s, Vosper was the only one that specialized exclusively in medium-sized ships and the newest. Thus, the project of the *Amazon* class frigates, developed in cooperation with the British Ministry of Defense, was crucial for this firm. From this project, the *MK-10* and *MK-11* models emerged, one of which eventually led to our *Niterói* class. The importance attributed by both Vosper and the British government to the sale of frigates to Brazil must be seen in this broader context.

However, significant changes would occur shortly thereafter. In 1977, the shipyards were nationalized, and the state-owned British Shipbuilders emerged. Vosper was no exception, with only its subsidiary in Singapore, Vosper Singapore, remaining private (FALTAS, 1986, p. 91). According to Faltas (1986, p. 94, our translation), “the nationalization of shipyards in the UK did not alter the commercial nature of the industry to a degree sufficient to make it comparable to a bureaucratic organization”. However, by the end of the decade, “the financial problems of the Royal Navy and the declining share of the British industry in the international warship market posed an effective threat to the warship construction division of *British Shipbuilders*” (FALTAS, 1986, p. 205, our translation).

The Secret Revealed

The nationalization of Vosper and its integration into British Shipbuilders (BS) on July 1, 1977, was accompanied by the discovery of delicate facts. In December of the same year, as part of a Hampshire police investigation into allegations raised by Vosper’s former purchasing director, John Driver, who was defending himself against a lawsuit brought by the company, serious illegalities practiced by Vosper during the construction of the frigates came to light. In Brazil, these allegations became public on April 27, 1978, in a report signed by Robert Dervel Evans and published in the economy section of *Jornal do Brasil*.

Citing information from the lawsuit, the report mentioned the denunciation of a \$3.25 million fund reserved by Vosper to “lubricate” contracts with foreign countries – including Nigeria, Libya, and Venezuela, in addition to Brazil. Such illegal practices had allegedly been ongoing for a long time. Recognizing the sensitive nature of the issue, the British embassy in Brasília immediately communicated the contents of the report to the Foreign Office, initiating extensive governmental correspondence now available for consultation at the National Archives in Kew, South London¹³.

¹³ “Alleged fraud and corruption by Vosper Thorneycraft (sic) (UK) with the government of Brazil”, FCO 69-609. *Teoria & Pesquisa: Revista de Ciência Política*, São Carlos, v. 32, n. esp. 2, e023013, 2023. e-ISSN: 2236-0107
DOI: <https://doi.org/10.14244/tp.v32iesp.2.1071>

The allegations published by *Jornal do Brasil* were promptly treated in London as a matter of state and involved intense communication between various government departments, including the Prime Minister's Office, the Foreign Office, and the Ministries of Defense, Industry, and Treasury, as well as Her Majesty's Government Legal Department. Two concerns initially drew attention: the reaction of Parliament and the potential damage to the credibility of the state-owned British Shipbuilders, and consequently to the interests of the British industry in general. Early on, it was also realized that the accusations were primarily related to the frigate deal.

Faced with this situation, the British ambassador in Brasília approached the European Affairs official at the Brazilian Ministry of Foreign Affairs to officially communicate the content of the police investigation and the British willingness to redress any damage that may have occurred to Brazilian interests, a position later changed at the request of British Shipbuilders to only address events that occurred after nationalization. This initial focus is evident in the briefing prepared by the British Ministry of Industry for the meeting scheduled with Admiral Aritanha, head of the Brazilian Naval Commission in Europe:

The purpose of requesting this meeting is to assure him that we are very concerned about any suggestion that irregularities have occurred and are deeply shaken by the possibility that they may involve Brazilian contracts. [...] What we can state at the moment is that if it emerges that the position of your country has been somehow financially affected, we assure, to the extent of our responsibility, that this will be rectified¹⁴ (our translation)

However, this script was soon altered. The reaction of the Brazilians in the meeting held on May 10 in London between British government officials and Brazilian Navy representatives surprised the British. A telegram sent by the Foreign Office to the British Embassy in Brasília, summarized the content of the meeting: "Representatives of British Shipbuilders and of MOD have now spoken to the Brazilian Naval Delegation on the lines of the telegram under reference. The meeting, held on Wednesday, May 10, was uneventful: the Brazilians clearly wished to keep the issue on a low"¹⁵. In a free summarization, the meeting with Admiral Aratanha would have made it clear that the Navy's goal was not to recover losses but to avoid stirring up the matter.

¹⁴ See "Brief for meeting with Admiral Aritanha" anexo a "Department of Industry to Law Officer's Department, Attorney General's Chambers, Royal Courts of Justice", London, 10 May 1978. FCO 69-609.

¹⁵ See "FCO to Brasilia", tel. No. 113, 12 May 1978. FCO 69-609.

In the meeting draft, the British version of the content of the May 10 conversations appears in more detail¹⁶. According to it, the meeting began with an explanation to the Brazilians about the origin of the problem: a lawsuit filed by Vosper against one of its employees for embezzlement. In his defense, this employee would have brought to light accusations of alleged illegal accounting practices by Vosper, particularly regarding the Brazilian frigate deal. The CEO of BS would then have assured the admiral that any losses to Brazil would be redressed. In his speech, the Brazilian official thanked the British concern and referred to TV and press reports released in London that had been copied by the Brazilian press. The report concluded: “It became clear that Admiral Aratanha and his colleagues were satisfied to leave the matter in the hands of BS, aware that there would be a new meeting if and when there was something new to report” (our translation). The subject was then diverted to details about the ongoing construction of the frigates.

From that date, the dossier recovers documents predating the publication of the *Jornal do Brasil* article, which, in turn, followed articles published in the British press a month earlier. It is then clear that the information revealed to the public was already known to successive circles of people, in an order that extends from some executives and lawyers of Vosper to the British Attorney General’s Office, the Ministry of Industry, British Shipbuilders, reaching the Foreign Office, and finally, the Prime Minister’s Office. The Prime Minister's Office was informed by the Ministry of Industry on March 20, 1978, of the “alleged fraud involved in the supply of six frigates and the possibility that undue commissions had been paid”.

The possibility that the police would summon Brazilian authorities to testify in the inquiry had led to correspondence between the Attorney General and the Minister of Foreign Affairs¹⁷. In addition, the draft explained that, according to information from BS, the "secret discount arrangements that were the subject of the allegations have been discontinued," but not the discounts still in force, which would involve the Brazilian side. BS’s intention to communicate with the Brazilians was postponed in light of the realization that state interests were at stake. In this context, the government was recommended to leave the matter to be resolved by BS as much as possible, with the proviso that the state-owned company would

¹⁶ Participants in the meeting from the British side included the director of British Shipbuilders, M.B. Casey, and his legal advisor N.A. Sloan, along with Roger Harding from the MOD procurement department. From the Brazilian side, Admiral Albano de Aratanha and Commanders Lima and Godinho were present. See “Notes of a meeting held at the Office of the Brazilian Naval Mission at Buckingham Palace Road, London, on 10th May, 1978”. FCO 69-609.

¹⁷ “Vosper Thornycroft: approach to the Brazilian authorities”, 20 March 1978, attached to “Department of Industry, Deputy Secretary, to Cabinet Office”, London, 14th April 1978. FCO 69-609.

inform the government about any subsequent moves, “considering the broader implications for British interests in Brazil and elsewhere”.

Then, a letter from BS explained that, in contact with Vosper’s director and its lawyers, it became clear that the problem referred to “discounts and reductions from its suppliers and if there were improprieties in this field”. Vosper clarified that it had hired auditors to examine the issue and found it convenient to approach the Brazilians to make it clear that it was willing to compensate them for any losses. Although unaware of the content of the police inquiry, Vosper explained to BS that an initial draft of a report “indicated mismanagement in the negotiation and accounting of certain types of discounts and reductions”, though without evidence “that any individual had derived personal gain from or in connection with” these practices. At the same time, it recommended that it was impossible to stop the ongoing discounts, although the company was determined not to continue such practices. According to the same account, Vosper was eager to contact the Brazilians to assure them, as seen earlier, that there would be no harm to them. The legal concern of the company's consultants was the cessation of BS’s responsibilities for Vosper’s actions, from the moment the secret discount practices were discontinued¹⁸.

Vosper’s arguments were not fully accepted by BS’s legal advisor, the aforementioned Norman Sloan, in a response he sent in mid-April to the president of the state-owned company. In it, he comments on the above statement that there was no personal gain from the transaction in question: “I agree with this, but nevertheless, the Peat report clearly indicates that Vosper Thornycroft entered into highly questionable arrangements with its suppliers, the object of which was to make a profit that would not be disclosed to the Brazilian authorities—or, indeed, to any authority” (our translation). At this point, the course of the legal process was still unclear, and Sloan recalls that the absence of personal gain could lead the Director of Public Prosecutions not to open a case. But if that were not the case, then “considerable publicity will be given to the matter, and the Brazilian authorities and others, if they were not already aware of the situation, would become aware of it in unfortunate circumstances, to say the least.” The letter concluded with the recommendation to inform the Brazilians “in the reasonably near future”, while suggesting informing the Ministry of Industry of the situation, always considering it reasonable to assume that the Brazilian authorities would seek compensation for the damages suffered.¹⁹

¹⁸ “British Shipbuilders to Department of Industry”, 10th April, 1978. FCO 69-609.

¹⁹ “Norman Sloan to M.B. Casey”, London, 17th April, 1978. FCO 69-609.

The next day, a high-level meeting was held at the Ministry of Industry (Monsanto House), involving representatives from this ministry, the Cabinet, and the ministries of Defense, Foreign Affairs, and Commerce, as well as some legal advisors, totaling at least nine people. The draft of this meeting is enlightening²⁰. Right from the start, it makes it clear that the focus of the police investigation initiated in Hampshire in December 1977 was the “possible fraud affecting the contract for the construction of 6 frigates for Brazil worth £100 million” and, secondarily, the existence of possible improper commissions, although not illegal. It then mentions the articles published in March in the British press and notes that there was no reaction from Brazilian authorities. As for the fraud, it would consist of the fact that, after the contract signed with the Brazilian government in 1971, the company “persuaded about 80 suppliers to raise their prices to make room for a secret discount for Vosper Thornycroft”.

The difference between the actual price and the price stated on the invoices went to Vosper, kept in secret accounts known to a restricted circle of employees and directors. The total stated on the invoices was paid by the Brazilian government. After nationalization, there would have been no more arrangements of this kind, but the fraudulently contracted payments continued. British Shipbuilders became aware of the issue when the police confiscated Vosper’s documents, and on December 23, 1977, its executives were summoned to the Ministry of Industry, at the suggestion of the Director of Public Prosecutions. Pressured by the ministry, Vosper presented its lawyers’ initial defense. They informed the Prosecution that there was a good basis for defense, presumably based on a previous claim that “there were approved minutes of meetings between the Company and the Brazilians that allowed them to obtain and retain the discounts”.

Vosper hired an independent auditing firm to examine its books and verify if there was “mismanagement”. This secret audit was interrupted before completion. Faced with this, BS pressured Vosper’s lawyers to ensure that any irregularities had ceased by early 1978. However, a thorny issue remained: “The police, however, strongly suspect that past practices involved illegalities and intend, as the next step, to inquire with the Ministry of Defense and then interview some carefully selected suppliers. In a later stage of their investigation, they will likely want to see the Brazilians”.

Indeed, the British Ministry of Defense had agreed to act as the certifier for Vosper’s suppliers’ invoices. However, at the suggestion of legal advisors to the Treasury, the MOD was obliged to keep the Vosper case secret, preventing them from alerting their auditing office in

²⁰ “From R E Dearing Deputy Secretary to”, London, 19th April 1978. FCO 69-609.

Southampton until press reports surfaced. Thus, for four months, the Brazilian government continued to pay invoices certified by the MOD, totaling £1 million, in addition to “*ad referendum*” invoices totaling £3.4 million.

Discussions continued with the realization that there would still be months of uncertainty before it was known whether the investigations would result in legal proceedings, but it was assumed that the Brazilians would raise questions. In this context, ministers suggested that BS suspend the use of inflated orders and/or contact Brazilian authorities to inform them of the situation. When consulted, the Director of Public Prosecutions recommended the inconvenience of interrupting contacts already made, as it would alert suppliers to the police inquiry, potentially leading to the preventive destruction of evidence. As an agent of the Brazilian government, the MOD could not escape the imperative to explain the interruption in certifying the invoices, but once again, the police requested that such contacts be postponed so as not to interfere with the investigations.

However, it was expected that the Brazilian Navy would question the MOD. The revelation of the problem could lead to “heavy demands for compensation, and it is conceivable that the Brazilians would make damaging public statements about the British industry”. The solution found by the authorities present at the meeting was to suggest a British “fix” to reduce damage to the industry: leave the contacts in the hands of British Shipbuilders, being careful not to encourage the buyer country to seek reparations and always consulting with the British government. If the Brazilians said nothing, the best scenario for the British industry would be established. The Foreign Office should also consider the convenience of establishing diplomatic contacts with Brazil’s government. Finally, the MOD would modify the format of the certificates only as a precautionary measure. An attached page to the draft clarifies that BS has decided to contact us.

A police case

From there, the documentation picks up the interrupted sequence on May 17, with the Ministry of Industry’s letter forwarding to the Prime Minister’s Office the previously mentioned draft of the May 10 meeting with Brazilian authorities²¹. The next chapter of the saga was foreseeable. On June 26, the Director of Public Prosecutions wrote to the Foreign

²¹ See “Mr. R E Dearing (Deputy Secretary) to Mr. P Le Cheminant, Cabinet Office”, London, 18 May 1978. FCO 69-609.

Office's Department of Commercial and Export Relations, stating that he had agreed with Hampshire police's convenience to conduct investigations into the Vosper case in Brazil, foreseeing September 4 as the start date for these investigations²². In response, the FCO noted that it had informed the ambassador in Brasília and suggested communicating with the police authorities in charge of the inquiry, to alert them to the need for discretion and delicacy in Brazil²³. On July 10, the Director of Public Prosecutions' office sent the Foreign Office the letter intended to be forwarded to the "competent authority" in Brasília.

Dated July 10, the document referred to the investigation into the alleged frauds conducted by Detective Superintendent John A. Wright and Detective Inspector Frederick J. Hodson. It then cited the contract signed by the government of Brazil with Vosper Thornycroft on September 29, 1970, for the construction of four frigates in the United Kingdom and two in Brazil to clarify:

The Hampshire Constabulary seized a number of documents, including letters and internal memoranda belonging to the English Company, which contain evidence that the English Company defrauded the Federative Republic of Brazil in that the English Company negotiated discount schemes with most of its suppliers *and failed to pass the benefit of these discounts, either directly or indirectly, to the Government of Brazil* (emphasis mine) (our translation).²⁴

The letter then explained how Vosper's scheme apparently worked: it induced many of its suppliers to grant discounts on the price of supplied equipment for the frigates' construction, while providing inflated invoices. "When the payment was made, the supplier then gave a discount to the English Company through a check or credit note unrelated to any contract", summarized the Director of Public Prosecutions. There was evidence, it continued, of a series of meetings between representatives of Vosper and the Brazilian government, where it was agreed that Vosper could keep the discounts obtained on spare parts, but the Brazilian government should benefit from discounts obtained in any other part of the contract.

The document then listed three ways in which Vosper would have defrauded the Brazilian government through "confidential discounts":

²² "Director of Public Prosecution to Mr. Burgess-Watson, Trade Relations and Exports Department, Foreign and Commonwealth Office", London, 26 June 1978. FCO 69-609.

²³ "R Burges Watson to T Waring Esq, Director of Public Prosecution", London, n/d.

²⁴ "Director of Public Prosecutions to the Competent Legal Authority, Brasilia, Brazil", London, 10 July 1978. FCO 69-609.

1) As the contract stipulated that in the case of unforeseen increases in equipment and parts prices, Vosper could pass on these costs to the Brazilian government, but in the reverse case of price reduction, the latter should benefit from the obtained reductions, the evidence pointed to a loss for our government;

2) As the contract provided that Vosper could charge the Brazilian government when “overhead expenses” exceeded 83 percent, there was evidence that secret discussion, not included in the total of such expenses, allowed extra and fraudulent gains to the English Company, harming Brazil’s side;

3) As the contract stipulated that Vosper could charge a commission of 12.5 percent on spare parts, there was evidence that you were not accounting for the discounts. This percentage was calculated on inflated prices, again harming the purchasing government.

For the Hampshire Police, the way Vosper found to hide the discounts in its accounting “seemed to indicate an intention on the part of employees of this Company to conceal the fact that over a period of four years, a sum in the region of £598,455 was received from this source”. For the investigators, it was still not clear that part of this sum should have been passed on to the Brazilian government, but the evidence indicated that “additional sums must be credited or paid to the English Company about “confidential discounts””. Although the investigation had not identified all Vosper employees who had conducted negotiations with the Brazilian government up to that point, the Director of Public Prosecutions added, “it seems, based on the minutes signed in possession of the English Company, that the representative of this company – D.P.E. Shepherd, effectively discussed commercial discount issues with Admiral Coelho de Souza in a series of meetings between July 31 and August 8, 1970”.

In view of this scenario, it was considered necessary to establish, with Admiral Coelho de Souza and other authorized representatives of the Brazilian government, the interpretation adopted by their government on the issue of discounts by suppliers. In this regard, “the presentation of the relevant pre-contract signed minutes, recording the various meetings prior to the contract signing, will be of crucial importance to the Police investigation”. If the British Prosecution decided to bring formal charges against Vosper employees involved in the fraud, it would be crucial to add *evidence that the Brazilian government had been deceived* (emphasis mine). As a result of these arguments, the Hampshire Police deemed it advisable to hear and record the statements of those responsible in Brazil for the following companies: Anglo-

Brasileira de Comércio S.A, Bank of London and South America, and Inter-Continental Aviation S.A.

Additionally, it would be necessary to hear four individuals: Charles Reade, Renato Archer, Admiral Angelo Nolasco de Almeida, and Captain Neves, as all these names appeared in Vosper documents related to payments made by Anglo-Brasileira. More specifically: “in the correspondence, these payments are described as “commissions” and “special commissions” in the amount of £2,795,757. The content of this correspondence and internal memoranda may indicate that a proportion of these commissions may represent the payment of various sums of money for improper purposes”. The letter concluded by explaining that before the investigations in Brazil were conducted, it would be impossible to establish with precision “the specific nature of the entirety of the inquiry”.

Even before the official request from the Director of Public Prosecutions arrived, the Commercial and Exports Relations Department of the Foreign Office hastened to discuss what course of action to take, consulting with the official responsible for Brazil in the South America Department. Additionally, the Nationalities and Treaties Department was consulted, confirming that the practice was for the Police, through the Prosecution, *to request* permission from the foreign government to conduct investigations. In the case of Brazil, sensitivities were heightened after the Ronald Biggs affair (who took refuge in Brazil after participating in the famous Great Train Robbery in England). The official who made the contacts expressed concern about the direction the problem was taking, “because although the Brazilians may appear reasonably calm when we tell them that they may have been deceived here and that we will compensate them if that happened, they will be much less calm about the possible suggestions *that some of theirs may be implicated in the fraud*” (emphasis mine). If this happened, the official said, the certain consequence would be that the Brazilians would be very unlikely to do business with British shipyards in the future.²⁵

When he learned about the content of Prosecutor Waring’s letter, Burges Watson, head of the commerce department at the Foreign Office, contacted him by phone, trying to convince him that it seemed logical that, although it could be expected that the Brazilians would be willing to collaborate on aspects of the investigation that showed they were harmed, they probably would not agree to English police investigating their own employees. He suggested that Waring be content with a verbal note requesting the Brazilian government’s interpretation

²⁵ “F R G Thompson, Trade Relations and Exports Department to Mr. Burges Watson”, London, 5 July 1978. FCO 69-609.

of the contract. Waring responded that he suspected that any response to a verbal note would have no legal value in the UK. He also warned that the entire investigation against Vosper would be jeopardized if the Brazilians did not agree to the investigation into improper commissions. The two agreed to talk in person.²⁶

A few days later, the Foreign Office sent a telegram to the ambassador in Brasília, containing a summary of Prosecutor Waring's letter, reporting the content of the above conversation and asking for answers to a series of questions: how far could British police face difficulties with local authorities? Would the Brazilians be more friendly if the investigations were limited to the fraud case? Would they agree to an interview with Admiral Coelho de Souza? In the case of investigating commissions, would it be easier to interview only employees of the companies mentioned in the letter, leaving out naval officers?²⁷

In his response, Statham was clear: the embassy should be the channel of dialogue with the Itamaraty on this issue; no other means should be considered. As for the above questions, his view was that: 1) he was sure that British police could not act in Brazil without the full consent of Brazilian authorities, including the presence of the Federal Police in all statements; 2) he thought that Brazilian authorities would be more willing to collaborate on the fraud investigation than on "*corrupt payments, where they would prefer to conduct their own investigation*" (emphasis mine); 3) he could not assure anything about Admiral's testimony without asking Brazilian authorities first; 4) he hoped it would be easier to interview company employees than naval officers.²⁸

Given these suggestions, the FCO prepared a brief for the meeting with the Prosecutor on the conduct to be adopted. The document basically contained the ambassador's recommendations mentioned above. It insisted on the idea of a *note verbale*. If that were impossible, the Foreign Office did not intend to hinder the investigations but insisted that the first contact should be made by the ambassador in Brasília. In the part dedicated to the history of the problem, it explained the case of the leak already mentioned to the press, mentioning the Daily Telegraph and Southern Television as the media that published the stories²⁹. The meeting was held, and there was agreement with the ambassador's suggestions. The official in charge of the commercial sector of the FO then drafted, on July 24, a *aide-memoire* to instruct the

²⁶ "Minute from Burges Watson", London, 13 July 1978. FCO 69-609.

²⁷ "To immediate Brasilia TELNO 161 of 17 July 1978". FCO 69-609.

²⁸ "To immediate FCO TELNO 169 of 18 July 1978. FCO 69-609.

²⁹ "Brief for a meeting with the Assistant Director of Public Prosecutions. Line to Take" attached to "FRC Thomson, Trade Relations and Exports Department to MacDonald, SAmD". London, n/d. FCO 69-609.

ambassador's contact with the Itamaraty³⁰. Two days later, the Secretary of State himself approved the draft, and the relevant department informed Brasília³¹.

The Brazilian Reaction

On August 9, Ambassador Statham met in Brasília with Ambassador Rio Branco, in charge of the Europe Division at the Itamaraty. In his report on the meeting addressed to the Foreign Office, Statham records that Rio Branco's reaction was one of extreme dissatisfaction. According to him, the Brazilian used the expression "very unpleasant matter" to refer to the unorthodoxy of the suggestion that British police could operate in Brazil and to the fact that at least one of the people mentioned was "highly regarded". He was presumed to refer to Admiral Coelho, as the military government had punished former deputy Renato Archer. The ambassador then expressed his belief that if the document delivered to Rio Branco had taken the form of a diplomatic note and not an *aide-memoire*, he would not even have received it. The result of the meeting left the British diplomat discouraged³².

On August 25, the British ambassador was summoned to the Itamaraty in Brasília to receive the official response from the Brazilian government to the memorandum delivered on August 8. There, he was informed by Ambassador Rio Branco that, after consulting with the legal sector and the Secretary-General of that ministry, the MRE's position was that, although there was every interest in getting to the truth on the matter, as the investigation had not reached the judicial level, the government saw no problem with British investigators coming to Brazil informally, but no help would be given by the Brazilian government, and no access to any official document would be granted. The memorandum was returned to the ambassador, with the Brazilian care to make it clear that this did not mean a refusal, as nothing official had been discussed.

Asked by the ambassador, the Brazilian official confirmed that if the British demand had taken or were to take an official character, it would certainly be rejected. For Statham, it was implicit in the conversation that from then on, the responsibility was in the hands of the British: "I understood the response as a friendly warning not to fish in Brazilian waters and that

³⁰ Attached to "R Burges Watson to T Waring", London, 24 July 1978. FCO 69-609.

³¹ "G Feast to Sir Norman Statham KCMG CVO, British Embassy BRASILIA", London, 26 July 1978. FCO 69-609.

³² "Norman Statham to G. Feast, Esq. TRED", Brasilia, 11 August 1978. FCO 69-609.

if we did, making them murky, things would not be so friendly from then on”³³. For the diplomat, in conclusion, the risk should not be taken, and it would be reckless to proceed with the investigations on the terms offered by Brazil.

The recipient of the correspondence from Brasília spoke by phone and then sent a letter to the Chief Prosecutor's office explaining the Brazilian position and heard from there that it would be difficult to conduct the investigations on the terms set by Brazil³⁴. At the same time, the Ministry of Industry informed the Chief Prosecutor's office of British Shipbuilders' willingness to renegotiate contracts with the suppliers of the frigates to regularize the situation with Brazil as much as possible³⁵. A month later, the official in charge of the South America Department of the FO wrote to the head of the ministry's commercial section detailing his contacts with the embassy in Brasília. The diplomat in London explained to the ambassador that the Ministry of Industry was “contemplating some sort of ex gratia payment to the Brazilians to compensate them for the inconveniences resulting from the 'confidential discounts' deducted by Vosper Thornycroft”³⁶. He learned that the Brazilian refusal to cooperate with the investigations meant, in practice, that they would be “denying themselves the prospect of compensatory payments” and that he “*seriously doubted the existence of any Brazilian expectation of receiving compensation for the damages*” (emphasis mine):

And he agreed with me that, since the “commercial discounts” were on average considerable, an attempt by Vosper Thornycroft to recover the large commission payments they had originally made, there was really no equity reason to make any compensatory payment.

Subsequently, the diplomat in London informed his colleague in Brasília that he had spoken with the Ministry of Industry and learned that they were willing to make compensations. The Ministry of Defense was openly in favor of this, as it had accepted payment for the audit in the supply of spare parts to Brazil: “they felt they had failed the Brazilians in the audit”, he said. The position of the Ministry of Industry, upon learning of the ambassador's view, was that British Shipbuilders should make the decision.

On October 13, the head of the commercial section of the FCO, Burges Watson, wrote to the official in charge of the South American Department, stating that he had received a phone

³³ Norman Statham to G. Feast, Esq. Trade Relations & Expts Department”, Brasília, 25 August 1978. FCO 69-609.

³⁴ “R Burges Watson to M J Jardine Esq CB”, London, 13 September 1978”.

³⁵ “(unreadable) to The Rt Hon S C Silkin QC MP”, London, 11 September 1978.

³⁶ “(unreadable) Head of South American Department to R Burges Watson, Trade Relations & Export Dept”, London, 11 October 1978.

call from the office of a Chief Prosecutor's office employee. The employee said that he accepted Ambassador Statham's advice, but his department wondered if it might not be possible to investigate only the issue of "confidential discounts" since *documents in their possession indicated that the Brazilians were aware of this scheme*.

His office would like to hear from the Brazilians on the matter and was considering sending a request to the FCO about it. In his response, Watson's immediate reaction was to think that "the Brazilians did not expect us to raise this issue with them in any form". Any formal request in this regard would certainly be "thrown back in our face, and even oral communication would backfire, weakening the ambassador's position". In support of his argument, he said that if the Brazilian authorities were aware of the confidential discounts, "*then important people might be implicated*" (emphasis mine). And he concluded:

The Brazilians may well not be willing to communicate with us on the subject of confidential discounts without opening a can of worms. It may even happen that the beneficiaries of the initial commissions have agreed to retain the confidential discounts to allow Vosper Thornycroft to recover their original expenses.³⁷

On October 16, the Attorney-General addressed the Ministry of Industry, communicating that, after understanding with the Chief Prosecutor and the Prosecutor's Counsel, they agreed to continue the investigations only on British soil. However, they deemed it advisable to attempt correspondence "to obtain an answer to the question of whether the Government (Brazilian) knew about the practice of hidden discounts and whether it currently considered itself a victim of fraud". The Prosecutor's office did not intend to publicize this information, which would serve only as a weapon against Vosper if they claimed such knowledge in their favor. It also informed that it intended to forward any document it intended to send to Brazil to the relevant government departments in advance.³⁸

Indeed, on November 21, an office from the Ministry of Defense wrote to the Chief Prosecutor, noting that the Attorney-General had kindly sent him a copy of the draft of a letter to be sent to the FCO. According to him:

The MOD's view on this matter is that the last correspondence between our Embassy in Brasília (sic) and the Brazilian authorities very clearly indicated that the Brazilians do not wish to be involved in any way in any legal proceedings against Vosper Thornycroft. It is quite safe, in our view, that their reaction to any approach along the suggested lines would be that they would

³⁷ "R Burges Watson to Mr Ure (Head of South American Department)", London, 13 October 1978.

³⁸ "G J Adams to R E Dearing Esq Department of Industry", London, 16 October 1978.

firmly refuse to answer the two proposed questions and would not want proceedings against Vosper Thornycroft to be conducted on their behalf.³⁹

And it concluded: "we see no reason to jeopardize our relations with Brazil again by reopening these issues, but if, nevertheless, it is decided that this will be done, I would like to consult the Secretary of State for Defense before any step is taken".

In the draft referred to in this response, it is reported that, in a meeting at the Office of the Attorney General held on October 13, the ambassador's letter in Brazil was examined, and it was recognized that it was impossible to conduct investigations in our country. However, the advice and representatives of the Chief Prosecutor's office raised the possibility of opening proceedings "for conspiracy to defraud the Brazilian government", even without evidence collected in Brazil, to the extent that at some point in the trial, questions about the Brazilian government's attitude towards inflated prices might arise from Vosper's lawyers. For the Chief Prosecutor, it would not make sense to proceed "*if the victim of the alleged fraudulent practice was, or was aware of it at the time, or now that their attention has been drawn to it, was not complaining*" (emphasis mine). The document clarified that until that time, there was no evidence that the Brazilian government knew or did not know about the practice and whether it objected to what had happened at present.

In view of this, the Chief Prosecutor would like inquiries to be made to the ambassador in Brasília about whether it would be advisable to approach the Brazilian government again on different lines. And he specified exactly what needed to be known. Did the Brazilian government know directly or through its agents that Vosper had obtained discounts from several suppliers and had not passed them on to Brazil? In the case of ignorance, upon learning of the problem, "would the Government agree to pay the full amount of the notes without protest or objection?"⁴⁰

From there, everything indicates that state reasons prevailed over the Prosecutor's office's last efforts: to the relief of the ministries involved, such questions remained unanswered. The last document in the dossier is a letter from the commercial section of the FCO showing impatience with the new maneuvers of that authority, alongside a

³⁹ "(unreadable) to K Horn Esq Department of the Director of Public and Prosecutions", London, 21 November 1978.

⁴⁰ The Chief Prosecutor then stated that it would be preferable if the answers were provided in writing and that it could be argued that they would not be used in the proceedings. However, it would be better if they could be, to defeat *Vosper's arguments that there was consent on the part of Brazil* (emphasis added). "Letter – Director of Public Prosecutions to R Burges Watson Esq, Foreign and Commonwealth Office", attached to the previous document, n/d.

recommendation that, if consulting the Brazilian ambassador could not be avoided, the FO should clearly stand by the Embassy. Apparently, this was not necessary, as the dossier was closed, and the documents were archived, waiting for an unlikely researcher to retrieve them one day.

However, the *imbroglio* examined in this article raises several unanswered questions. Why did representatives of the Brazilian Navy forgo compensations that seemed certain? Did the Navy internally investigate the case? If there was complicity among Brazilians in London, where did the illegally received financial part of Brazil go? In personal accounts or in secret accounts of the Navy itself? In any case, the case of the frigates raises disturbing doubts about a situation that has all the potential to be another episode of corruption during the post-1964 dictatorial government.

REFERENCES

FALTAS, Sami. **Arms markets and armament policy**: the changing structure of naval industries in Western Europe. Dordrecht/Boston/Lancaster: Martinus Nijhoff, 1986.

GROVE, Eric. "Major surface combatants". In: GARDINE, Robert (org.). **Navies in the nuclear age**: warships since 1945. London: Conway Maritime Press, 1993.

OSBORNE, Eric. **Destroyers**: an illustrated history of their impact. Santa Barbara/Denver/Oxford: ABC Clio, 2005.

CRediT Author Statement

Acknowledgments: To FAPESP.

Funding: FAPESP.

Conflicts of Interest: There are no conflicts of interest.

Ethical Approval: Not applicable.

Data and Material Availability: The data and materials used must be requested from the author.

Author's Contributions: Single authorship.

Processing and editing: Editora Ibero-Americana de Educação.
Proofreading, formatting, normalization and translation.

