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BRAZIL AND THE FALKLANDS CRISIS

1. I enclose some notes I made for a future despatch on Brazil and the Falklands crisis which would assess the Brazilian performance so far and their priorities for the future.

2. We were intending to try and get the completed despatch in this week's bag but with the latest postponement of Mr Onslow's visit this has become less urgent. Nevertheless the Ambassador suggested that you and other members of South America Department might in the meantime find these notes a useful quarry for briefing for the Minister. I also enclose various comments made by members of the Embassy on these notes and in particular a piece from Roger Brown attempting to quantify the economic loss to Brazil from the conflict, and a letter from John Hall with comments from São Paulo.

Yours

Tom

A J Longrigg

3. Brazilian policy therefore an exercise in damage limitation:

(a) to ensure on the one hand they will be able to live with Argentina afterwards, and

(b) so far as permitted by (a) to maintain relations with UK to at least a level which would not bring financial consequences for their economic development.

NOTES FOR DESPATCH

BRAZIL AND THE FALKLANDS CRISIS: THE BALANCE SHEET

1. Now that fighting on the Islands is over, worth asking three questions:

- (a) how should we assess Brazilian performance so far;
- (b) how do the Brazilians themselves view it;
- (c) what are Brazilian priorities for the future and how will they affect us?

2. The crisis an acute dilemma for Brazil. Policy governed by:

- (a) overriding fear of uncontrollable developments in Buenos Aires;
- (b) political and financial need to remain on terms with the UK (and US and EEC);
- (c) popular dislike in Brazil of the Galtieri regime;
- (d) concern at precedent Argentine action might have set for settlement of territorial disputes on South American mainland.

3. Brazilian policy therefore an exercise in damage limitation:

- (a) to ensure on the one hand they will be able to live with Argentina afterwards, and
- (b) as far as permitted by (a) to maintain relations with UK to at least a level which would not bring financial consequences for their economic development programmes.



#### Key Elements in Brazilian Policy

- (a) Failure to condemn invasion;
- (b) frequent reassertion of support for Argentina's claim on sovereignty;
- (c) carefully measured and discreet military assistance to Argentina;
- (d) avoidance of involvement in any diplomatic initiative which might involve offence to Argentina, but,
- (e) effective moderating influence behind the scenes in TIAR.

#### 5. Brazilian Performance from UK Point of View

Much as could have been predicted giving considerations in paragraph 2 above; no attempt to use influence behind the scenes on Argentina despite obvious disapproval of the whole venture; general feebleness - epitomised by havoring over the Vulcan incident - infuriating at times. But did nothing (with exception of Libyan air bridge) affording significant harm to UK interests. Not what they did to assist Argentina, but what they might have done to bring about an early settlement, and did not, which can be counted against them. But on the plus side - moderating influence in TIAR, distancing themselves from hispanic histrionics; and on the whole highly favourable press comment.

#### 6. Brazilian Assessment of Current Situation

Given that hostilities could not be avoided, things probably have gone as well as could be hoped.

- (a) Comparatively bloodless Argentine surrender a great relief;

/(b)



(b) but they can make no proper appraisal until events have unfolded further in Buenos Aires. Evidence of underlying political crisis the cause for real anxiety. But no sign of Argentine resentment at Brazilian performance or of increased Cuban/Soviet involvement;

(c) relations with UK, Europe and USA have suffered no permanent damage;

(d) crisis has, however, cost Brazil on the commercial front - fall in exports, possible permanent loss of market share in eg Chile/Peru; economic collapse of Argentina will reduce trade; but on the plus side, no evidence of permanent decline in international creditworthiness;

(e) many in the Brazilian military will welcome evidence the conflict has produced of need to refurbish the armed forces. But outcome of probable conflict with Delfim's financial management policies not yet clear. The debate is already launched however in military and press circles on the need for protection in a harsher world where US hegemony is no longer effective in preventing regional mayhem;

(f) although they will not say so publicly, the Brazilians will be pleased to have this example that the use of force does not pay as a precedent on the mainland;

(g) chances of gaining a foothold in the Antarctic will have been increased as Argentina's have been decreased by the loss of the Islands - in particular South Georgia.

## 7. The Future

(a) Brazilian priorities will be :

/(i)



- (i) stability in Argentina;
- (ii) an end to hostilities between Argentina and the UK;
- (iii) progress towards rapprochement between the USA, Argentina and the rest of Latin America;

(b) but their willingness to make any initiative towards the above laudable aims will be governed by their perception of events in Buenos Aires and reactions from there;

(c) the outline of Brazilian policy post-hostilities laid down in:

- (i) the published note of 16 June to Argentina of friendly neutrality;
- (ii) statements that they would countenance no action which would undermine their support for Argentine sovereignty;

(d) for the time being, Brazil probably understands our determination to re-establish British rule;

(e) but they will hope we will do it tactfully and that there will be an early sign of renewed negotiations;

(f) if we delay on negotiations, Brazil is unlikely to take the lead in pressing for a change of policy, but would certainly add its weight should international opinion be moving in this direction;

(g) might consider contributing to some form of international presence or international arrangements at some stage - but only if these were acceptable to Argentina.

8. As regards developments on the mainland:

(a) Brazil unlikely to be unduly worried by the discrediting of the TIAR, or in a hurry to replace it;

/(b)

(b) but will also not be attracted by suggestions from hispanic America that South America should go it alone (ie without the USA);

(c) some sensible arrangement for coordinating opposition to Cuban and Soviet interference still a requirement;

(d) Brazil also unlikely to be attracted by suggestion in major newspapers that she should abandon hispanic America and tie herself more firmly to the West;

(e) the Itamaraty policy of non-alignment and identification with the Third World likely to survive despite press criticism;

(f) but it may be a while before she feels comfortable as with her South American neighbours as she did before the conflict.



BRITISH CONSULATE-GENERAL,  
SAO PAULO.

29 June 1982

M Perceval Esq  
British Embassy  
Brasilia*Enc. Copy to Mr. Chase, Sp. L.**Dear Michael,*


1. With reference to your proposed report on the Falklands crisis as seen from Brazil the following comments from São Paulo may be of some interest.

2. I will not dwell upon our limited contacts with the Brazilian "man in the street" which were more or less confined to the two delegations upon which I reported separately. We have so far received about 50 letters, nearly all in favour of the British position (but of course not a representative sample of public opinion) and very many visitors and phone calls.

3. My main contacts have been with the media and with some politicians. All favoured the British position apart from the Bandeirantes television group, where I was told there was a division of opinion, and Severo Gomes. The majority view was based above all upon their concern as to what Argentina might do next and the encouragement/would be given to other Latin American countries to seek to settle other border disputes similarly. Objection to the use of force was another but less significant factor. None of them seemed moved by the fate of the islanders themselves, and they tended to ignore the sovereignty issue in line with the general Brazilian assumption that the Falklands probably "ought to be" Argentine rather than British. I think most believed in the British emphasis on the importance of the islanders, although that trust and their pro-British views in general would probably be adversely and seriously affected if we were now to move towards the establishment of an Antarctic base. Without any doubt the public British agonizing over the issue, and the Prime Minister's need actually to persuade public opinion and indeed her own party after listening to a variety of contrasting views, tremendously impressed virtually all Brazilians who were showing an intelligent interest in events - particularly by comparison with what was happening in the Argentine. The support for Britain seemed to increase as HMG's determination was fully appreciated, as Britain was increasingly seen to be taking a stand of principle in contrast to the fence-sitting of the Brazilian Government (but see below), and as the realisation of Argentine strength reinforced fears of how that strength might be used subsequently.

*[which*





4. There were I think three events which had some negative impact on pro-British support. The first, the sinking of the "Belgrano" in fact made less of an impression than I would have expected and was soon overtaken by the fate of the "Sheffield". The emotion which I found particularly intriguing was the sense of shock with which Brazilians reacted to the rapid and decisive support given to the UK by the European community, which illustrated dramatically the strength of that body as a political force. Whether because of existing resentment against alleged protectionist tendencies of that body, whether because of a subconsciously felt contrast with the weakness of Latin American alliances, or whether because of concern that at some time in the future some similarly decisive and unexpected retributive action might be taken by the EC against Brazil, this stage in the development of the crisis certainly seized the attention of Brazilians. Some reacted critically, asking why Europe had not moved with similar incisiveness against Russian action in Poland, but all in my view were taken aback by the EC's response. The third event was the USA shift from mediation to support for Britain, which many felt (even if they sympathised with the reasons for it) to have been more abrupt than necessary and insufficiently explained to Latin American opinion. I refer again later to US-Brazil relations.

5. The Brazilian attitude to Argentina in the light of the Falklands crisis is very uncertain, with a feeling that Brazilians must remain on good terms with that neighbour but understandable preoccupation as to when there will be a sufficiently stable government with which reasonably solid relations can be established. I asked some Brazilian friends whether they felt their government should at least have publicly "regretted" the Argentine use of force in order to establish some principles of conduct for the future, bearing in mind Argentina's continuing instability, her historical animosity towards Brazil and her currently fickle foreign relations in general. However, apart from some in the media, most did not take that view, and this perhaps suggests that Itamaraty's policy was after all reflecting majority opinion. If so, I do not know how far the reason was fear of Argentina or how far it was simply Brazilian pacifism resting content on the protection afforded by the sheer size of the country. One element in the argument for "solidarity" and thus, in this context, inaction, was no doubt Brazilian awareness that, as a non-Hispanic country, she was the odd one out in Latin America, having to accept also a degree of latent hostility because of her suspected imperialist aims or simply because of her size and economic power.

6. For what it is worth none of my informants considered President Figueiredo's affection for the Argentines, resulting from his years spent there as a boy (and recently and rather obviously reaffirmed by the publicity given to his horse-riding in the company of the Argentine Military Attaché on 7 June) to have influenced



significantly the policy of the Brazilian Government.

7. Among the critics of governmental policy less attention was paid than I would have expected to the moderating role presumably played by Brazil at the TIAR meetings. But that presumption may be incorrect and you probably know more about it. The supply of arms to the Argentine was generally accepted as typical Brazilian pragmatism, but I put it to media representatives that this would not be the reaction in London and other European capitals.

8. Turning now to the longer term impact of this crisis I would guess that conclusions will be drawn as to the inadequacy of alliances solely within Latin America, and these will lead the Brazilian government closer to that of the USA when the immediate political turbulence has begun to settle. But the government will stop short of any commitment to US principles which might set it on a collision course with whatever Argentine government might later emerge. In the North-South context Western countries may have suffered a reverse in that they have been encouraging Brazil to think of itself as in some ways a developed rather than a developing country, despite the Government's own dislike of that concept particularly in the "graduation" context. It could be that, whether consciously or subconsciously, the decisive defeat administered to the Argentines by the UK, together with the strong and rapid support of the latter's allies referred to above, may have the unfortunate result of leading Brazil to conclude that the gap between it and the developed world is even wider than it had previously thought. That would be a pity.

9. The above comments form part of the background against which the impact on Anglo-Brazilian relations of the Falklands crisis has to be judged. Seen from São Paulo, that part of Brazilian government policy which has been discernible above the surface has evidenced the usual Brazilian pragmatism and the usual Itamaraty reluctance to take compromising policy decisions. Despite the sale of arms to the Argentine it has therefore seemed entirely reasonable for British businessmen and the bankers to pursue "business as usual" in Brazil. It has been worrying to sense a different reaction in London, with both businessmen and British Council experts\*putting off visits to Brazil apparently because of their assumption (supported, or not corrected by the FCO and DOT?) of political repercussions affecting this market. A major effort therefore appears necessary to correct any such assumption as quickly as possible, and a part of that process should be the early re-arrangement of the Secretary of State for Trade's official visit to Brazil. We cannot afford to spite

\*I am not referring to  
the Director-General



ourselves by taking umbrage at Brazil's failure to condemn the Argentine use of force nor at her supply of arms to that country, and would be wrong to conclude from those policies that future Anglo-Brazilian relations will be adversely affected by the recent conflict. We should instead feel, and perhaps express gratitude for Brazil's assumed use of influence within TIAR to avoid conclusions more antagonistic towards the UK, and above all emphasise our own readiness and desire for business as usual.

*I shall look forward to seeing the final despatch!*

*Yours ever*  
*John*

W J Hall

c.c. C Seaward Esq Rio de Janeiro



1. Para 2. "Acute dilemma". "Overriding fear of uncontrollable developments etc". Doesn't all this rather overstate the Brazilian view? Weren't they in fact rather more relaxed about the Falklands conflict than these words suggest?

2. Para 5. I feel more strongly over the 'Libyan Air Bridge' than the para suggests. There could easily have been Exocets on board one or more aircraft going through Recife. Exocets or no, there were obviously arms on board, and no one knowing the aircraft was from Libya could have had doubts on that score; dipclear was however always granted and no efforts made to inspect the 'agricultural machinery' !!

3. Para 6e. It would be wrong to assume that more money will be made available to the armed forces. Recent statements from Gen Werner and Minister Galveas already suggest that such money is just not available and that there are higher priorities.

GENERAL

4. It would be quite wrong to believe that major decisions regarding re-equipment within the Brazilian armed forces will be taken in the near future. There are, of course, many debates taking place but these will go on for a long time yet, and in any case in the end much will depend upon how much cash is available.

*J. E. Brown*

J E BROWN  
Wg Cdr  
AA

28 Jun 82



DA  
NA  
AA  
Mr Ramscar  
Mr Brown  
Miss Leiper

separate copies to all

BRAZIL AND THE FALKLANDS DISPUTE


1. As a stimulus to contributions from you, I attach a series of points put together by H of C. I would be grateful to receive your comments on these points, and points from your specific areas, by close of play on Monday 28 June.
2. I would be particularly grateful if Mr Brown would attempt to quantify the trade loss which Brazil has suffered from the conflict, as also any indication of indirect damage to Brazil's prospects on the international money market.

W.

Michael Perceval  
25 June 1982

By DA

→  
Ref Ge. The excellent ~~per~~ <sup>some</sup> performance of British equipment and the effectiveness of our training methods will not pass unnoticed. However, although there is — and will continue to be — debate on the needs of the Brazilian Armed Forces, I do not think there is much sign that extra care will be forthcoming in the immediate future.

  
- 20/11



To: Counsellor

BRAZIL AND THE FALKLANDS DISPUTE

1. Thank you for my copy of your Minute asking for contributions to the despatch. As the June figures are not yet available I should, if possible, like the opportunity to revise what follows below next week.

General

At present it is difficult to quantify how much in trade and financial terms the Brazilians may have lost as a result of the Falklands dispute. Up-to-date figures are not yet available and when they do appear they will reflect not just what took place in the South Atlantic, but also the generally low level of world economic activity, low primary commodity prices, poor weather which has affected a number of important Brazilian export crops such as soya, and perhaps also what the Brazilians refer to as "the increasing protectionism" of the developed countries in the current world situation.

Trade

Brazilian exports for the first five months of this year were 7.3% (or US\$655 million) down over the equivalent period in 1981. All the factors mentioned will have had some effect, but the Falklands dispute must have played a part. Some 4% (US\$880 million) of total Brazilian exports went to Argentina in 1981 and Brazil's balance of trade with Argentina is favourable (imports were US\$588 million or about 3% of the total). Much of this market must have been lost in April and May (? say US\$150 million). There seems little hope of any rapid recovery in the Argentine economy, and some reports suggest that Brazil could lose US\$300 - 400 million (or more) in exports to Argentina this year. In addition, and partly because of the greater difficulties and expense (including sharp rises in freight insurance rates) of shipping Brazilian exports round Cape Horn to countries such as Chile, Peru and Equador, there must also have been some loss in other markets.



- 2 -

These three countries together take over US\$1 billion worth of Brazilian exports per year accounting for a further 3% of the total. As a qesstimate, therefore, Brazil may lose a total of something like US\$500 million in exports to South American countries this year as a more or less direct result of what ahhpended over the Falklands. But she is making strong efforts to recover the position, and a high level Brazilian mission visited Buenos Aires in June to discuss new and , broader methods of industrial and commercial co-operation.

### Finance

Again it is difficult to separate the effects of the Falklands dispute from the factors mentioned above, and from the fact that many banks are thought to be near their current ceiling for lending to Brazil. For whatever reason foreign borrowing in May was 25% down on May 1981 and foreign borrowing for the year so far, instead of being 10-15% up over the equivalent period last year is, in fact, at about the same level. The Falklands dispute will certainly have had some effect on the smaller and more cautious banks, particularly in North America. There is no reason to think that it will have had any long term effect on the larger banks with a better knowledge of Brazil, but it seems clear that it has caused some sort of pause in the flow of funds. There has, as yet, been no serious suggestion that Brazil will fail to achieve her borrowing requirements this year (even though these will have to be increased from the original US\$16 billion or so to perhaps US\$17 billion or 18 billion as a result of reduced expectations over the trade surplus) but it will obviously take longer to bring the money in than the Central Bank had originally hoped and higher spreads may have to be paid.

R H BROWN  
29 June 1982