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CENTRAL INTELLIGENCE AGENCY

THE CURRENT SITUATION IN
THE FREE TERRITORY OF TRIESTE

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THE CURRENT SITUATION IN THE FREE TERRITORY OF TRIESTE

SUMMARY

The emergence of Trieste as a major international trouble spot derives from the postwar conflict between East and West. Since the Italian Peace Treaty compromise which created the Free Territory of Trieste under United Nations control, the big powers have had direct responsibility for achieving a peaceful settlement in Trieste which would satisfy Italian national pride and Yugoslav/Communist expansionist aims.

The US, by associating itself with the tripartite proposal for the return of the Territory to Italy and by its anti-Communist stand in Europe, is committed to preventing the Territory from coming under Yugoslav control. Final Soviet reaction to the tripartite proposal will await the outcome of the Italian elections in April. In the event of a Communist victory, Soviet policy will be concerned primarily with effecting the withdrawal of US-UK occupation troops. In pursuance of this objective, the USSR may attempt to force the US, UK, and France to abide by their pre-electoral proposal. If the Communists are defeated, however, the USSR may follow one of two courses. The Kremlin may maintain the *status quo* in order to avoid giving the appearance of failure to stand by one of its Satellites; or it may agree to a modification of the Western proposal in the hope that, after the withdrawal of US-UK troops, Italy may lack the strength to prevent subsequent Yugoslav/Communist penetration of the area.

Meanwhile, regardless of the ultimate disposition of the area, the US and UK now bear the major responsibility for obstructing Yugoslav designs on the Territory. Unless the current trend toward rapid economic deterioration in Trieste is reversed, either the UN or Italy will become heir to an area so economically depressed that it will be an easy prey for subsequent Communist infiltration. AMG estimates that such a development can be prevented only by the allocation of US funds either directly or through Italy's European Recovery Program allotment, with which to rehabilitate Trieste's shipping and manufacturing interests. Even such a course is not certain to be successful, because of the unlikelihood that the Territory can, in the foreseeable future, become economically self-sufficient under UN control or regain its prewar activity if incorporated with the Italian economy.

NOTE: The information in this report is as of 12 April 1948.

The intelligence organizations of the Departments of State, Navy, and the Air Force have concurred in this report; at the time of publication no official statement had been received from the Department of the Army.

THE CURRENT SITUATION IN THE FREE TERRITORY OF TRIESTE

1. THE IMPORTANCE OF TRIESTE.

The emergence of Trieste as a major international trouble spot derives from the postwar conflict between East and West, aggravated in Trieste by purely chauvinistic considerations, rather than from Trieste's intrinsic value or strategic importance to any of the disputants. Although of major significance before the War as the principal Mediterranean outlet for the commerce of Central Europe, Trieste today is of vital importance neither to Yugoslavia nor to Italy. Italy's trade has shifted westward and can be adequately handled by other ports, while Yugoslavia's needs can eventually be served by Fiume. Trieste's industry is of minor significance.

Because the Italian Peace Treaty has placed the area under United Nations control, the peaceful solution of the Trieste problem is and will continue to be a big-power responsibility. In order for the UN to create a peaceful Trieste, it would have to find a solution which, in addition to resolving the area's ethnological complexities, would satisfy simultaneously Italian nationalism, which could never brook permanent loss of Trieste, and Yugoslav Communist expansionism which desires Trieste as an outpost of Communism.

Meanwhile, the US is directly committed to preserve peace in the area until a permanent solution is found and must be a party to any such solution. Although Trieste in itself is of little strategic importance to the US, a Communist or Yugoslav victory there would be interpreted as an indication of US inability to support its anti-Communist stand, and would have a discouraging effect on non-Communists in Western Europe.

2. ORIGIN OF THE FREE TERRITORY OF TRIESTE.

The compromise represented in the Free Territory of Trieste (FTT) under the control of the United Nations was written into the Italian Peace Treaty because it was the only solution for Trieste acceptable to the four major signatories (US, UK, France and the USSR). Full implementation of this part of the Peace Treaty, however, is unlikely as long as the US and the USSR fail to reach a settlement in Europe.

Consideration of the Trieste problem in the Italian Peace Treaty grew out of the need to rectify the ethnically unjust prewar Italo-Yugoslav border and out of Yugoslavia's attempt, in the last stages of World War II, to seize the entire Italian province of Venezia Giulia. When Allied troops of the British Eighth Army in 1945 finally obliged the Yugoslav Army to withdraw to a line east of the city of Trieste, it was agreed that the US-UK would occupy that part of the disputed territory west of what was at that time designated the Morgan Line (Zone A), while Yugoslav troops would occupy Zone B comprising former Italian territory between the new line and the prewar Italo-Yugoslav border. (See map.)

The Italo-Yugoslav boundary north of the city of Trieste finally established by the Peace Treaty was west of the Morgan Line, ceding to Yugoslavia former Italian territory populated predominantly by ethnic Slavs. The impasse resulting from Soviet insistence

that the Italian city of Trieste also be ceded to Yugoslavia was finally resolved by agreement to create a free territory under United Nations control to be administered by a Governor appointed by the Security Council. Pending appointment of the Governor that part of the Free Territory (including the city of Trieste) formerly in Zone A would continue to be administered and occupied by Anglo-American forces, while Yugoslav troops would occupy that part of the Territory formerly in Zone B. This arrangement, designed purely to provide for interim trusteeship over the area, has been prolonged by the inability of the Security Council to reach agreement on a Governor. Meanwhile, conditions in the Free Territory have deteriorated to such an extent that, even if a Governor were appointed by the UN, successful government of the area by the United Nations would be a virtual impossibility.

The impasse over the selection of a Governor has been the result of US-UK insistence that a man be chosen who could be counted on to resist Yugoslav/Communist encroachments, and Soviet refusal to consider the appointment of a man without leftist leanings. The recent US-UK-French recommendation that the Territory be returned to Italy was prompted by the realization that agreement on a Governor was unlikely and was made in the hope of hastening some settlement which would prevent the area from falling to Yugoslavia.

3. THE POLITICAL SITUATION.

a. US-UK Zone.

The political climate in the city of Trieste, which contains more than 70% of the Free Territory's entire population, has always been dominated by racism and nationalism rather than by political ideologies. While still part of the Austro-Hungarian empire, Italians and Slavs struggled to maintain their respective cultures; this ethnic dispute continued after the area became a part of Italy following World War I. Today, the historical struggle between Italians and Slavs has been both intensified and complicated by the ideological conflict between Communists and non-Communists. Thus the major powers have established a new state in which for either nationalist or ideological reasons, or both, the entire population is divided between those who hope for return of the area to Italy and those who wish for eventual cession of the area to Yugoslavia.

Normally it would be expected that any election in the city of Trieste would reflect the overwhelming Italian majority (85% of the city's 270,000 people). Under present circumstances, however, there are many Italians who follow the Communist line, even in the knowledge that the Party is the chief promoter of cession of the Territory to Yugoslavia. In a city election, enough of them would vote Communist to give that party about 35% of the vote; in a plebiscite confined to the issue of cession, however, Communist strength would be considerably reduced by the defection of Italians who would feel compelled to support the claims of their homeland.

Communist party membership in Trieste is numerically small. The Party's importance, however, is out of all proportion to its numbers (4,000) and is the result of tactics employed by Communist parties throughout the world.

The Party is under the direct control of the Yugoslav Communist Party, is well-disciplined, and is well supplied with money. It has established 23 "cultural clubs"

and controls seven political organizations and seven newspapers. The most important organization through which the Communist Party exerts political influence is the Italo-Slovene Anti-Fascist Union with an estimated membership of 60,000. It is this organization which is most active in trying to undermine the authority of the Allied Military Government, to destroy Trieste's faltering economy, and to penetrate the local governing bodies appointed by AMG.

The continued high level of unemployment and the general economic stagnation in Trieste have enabled the Communists to gain the support of many workers who have been attracted by promises of high wages and better living conditions. The Communist-dominated *Sindicati Unici* claims a membership of 40,000 drawn mainly from manual laborers in the shipyards and the city's manufacturing establishments. The Communists have thus far used their control of this union mainly to stage strikes for purely political reasons.

AMG has thus far been able to prevent the Communists from causing any major disturbances, and Communist strength is insufficient to seize control of the area as long as US-UK troops remain. If the area's economy continues to deteriorate, however, the influence of the Communists will increase to such an extent that they might become a serious threat to internal peace and order. Meanwhile, the Communists will continue their efforts to undermine the authority of AMG, to penetrate civil and business organizations in Trieste, and to work actively toward furthering eventual Yugoslav hegemony over the entire Free Territory of Trieste.

Non-Communists in Trieste have suffered in comparison with the Communists by their lack of unified, aggressive leadership, by their failure to formulate any clearly defined goals other than the return of Trieste to Italy, and by their need for funds with which to combat the active Communist program. With the exception of the small anti-Tito Slovene Democratic Union, most non-Communists in Trieste are Italians who belong to parties which are more or less extensions of the parent bodies in Italy. Although they are united in theoretical opposition to Communism, antagonism between the extreme rightist and the moderate elements among them has weakened the Italian cause. The Italians' strongest political instrument is the nationalist association, *Lega Nazionale*, with approximately 50,000 members. Moreover, the non-Communists have thus far successfully prevented the Communists from penetrating the Italian-sponsored trade union, *Camera del Lavoro*, which claims a membership of 40,000 composed principally of white-collar employees.

The recent tripartite recommendation for the return of Trieste to Italy has considerably strengthened the morale of the non-Communist, pro-Italian population. Moreover, it has intensified the issue of nationalism (Italian vs. Yugoslav) while simultaneously minimizing the importance of the purely ideological phase of the struggle. The immediate effect of this development has been to weaken the Slav-Communist political position.

b. *Yugoslav Zone.*

Political conditions in the Yugoslav-occupied Zone have become indistinguishable from those in Yugoslavia proper. Civil liberties have been abolished. All political

parties unwilling to follow the Communist line have been eliminated. Many Italians in the area have been repatriated to Italy, expelled, or imprisoned. Politically, therefore, the union of the Yugoslav Zone with the US-UK Zone either under Italy or the United Nations would entail great difficulties. Moreover, such a union would constitute a serious threat to the security of the Territory by greatly increasing the relative strength of the Slav/Communist element.

4. ECONOMIC SITUATION.

a. US-UK Zone.

Economic as well as political considerations played a part in the four-power compromise establishing Trieste as an international port under United Nations control. It was felt at the time that Trieste could regain its prewar status as the Mediterranean outlet for Central Europe and thereby maintain itself as a self-sufficient economic unit. The conflicting political aspirations of Italy and Yugoslavia, however, make it unlikely that Trieste in the foreseeable future could attain economic prosperity or independence under UN control.

Economically, the Free Territory of Trieste is primarily dependent upon its port activities. The city of Trieste has excellent harbor facilities and is connected with the Danube basin by two rail lines. In 1947, however, maritime activity in Trieste was only 45% of the 1938 traffic. Much of this tonnage was accounted for by US relief supplies for Italy, Austria, and Trieste, although there has been a gradual increase in commercial traffic. Moreover, there has been a decline in locally owned shipping. Before the war, 600,000 tons of shipping were registered in Trieste. War losses reduced this to 115,000, most of which has since been transferred to Italian registry, resulting in the loss not only of shipping revenues but of marine insurance and related business.

In addition to its port activity, the city of Trieste was formerly supported in part by a sizeable shipbuilding industry and several manufacturing enterprises, principally food-canning, woodworking, jute and hemp factories, a steel mill, and an oil refinery. These are currently operating at approximately 60% of their prewar level.

As a consequence of this general economic stagnation, approximately 25% of Trieste's labor force of 105,000 is unemployed; the cost of living is rising steadily, and a daily per capita food ration of 2,200 calories is maintained only by US relief supplies equivalent to 1,490 calories per day per person. Because the revival of Trieste's economy is dependent on the economic restoration of Europe generally, unemployment and the cost of living in Trieste can be ameliorated temporarily only by a program of public works and relief.

Continued economic stagnation in Trieste may have serious political and strategic implications, depending upon the ultimate disposition of the area. As long as the US and UK administer the area, economic deterioration increases the difficulties of preventing internal disorders and makes AMG more vulnerable to attacks by the Communists. Continuation of the present downward trend would also make it far more difficult for either the United Nations or Italy to control the inevitable social unrest and

economic disorder which would follow. Thus, Communist penetration would be facilitated, and eventual control of the city by Yugoslavia would become more likely.

AMG is currently handicapped in its efforts to restore the economy of the area because it is powerless to cope with the basic causes of the city's economic plight. The generally low level of economic activity in Europe must be raised if Trieste's maritime activity is to approach prewar levels. Restoration of Europe's economy, however, will not in itself revive Trieste's port activity because the Communist governments which now rule the majority of the European countries upon which Trieste formerly depended can be expected to favor the Yugoslav port of Fiume, which Yugoslavia is attempting to develop as the principal Mediterranean outlet for the Satellites.

Neither can AMG take any effective steps to nullify the detrimental effects on Trieste's economy which result from AMG's limited powers as a trustee for the UN and from its dependence on Italy. AMG is not empowered to underwrite the purchase of vessels by Trieste firms and has not the funds to make loans for the rehabilitation of Trieste's manufacturing enterprises. Nor can AMG prevent the flight of Italian capital to Italy, which is caused by the fear that Yugoslavia may eventually gain control of the city. Even more important, AMG is financially dependent upon Italy. Italy has finally agreed to meet the normal administrative deficit of the US-UK Zone and to supply the Zone's foreign exchange needs. Italy, however, will meet AMG's special needs (such as public works, loans to industry, etc.) only after consultation with AMG as to the exact amount required. Thus AMG must obtain Italian concurrence before it can take any effective steps beyond those necessary to prevent the outbreak of disease and unrest. In view of the recent tripartite proposal, even a non-Communist government in Italy is unlikely to approve of excessive expenditures in an area which may fall to Yugoslavia or may soon be returned to Italy. (The consequences if AMG became dependent on a Communist Italy need no elaboration.) Consequently, any long-range plans by AMG to restore the economy of Trieste to a level approximating that of prewar are unlikely to be supported in full by Italy unless the US makes the funds available through the European Recovery Program.

The recently approved US Foreign Aid Program for Trieste (\$20,000,000 through June 1949) is designed only to prevent economic retrogression rather than to make the area self-sufficient under international control. Soviet agreement to a Governor acceptable to the West and the full implementation of the Peace Treaty provisions would not eliminate the racial and ideological conflict within the area. Consequently, Italian capital would still avoid the city, and Yugoslavia would continue its efforts to undermine the UN administration in the hope of gaining eventual control.

Trieste as a part of a non-Communist Italy would also face economic difficulties. Although the expense of maintaining a separate administration would be eliminated, Italy must adopt strong measures if Trieste's economy is to be successfully integrated with that of Italy. The present flight of Italian capital from the area can be reversed only if Italy demonstrates its ability to control and check Yugoslav Communist agitation and infiltration. Moreover, in view of the decline of Eastern European traffic through Trieste, Italy must concentrate on the development of the city's manufacturing

industries and on their integration into the Italian economy, rather than on any futile attempt to restore port activity to prewar levels.

b. *Yugoslav Zone.*

The economy of the Yugoslav Zone of the Free Territory has been incorporated into that of Yugoslavia. In this primarily agricultural district, the Yugoslav authorities have disregarded the provisions of the Peace Treaty by promulgating agrarian reforms aimed at the complete communization of the Territory. Peasants are required to turn over 60% of their produce to the local Communist cooperative, the remainder to be kept for personal use and for resowing. No sales may be made in the open market in the northern zone where prices are considerably higher than the official Yugoslav rate. Similarly, fishermen are required to sell their catch to the cooperative at the equivalent of seven US cents per pound; the cooperative in turn sells it for thirty cents on the Trieste market. Basic commodities are strictly rationed. As the Yugoslav zone has its own currency, which has no legal backing and is therefore unacceptable to residents of the northern zone, inhabitants of the southern zone are unable to purchase surplus foodstuffs from the other part of the Free Territory.

Thus, economically as well as politically, Yugoslav actions have created nearly insuperable obstacles to the eventual union of the two zones.

5. PROBABLE FUTURE DEVELOPMENTS.

The tripartite recommendation for the return of the Free Territory of Trieste to Italy will not result in any change in the *status quo*, at least until after the Italian elections. Since implementation of the proposal will require Security Council approval, it is improbable that the USSR will either reject or accept the proposal until a new government assumes office in Italy. Rather, the USSR will continue its attempts to counteract the effects of the tripartite announcement in Italy by accusing the US of deliberately offering something to Italy which it alone cannot give. Moreover, the USSR will confuse the issue by questioning the motives of the US in making the proposal and by hinting at the advisability of additional amendments to the Italian Peace Treaty in an attempt to embarrass the US. Such activity might include re-emphasizing Soviet support for the return of former Italian colonies to Italy, offering to return some of the Italian warships allotted to the USSR, or relinquishing its reparations claims on Italy. Any such suggestions, however, would probably imply that their implementation depended upon the election of a Communist government and would in no way commit the USSR to definite action in the event of a Communist defeat.

Final Soviet reaction to the tripartite proposal will be determined by the outcome of the 18 April elections in Italy. In the event of a Communist victory in Italy, the disposition of Trieste as regards Italy or Yugoslavia would be completely academic from the USSR's point of view. Under these circumstances, Soviet policy would be directed primarily at effecting the withdrawal of US-UK troops from the area. Thus the USSR would probably press the US, UK, and France to live up to their pre-election proposal. After the United Nations had relinquished its control over the Free Territory,



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