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You will remember that, following joint talks with the Americans last year, we agreed that a joint Anglo-US survey should be made of certain British islands in the Indian Ocean which were of potential strategic value, and agreed to give further consideration to the issues involved when the results of the survey were known and an estimate had been made of the probable costs of the scheme. (DO(64)26th Meeting, 26th May 1964, item 2).

2. The object was to see which islands might be detached from their present administrations (the Seychelles and Mauritius), removing the populations as necessary so as to obtain the maximum security in all respects for any defence installations constructed thereon. The US proposal was that the UK should meet the cost of acquiring the land, providing compensation for the landowners and resettling the populations. They would meet the full cost of constructing and maintaining the installations of which we should have joint use.

3. The survey took place, and the American Government has recently told us which islands they consider should be detached from the Seychelles and Mauritius. In one case (Diego Garcia) they have firm plans to build a communications station, airstrip and other supporting facilities.

4. As a result of further consideration by departments a draft paper has now been prepared for the Foreign Secretary and Defence Secretary to table shortly at the Defence and Overseas Policy Committee. A copy of this draft is attached and we should welcome your comments on it. You will note the great importance attached to the whole project by both the Ministry of Defence and the Foreign Office. There are two particular aspects of the proposal to which I would like to draw your attention at this stage.

5. Firstly there are three elements of cost involved so far as the UK is concerned. These are set out in more detail in paragraph 10 of the paper:-

- a. "Compensation" to the territories to keep them happy about the whole operation;
- b. Raping out the commercial interests in the islands;
- c. Resettling the displaced local inhabitants.

Our feeling is that b. and c. would be proper to defence votes, but not a. which would seem more appropriate to the Colonial Office. I understand that the Colonial Office have been unable to put a price on this cost which would depend on the views of their governors, pressure of local opinion and what it would be reasonable to expect could be negotiated. In the form of economic aid it could amount to a sizeable sum. The

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Colonial Office estimates of the cost of b. and c. have, of necessity, been only roughly drawn although these estimates are based on information supplied by a Colonial Office representative who accompanied the survey party. Assuming it were agreed to detach all the islands proposed in the paper, for political reasons it would be necessary to carry out this surgery as soon as possible, although presumably expenditure on an economic aid programme could be spread over several years. The whole project raises important issues for the Colonial Office and I expect they may wish to table a separate paper of their own on these.

6. Once the islands had been detached we should not have to spend money on buying out the commercial interests and resettlement except where the Americans chose, with our agreement, to develop. At present their only firm plan is to build in Diego Garcia, beginning survey work in 1965/6 but not actually breaking ground until 1966/7. Going on the Colonial Office estimates this would involve a sum of about £0.6m (£225,000 for buying out and £334,000 for resettlement) mostly in 1965/6, but possibly spreading into 1966/7. The Americans have said they have nothing else in mind for any of the other islands which would continue to be farmed and populated as now.

7. The second point to which I should like to draw your attention concerns how hard a bargain we should try to drive with the Americans. Assuming that over the years substantial development of defence facilities took place on the islands we should have acquired an excellent bargain. Nevertheless there is always the risk that after building the project planned for Diego Garcia no further development will take place. However this is a risk we consider we must take. But at a time when all new expenditure is under very close scrutiny the defence secretary believes it right to try and get the Americans to shoulder as much as possible of the cost. Since buying out of commercial interests and resettlement are directly related to preparing the ground for American built installations, this part of the cost can fairly be argued as being appropriate to the Americans, although the amounts involved are small. It would be greatly to our advantage, though more difficult to argue successfully, that the Americans should provide the accompanying development aid to the Seychelles and Mauritius. However I should mention that this possibility was pressed during the talks last year and the Americans rejected it outright. The Americans usually say they cannot make payments for purposes of the kind mentioned above; Congress is unwilling to grant funds for the purchase of what they regard as imperialist legacies. But if they tried this line of argument we might find a way round by offering to take the money in some indirect form. Another possibility would be to persuade them to let us use the MDAP Disposals Fund. As you know we have difficulty in using up this money which, allowing for present commitments, amounts to £0.6m and accumulates on average at £2.1m a year. However this would hardly help towards development aid for the Seychelles and Mauritius.

8. Finally, there should be no delusions that the Americans will easily be persuaded at this stage to take over the costs they have been expecting us to carry and when their own contribution would be so much greater than ours. In the last resort, therefore, in order to keep the deal alive, we should have to be ready to reconsider meeting these costs from UK funds alone.

9. If you would like to meet to discuss this project I should be very pleased to come over. Copies of this letter go to Morland (Foreign Office Downie (Colonial Office) and Champion (Commonwealth Relations Office).

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