

1 Sept. 1966

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(through CEUM(1) and ACDEL(1))

REPORT ON VISIT OF J. R. MARGOSCHIS, DEFENCE LANDS STAFF,
TO THE BRITISH ISLANDS AND THE CHINESE ISLANDS TERRITORIES
1 to 11.8 to 12th August 1966

1. TERMS OF REFERENCE. These were conveyed to me following my arrival at
Male through the Commonwealth Office and the Governor by telegrams Nos. BIOT 13
and 14. Relevant text were as follows:-

BIOT 13

"Please inform Margoschis of Defence Lands on arrival that terms of
reference and additional instructions will be telegraphed on Monday,
20th June to you for communication to him.

2. In the meantime he should draw on following points as necessary with
land owners and if necessary in answer to any Press enquiries.

a. When the BIOT was established last November, it was announced
that appropriate compensation would be paid. At the same time it
was envisaged that HMG would wish to obtain the title to all land
in the territory at an early date, negotiations for this purpose are
therefore now being started. There is no other significance in the
timing of the visit.

b. It is hoped that arrangements can also be made for the owners
to continue in occupation of land on lease-back from HMG, subject
to notice, so that existing commercial operations are disturbed as
little as possible.

c. Neither buying-out nor leasing-back arrangements are expected
to be finalised during the present visit.

d. The visit has no connection with any specific Defence
requirements. The position remains as announced in the House of
Commons on February 2nd, namely that there are no specific plans
at present for constructing military facilities on any of the
BIOT islands.

e. Questions about possible resettlement are outside the scope of
the present visit, but it follows from b. above that HMG have no
immediate intention that people working in the territory should be
transferred to other islands in the area.

SECRET

3. He should keep in close touch with you throughout his visit about the line he proposed in the preceding paragraph. Any alterations made will be authorised to you."

BIOT 14

"2. Terms of reference

- a. To negotiate with the owners and the lessees of the islands referred to in Clause 3 of the British Indian Ocean Islands Order 1965 (1965 No. 1926), and endeavour to agree with them the amount of compensation payable in respect of buying out their respective interests.
- b. To agree terms with the parties concerned for their continued occupation of the islands until such time as possession is required by HMG.

3. Instructions

- a. Indicate to the owners that lease-back would be terminable at six months' notice although longer notice would be given if conditions permitted.
- b. Confirm that there is no private occupation of land at Aldabra that could not be terminated at will by you acting as BIOT Commissioner if required for public purposes.
- c. Enquiries should be directed to arriving at a provisional estimate of the purchase price, in the light of discussions with the owners. Final negotiation will take place after this estimate has been considered in London, and may require a second visit to Seychelles."

In the event, no Press enquiries were made and I was only obliged to draw upon the terms of BIOT 13 in my relationship with the landowners involved and, to a minor extent, in dealing with pertinent enquiries received from time to time by non-officials casually encountered.

- 2 -

SECRET

SECRET

3. ITINERARY:

10th June By Air from London to Mombasa via Nairobi.
11th June Arrived Mombasa.
15th June Sailed from Mombasa on SS "KAMPALA".
18th June Arrived Mahe, Seychelles.
18th-25th June At Mahe.
25th June Sailed for Desroches on A.M.V. "MOLENE".
26th June Arrived Desroches.
26th-29th June At Desroches.
29th June Sailed from Desroches on A.M.V. "ISLE OF FARQUHAR".
3rd July Arrived Farquhar.
3rd-6th July At Farquhar: visited North, South and Golette Islands,
and the Manahas.
6th July Sailed from Farquhar on "ISLE OF FARQUHAR".
7th July Arrived St. Pierre.
7th July Sailed from St. Pierre on "ISLE OF FARQUHAR".
10th July Arrived Mahe.
10th-16th At Mahe.
16th July Sailed from Mahe on M.V. "MAURITIUS" (Colonial Steamship
Line).
21st July Arrived Diego Garcia.
21st-22nd July At Diego Garcia (all further movements were per
M.V. "MAURITIUS").
22nd July Sailed for Peros Banhos Atoll.
23rd July Arrived Peros Banhos Atoll, visited Iles Du Coin,
Anglais, Monpatre and Poule.
24th July At Peros. Visited Iles Diamante, Pierre and Manon.
25th July At Peros. Visited Iles Petite Soeur and Grande Soeur.
26th July Sailed for Salomon Atoll.
27th July Arrived Salomon. Visited Ile Anglais, Ile Poddan.
28th July At Salomon. Visited Iles Fougat, Chateau and
De La Passe.
29th July Sailed for Diego Garcia.
30th July Arrived Diego Garcia.

31st July At Diego Garcia.
 1st August Sailed for Mahe.
 5th August Arrived Mahe.
 5th-13th August At Mahe.
 13th August Departed Mahe, arrived Mombasa per U.S. Amphibian Aircraft; departed Mombasa arrived Nairobi.
 16th August Departed Nairobi, arrived London.

Owing to the sailing programme of the M.V. "MAURITIUS" I was unable to visit the uninhabited islands of Egmont, Danger and Eagle in the Chagos Archipelago. Similarly, owing to the non-availability of sea transport, I did not visit the Crown Islands of Aldabra. Had this been possible, not less than 14 days would have been required for the visit from Mahe.

I met the following officials and notable non-officials during the tour:

At Mombasa G. H. Grubb, Esq., Head of BMC Office, Mombasa.

On S.S. KAMPALA and at Mahe

The Duchess of Northumberland	}	Visiting the Inner Seychelles Islands in connection with an ornithological survey sponsored by CEM and Colonial Office.
Lord Richard Percy		
The Viscount and Viscountess Ridley		

The Bishop of Seychelles and Mauritius.

At Mahe

Officials:

H.E. The Governor, the Rt. Hon. Earl of Oxford and Asquith, K.C.M.G.
 J. W. Jeffrey, Esq., M.B.E., D.S.C., Acting Colonial Secretary.
 A. Forsyth-Thompson, Esq. C.M.G. Development Secretary (later Acting Colonial Secretary following the departure of Mr. Jeffrey).
 G. F. Pollard, Esq., O.B.E., Administrative Secretary.
 J. Kent, Esq., Registrar of Co-operative Societies.
 F. Frichot, Esq., Assistant Attorney General (Private Attorney for two relatives holding shares in Chagos/Azalaka Co.).
 Y. L. E. Savy Esq., A.R.I.C.S., Chief Surveyor (nephew of Aldabra lease holder).
 D. Baillon Esq., Registrar of Deeds.

S E C R E T

S. Savy, Esq., D. D. Agriculture (nephew of Aldabra lease holder.)

B. Smith, Esq., Experimental Agronomist, Agricultural Department.

Visiting Mahe

G. Feggon, Esq., F.O. Labour Adviser.

M. J. Maccan, Esq., C.M.G., O.B.E., Deputy Inspector General of Police,
Commonwealth Office.

Non-Officials

D. G. Moore, Esq., Manager, Barclays D.C. & C.

A Delhomme, Esq., Owner of $\frac{3}{4}$ share Desroches Island.

Dr. H. S. Delhomme, wife of A. Delhomme; member of Seychelles Government
Legislative and Executive Councils.

M. P. Moulinie, Esq., Owner of Farquhar Island; 1/3rd shareholder and
Managing Director (for life) of the Chagos
Agalega Co; member of Seychelles Executive Council.

F. Morel Du Bois, Esq., Public Notary; shareholder in Chagos/Agalega Co;
present during voyage of M.V. "MAURITIUS".

Captain Lionett, Master of M.V. "MAURITIUS" and apparently trusted confidant
of owners Colonial Steamship Co. (1/3rd share-
holders in Chagos/Agalega Co.).

H. Savy, Esq., Aldabra leaseholder.

A. Lablache, Esq., Managing Director of Universal Lighterage Co. local
Shell agents.

-. Augustinos, Esq., Representative of Messrs. Hubberlit/Leisure Estates Co.,
engaged in speculative real estate transactions
on Mahe.

4. a. The first six days at Mahe were spent in discussion with the Governor and officials to enable me to assimilate facts and form an impression of the economic and political considerations likely to be relevant to my Terms of Reference. I also obtained tabulated information on recent Seychelles land transactions, copra prices and, on the authority of the Governor, copies of trading accounts submitted for income tax purposes by the island owners involved. All concerned were extremely helpful and managed to find time to assist me in spite of their preoccupations with the aftermath of a near-general strike which

SECRET

had taken place a few days before my arrival and which had necessitated the presence of Naval and Marine landing parties. In this connection it became apparent to me that these first expressions of organised unrest in the labour market had increased the apprehension in the minds of both DeLhomme and Mollins concerning the possible political future of the Seychelles which they inclined to view in the light of past developments in East Africa, Zanzibar and Mauritius.

b. In discussion with the Manager of Barclays D.C. & C., (which bank enjoys a virtual monopoly in the industry), it emerged that considerable capital was being moved to UK by wealthy Asian merchants thus demonstrating some lack of confidence in the future of the Seychelles. It is of interest to note that in Mauritius free transferability within the Sterling area has recently been curtailed by the imposition of a 15% Government levy on such transactions and obviously this situation must have stimulated the local Seychellois and Asian business minds lest a similar measure be applied in Seychelles. In the mortgage market, money usually lent by Asians at 6% has become very short and it is now very difficult to secure loans even at 10%. Barclays do not deal in this market but confine themselves to short-term bridging at 7-8%; their deposit rate is now 4%. The bank is situated in attractive new air-conditioned premises on a prestige site and the manager's house is similarly provided. Both buildings are far superior to anything else of the type on Mahe and presumably this standard of building provision is calculated to demonstrate confidence in the Seychelles.

c. The Seychelles business world is currently much concerned about the possibility of sterling devaluation. The measures announced in July by the Government, coming so soon after the devaluation of the Indian Rupee (now at approximately Rs.21 = £1 instead of Rs.13.33), have caused some apprehension. The entire Seychelles copra production (including that from Desroches and Farquhar but not Chagos) is sold to India, thus the

SECRET

Indian Rupee devaluation, together with a generally poor world copra price, said to have been caused by over-production in the Philippines, tend to confirm the feelings of economic insecurity. At the time of my departure the equivalent f.o.b. for copra at Mahe was about £53 10s. -d. a ton, compared with an average of £70 over the past decade and the local exporters were meeting to agree arrangements for drawing on an existing stabilisation Fund to endeavour to maintain the decade average.

d. Concurrently with these rather dismal fiscal and commercial aspects, the prospects of Mahe being provided with an airport as the quid pro quo for the detachment of the EIOT islands has created a pronounced hysteria amongst land owners.

In my view these transactions are very highly speculative, resting as they must on the doubtful hypothesis that the construction of an airport will automatically open up the area to the Caribbean and Mediterranean type of holiday and residential development. Mahe is 1,000 miles from the East African coast and prohibitively remote in terms of air fare from either Europe or North America; it is clearly beyond the range of cheap "package deal" tourist trade from East and South Africa. Possibly affluent safari visitors to East Africa might be persuaded to visit the Seychelles for big game fishing but this would be marginal traffic and there is

SECRET

no evidence of much South African interest since the BI Line ceased sailings from South Africa. As for residential settlement, even with the comparatively low cost of living now pertaining in the Seychelles, there are less than 100 ex-patriate settlers and it is hard to believe that appreciably more people would be attracted against a background of increasing land and labour costs. I am, therefore, convinced that the degree of land speculation on Mahe cannot be supported by reasonable expectations in the foreseeable future

5.



6. Regarding the introduction of a compulsory purchase statute in the BICT, the draft submitted from the Seychelles to the Colonial Office had not been fully considered in London at the time of my departure in June. The absence of enactment inhibited me from making reference during my talks with the

S E C R E T

land-owners to the provisions of such a law, e.g. rules of assessment relating to willing purchaser/vendor. This was unfortunate because Delhomme and Moulinie repeatedly stated that they were not willing vendors and at one time the former suggested that it was doubtful whether the proposed purchase could even be described as being within the "public interest". In discussion, the Governor told me that whilst he hoped that the eventual legislation would follow the pattern of Seychelles and Mauritius law as far as possible, he agreed in principle that the insertion of new provisions should not be objectionable provided that such importations compared with modern legislation applicable in other overseas territories. He would however wish to have the advice of his Attorney General on the return of that official from leave in Europe. On the point of "public interest" or "public purpose" I suggested to the Governor that it was conceivable that the definition of the term may be criticised by a layman on the grounds that whereas the legislation applied to the BIOT, the territories in fact have no public; we agreed that the views of the Commonwealth Office Legal Advisor should be obtained.

7. There is no composite Lands Department in the Seychelles although a Seychellois Chief Surveyor has been appointed and has started work with a very small staff on the preparation of a comprehensive Cadastral Survey. There is no general registration of land and all conveyancing is carried out by two practicing notaries, the resulting deeds of sale being registered and deposited with a Registrar of Deeds, a 3% Registration fee being levied on declared values. The Inner and Outer Island Dependencies have never been surveyed other than by the hydrographers and so far as I could ascertain all legal references to extents have either been scaled off the marine charts or have been perpetuated by vendor/purchaser agreement in Deeds of Sale: such acreages have been accepted by the Government for annual land tax purposes (about 7d. per acre), so far as I know, without question. In the cases of Desroches and Farquhar, the possible magnitude of error may be judged from the following comparison:-

	<u>European</u>	<u>French</u>
(i) Area accepted for Government Land Tax	900	1,600
(ii) Area quoted in previous correspondence		
on BIOT	800	1,500
(iii) Area calculated by Chief Surveyor		
Seychelles from air photos (uncontrolled)	1,004	1,802

S E C H O N D

(iv) Area calculated by Y. H. Baker (visiting geologist) 1951 from air photos, controlled by radial line plotting from measured base line on site

Desroches

Parthian

800

1,000

Assessments for Chagos Archipelago are even more doubtful and this aspect is emphasized in paragraphs 25 and 26 of the Appointed 1952 Report by Mr. Lucie-Smith, Director of Agriculture, Mauritius, further reference to which will be made in the section dealing with Chagos.

8. Having understood from the Newton Report, and other correspondence emanating from Seychelles, that it is customary to value agricultural land on the basis of 10 Yr of the net profit, I found that in the absence of a Land Valuation Department, this formula has been adopted by the Agricultural Department in advising Government on fair prices to be paid for land required for the resettlement of smallholders on 5 acre units, a development financed by C.D. and W. grants. The D.D. Agriculture admitted that the approach is empirical but, whilst normally unrelated to open market transactions, in some cases the analysis of prices actually paid by Government had supported the formula as a basis for future settlements. We agreed that such a basis was not necessarily capable of extension to the Inner and Outer Seychelles dependencies.

9.

12. CHACOS

See Folder D

- a. (i) Diego Garcia, the Salomon Atoll, the Peros Panhos Atoll, Egmont,
Trois Epaves, Canton and Eagle Islands together with Analamo were
purchased in 1962 for £112,500 by the present company, their
predecessors having been on the verge of bankruptcy due to chronic
mismanagement of the properties. Only Diego Garcia, Salomon and
Peros are being worked at present, although the remainder probably
have a potential particularly Eagle Island for fishing.

S E C R E T

West, Middle and East Islands in the mouth of Diego lagoon and Crown Lands and an area of 5 acres North of East Point, is said to be Crown property excluded from the freehold. The 1961 Deed of Sale was not available at Wake and the Governor kindly agreed to obtain a copy from Mauritius, the whole property having been under the administration of that Colony until the BIOT excision.

(ii) For some reason, the uninhabited and abandoned WILSON Island, midway between Diego and Peros, was not included in the BIOT (refer although it is said to be privately owned by a Mauritian. In this case also, the Governor undertook to ascertain the significance, if any, of the omission.

(iii) A small Meteorological Station is located near East Point on land held rent free from the Company. A staff residence and working accommodation has been constructed by the Company at the expense of the Mauritius Meteorological Department.

b. Three important reports have been made on the Chagos Agelega industries and copies are included in the Folder. Apparently each has been prepared for a different purpose but all have in common an acceptance of the considerable development potential inherent in the property.

(i) The LUCY SMITH Report, 1959. Prepared by the Director of Agriculture at the direction of the Mauritius Government with a view to ascertaining whether financial support should be given to the then owners. No support was given but the factors influencing the decision are not known. Possibly the estimated rehabilitation cost of £141,150 - including Agelega (p.32 of report) - and lack of confidence in the management were relevant to this.

(ii) The NIEME Report, 1961. Commissioned by Rene Maingard, Managing Director of Rogers and Co. Ltd., Mauritius, which Company now holds 1/3rd share in Chagos/Agelega through the Colonial Steamship Co., to assist him in deciding whether to invest in the new Company. According to Moulinie, Maingard did not finally commit himself until he knew that Moulinie would proceed without him if necessary.

(iii) The MOULINIE Report, 1963. I suggested to Moulinie that the format resemble a prospectus rather than a report. Moulinie was

S E C R E T

indignant, asserted that his Company had no need of outside funds and that the report was for the benefit and assurance of his co-shareholders. Having read the opus concurrently with my visit to the locations in question, I am satisfied that the optimism exhibited is genuine and that there is no evidence of "gold-bricking".

These three reports, together with the Newton Report of 1964, form important background reading to an evaluation of Chagos although Newton only concerned himself with Diego Garcia.

- c. On arrival at Mahe, rumours were rife as to Moulinie's asking price for Chagos. They ranged from Rs19M (£1,425,000) to Rs5M (£375,000) and on my first meeting with him on Farquhar he referred jokingly (as I thought then) to £1M for Chagos and Farquhar. Subsequently, he denied having made this remark.
- d. Moulinie complains bitterly of the way in which the proposed purchase of both Farquhar and Chagos has been treated in the past. He says that in July 1964 he was summoned by the Governor of Mauritius and informed that Diego Garcia was to be expropriated. No mention was made of the other islands in the Archipelago, or of Farquhar. On 3rd August 1964, he returned to Farquhar from Mauritius and met Newton who confirmed that Diego was required. Moulinie replied that if this was so, it would have to be the whole Archipelago or nothing. Thereafter reports appeared in the world press and Moulinie was interviewed by an Australian journalist who disclosed that Farquhar was also involved; Moulinie responded that he had no intention of selling and heard later from a co-shareholder in Australia that an Australian Government official had observed that Moulinie would have to sell. Following the publication of the BIOT Order of 8th November 1965, on 29th November, Moulinie addressed the Governor of Seychelles, in his capacity of Commissioner of the new Territories, asking for clarification of the position and outlining the financial dilemma in which he and his company were placed with regard to plans for future development. The Governor replied on 7th December stating that he personally was not clear on the position, but was urging the Colonial Office to initiate negotiating action. Meanwhile, relevant legislation would remain in force until replaced by other laws. Whatever the outcome, therefore, Moulinie and his associates will claim that they have been inhibited

from proceeding with development plans since (in the case of Chagos) July 1964. In my opinion, this view is justified and probably would be irresistible both legally and politically.

e. The Profit and Loss accounts at enclosure 2 report the following position on net profits.

	<u>1962</u>	<u>1963</u>	<u>1964</u>
Diego Garcia	+ 5,183	+ 233,310	+ 231,524
Peros Banhos	+ 9,108	+ 78,456	+ 95,682
	+ 14,291	+ 311,766	+ 327,206
Salomon	- 17,108	+ 18,708	- 32,493
Ra	- 2,817	+ 330,474	+ 294,713
or £	- 210	+ 24,784	+ 22,102
Total Copra production in tons was	660	1,215	1,410 (1965 - 1,456 tons)

A conclusive analysis of the Balance Sheet and Profit and Loss Account is most difficult for the following reasons:-

- (i) Realisation from sales of produce are inclusive of freight costs owing to arrangements between the Co and the Colonial Steamship Co on the one part, and Moulinie as owner of a schooner on the other.
- (ii) Although the paid up share capital is £56,250 (half the 1962 purchase price), I could not discover details of the mortgage funding arrangements. At least £50,000 must have been required for commencing working capital. Moulinie would volunteer no more information than that net profits did not reflect interest payments.
- (iii) The Chief Income Tax Officer, Seychelles stated that the Balance Sheets are presented in Mauritius on the French system, with which he was unfamiliar, and his holding of the returns was only due to the need to scrutiny for double-taxation agreement purposes. All Returns to date have been presented to and agreed with the Mauritius Tax Authorities.

f. Until the 1965 Balance Sheets are to hand, references to previous years can only give an indication of progress achieved through forceful management, bearing in mind that development impetus will have fallen off in the second half of 1964. Disregarding 1962 (the year of purchase), it is clear that the increased output between 1963 and 64 is related to the increased outgoings

on "wages" and "working and cultivation", the fall in net profit being due to concentration of effort under the same heads at Salomon. This was quite logical. On two of the islands on that Atoll, I found that nuts had not been collected for at least two years and had germinated thus losing some 40-50 tons of copra. It is interesting to note that in para 31 of his 1964 Report, Newton thought it would be optimistic to assume that Diego Garcia would be likely to produce 1,000 tons of copra a year in the near future. In fact, Diego produced 856 tons in 1965, an increase of 17% over the rate prevailing when Newton reported: if sustained, this rate would produce 1,000 tons at the end of 1966.

g. Reference is made in all the reports quoted in para b. above to the depredations caused at Diego by the rhinoceros beetle and rats. Having been briefed in Mahé on the evidence of these attacks, I can say that whilst some rat damage can be seen, the damage by the beetle was by no means striking. Moulinie, who had obviously been waiting for the question, then explained with satisfaction the results following his increased introduction of the predator "assassin" beetle (*scolia ruficornis*).

h. Since the evidence of my eyes had persuaded me that Chagos possesses a very substantial development potential, that it is capable of becoming largely self supporting by the expansion of its subsidiary industries (fish, livestock, maize, vegetables) and that the present management techniques are sound and economical, I informed Moulinie that I would have considerable difficulty in forming a balanced appreciation without his co-operation in indicating details of firm future plans and the costs thereof.

13. General Points

- a. Survey. It is highly desirable that in the absence of a ground survey, good aerial photographs are made available of the Chagos Archipelago to enable reasonably accurate scale measurements to be taken off. AP2 were invited to investigate this before my departure but have said that costs will be excessive.
- b. Legal. (i) On completion of purchases, Deeds of Sale will have to be drawn up in Seychelles by Government Law Officers: it is unlikely that the 3% Registration Fee will be imposed.
- (ii) In the event of compulsory purchase proceedings, I recommend that owing to the degree to which potential development of the properties is relevant, it would be necessary to commission as expert witnesses both a chartered accountant and a tropical agronomist experienced in the copra industry. I discussed tentatively with the Governor the possible selection of an agronomist and he suggested Dr. CHILDS, an eminent world authority on coconuts. If Dr. CHILDS proved to be unwilling or unable to act a possible alternative may be Mr. B. SMITH of the Seychelles Agricultural Department, but there is no doubt that the opinions of Dr. CHILDS would carry considerably more weight.

14. Conclusions and Recommendations

- a. Before proceeding further, it may be thought appropriate to ascertain if current financial policy has any bearing on the BICT defence strategy. Having visited Chagos, I feel bound to offer the unformed opinion that whilst the land mass of Diego Garcia obviously presents the opportunity for several possible users, it is difficult to say the same for the 41 islands of Faros and Salomon, some 100 miles North of Diego.
- b. If it is decided that purchase is not to proceed, a claim will be received from the Chagos/Agalega Co in respect of some 2 years loss of development opportunity.

c. If it is decided to continue with the purchases, I recommend that rather than ask the owners to visit London (they are willing to do so provided that on prior notification they consider the basis of negotiations has hope of success) a return visit should be made to Mahe preferably by someone endowed with actual powers of settlement. In view of para 3c. of BIOT 14, which I was obliged to ventilate, both Moulinie and Delhomme will obviously be prepared to make further concessions. If the extent of such concessions remains unacceptable, the opportunity could be taken to consult with the Governor with a view to putting C.F. in train. In this connection, the tour of duty of Lord Oxford terminates in January 1967 and on his departure no official will remain in Seychelles fully conversant with BIOT matters. The return visit should be made ideally in about November and could be accomplished within 10 days provided the full co-operation of the US Defence Department is secured to obtain passage on the Mombasa-Mahe amphibian flight.

d. The draft C.P. statute should be fully considered and enacted before the above visit and advice should be taken as to the precise meaning and applicability of references to "public purposes" in the context of BIOT.

(Sgd.) J. B. MARCOSCHIS

1st September 1966

(J. B. MARCOSCHIS)
Defence Lands Staff 1b