

an
Recovery
Program

TRIESTE
COUNTRY STUDY

Economic Cooperation Administration
February 1949 • Washington, D. C.

Trieste

Country Study

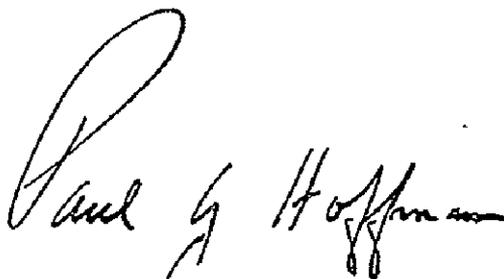


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This document is based on the best information regarding the United States-United Kingdom Zone of the Free Territory of Trieste currently available to the Economic Cooperation Administration, and the views expressed herein are the considered judgment of the Administration. Both the text and the figures for 1949-50 are still preliminary in character; participating countries will therefore understand that this report cannot be used to support any request, either to the Organization for European Economic Cooperation or to the Economic Cooperation Administration, for aid in any particular amount for any country or for any particular purchase or payment.

A handwritten signature in cursive script, reading "Paul G. Hoffman". The signature is written in dark ink and is positioned to the right of the date.

Administrator.

FEBRUARY 14, 1949.

Contents

	Page
PART I: SUMMARY AND CONCLUSIONS.....	1
PART II:	
CHAPTERS I AND II. CURRENT SITUATION AND BASIC PROBLEMS.....	5
A. Industry.....	6
B. Agricultural Production and Food Supply.....	7
C. Foreign Trade.....	8
D. Labor.....	9
E. Wages and Prices.....	10
F. Financial Situation and Policy.....	10
G. Political Background.....	12
CHAPTER III. LONG-TERM PROGRAM.....	14
A. General Objectives.....	14
B. Foreign Trade.....	17
C. Critique.....	18
CHAPTER IV. FIRST AND SECOND ANNUAL PROGRAMS.....	20
A. Program for 1948-49.....	20
B. Program for 1949-50.....	21
PART III: APPENDIX TABLES.....	23

PART I

Summary and Conclusions

The Free Territory of Trieste was established by the Italian Peace Treaty. It is now administered in two zones, one under the joint administration of United States and United Kingdom forces, the other under Yugoslavia; it is the United States-United Kingdom Zone which is under discussion here.

The Zone is confronted with several basic economic problems. First, it received heavy war damage and, particularly, lost about three-fourths of its shipping. Second, the erection of the Iron Curtain and the general decrease of intra-European trade has meant a great reduction in the city's prewar commercial activity. Before the war Trieste served as a major channel for the export and import trade of the neighboring areas of Italy, the central European countries in the Danube region handling a large volume of traffic for Austria, Italy, Czechoslovakia, Hungary, and Yugoslavia, and to a lesser extent for Germany and Switzerland. Without recovery of East-West trade it will be most difficult for it to continue as a major trade center. Finally, Trieste faces the economic difficulties inherent in a very small area virtually without resources and with its principal economic and political ties, namely those with Italy, threatened to be cut off by the Peace Treaty frontiers.

The number of unemployed approximates one-third of the working population. To aggravate the situation, there are some 13,000 refugees from the Communist countries east of the Curtain for whom there are neither immediate nor prospective employment opportunities.

Since the coming into force of the Italian Peace Treaty the Yugoslavs have virtually completed the incorporation of the Zone under their administration into Yugoslavia. In this situation the Treaty settlement has become unworkable and the United States, Britain, and France have recommended, therefore, revision of the Treaty to provide for the return of the Free Territory to Italy. Pending the implementation of this proposal the United States and the United Kingdom Governments are continuing to administer their Zone in accordance with the relevant provisions of the Peace Treaty.

In accordance with the Instrument for the Provisional Regime in the Peace Treaty the Italian lira is the legal tender for Trieste. Italy

has agreed to provide the basic currency requirements of the area and in addition is making available to the Zone in fiscal year 1949 the equivalent of 6 million dollars of foreign exchange and approximately 17 billion lire (about 30 million dollars) to finance the Zone's internal budgetary deficit. These lire and foreign exchange contributions by Italy reflect Trieste's debtor relationship to Italy.

Trieste's principal industries are shipping, shipbuilding, ship repairing, and the performance of port services. Fishing is increasing in importance. In addition, Trieste has exploited its geographic position to establish a petroleum refining industry for converting crude oil from overseas into finished products for use in neighboring countries. Similarly a vegetable oil refining plant for processing imported oilseeds has been established. There is also a steel plant and a marine engineering plant which is engaged in production primarily for shipbuilding and ship repairing.

Despite current difficulties, these industries have shown substantial recovery during the past year. The modern, well-equipped docks, warehouses and port facilities have been largely restored from war damage. Transit traffic is at present within 18 percent of the 1938 tonnage. The volume of traffic handled during the first six months of 1948 was 1.4 million tons, or about one-third more than the average for 1947. Much of this increase has represented greater traffic with Austria and Italy, reflecting United States assistance to those countries. However, industrial production is still only at about two-thirds of prewar levels, due partly to incomplete reconstruction, partly to market limitations. The tonnage handled by the merchant fleet is less than half of prewar. Passenger traffic has hardly been restored at all.

Average food consumption in Trieste is estimated at approximately 3,000 calories per day per capita. Wheat and wheat products, fats and oils, milk, rice, and sugar are rationed at the rate of slightly less than 1,700 calories per day of which about 1,500 calories represent imports from the United States. Additional quantities of these products, as well as other foodstuffs such as fresh fruits and vegetables, eggs, meat, etc., are available on the free market.

The Long-Term Program submitted by Trieste is directed to raising the level of industrial operations toward capacity, rebuilding Trieste's merchant marine, completing the reconstruction of industries and harbor installations, and modernizing and expanding those sectors of the economy, such as fisheries, which can contribute most to the recovery of Trieste as well as to that of Western Europe generally.

Substantial investment is needed to finance this expansion and modernization program, which the Long-Term Program anticipates will come largely from the expected ERP counterpart fund, private investment, and from advances by the Italian Government.

The totals of the first two annual programs are summarized in the following table:

[In millions of dollars]

	1948-49	1949-50
Trieste's request for gross dollar aid.....	\$22.0	12.8
OEEC recommendation of gross dollar aid.....	18.0	(1)
ECA estimate of gross dollar aid.....	17.8	12.0

¹ National submissions for 1949-50 not yet reviewed by OEEC.

Since liberation the United States-United Kingdom zone of Trieste has received continual relief, primarily from the United States, including a grant in the second calendar quarter of 1948 of 4.0 million dollars. The Zone did not become a participating area eligible for recovery aid under the provision of Public Law 472 until October 15, 1948. The OEEC then recommended 18 million dollars, and ECA has approved an allocation of 17.8 million dollars as a grant to the United States and United Kingdom Zone for fiscal year 1948-49. This is now providing both essential consumer goods and the raw materials needed to initiate the recovery program. For the second calendar quarter of 1949, 3.6 million dollars are needed to complete the fiscal year program.

For fiscal year 1949-50, to carry forward the Long-Term Program, Allied Military Government has submitted a program showing a dollar deficit of 12.8 million dollars. This reduction of almost one-third in the aid required reflects the recent improvement in the volume of trade moving through the port of Trieste and the higher level of industrial production. ECA has encouraged the use of Trieste as a port, specifically for the ECA import program for Austria and Southern Germany.

Although the reduction in the aid requested for fiscal year 1949-50 by one-third from that for 1948-49 is encouraging, the area cannot become self-supporting until there is a marked increase in economic activity which is dependent, in part, upon a much higher level of trade through the port. A further retarding factor is the large number of refugees whom it would be very difficult to absorb into the Zone's economy. On the basis of the present situation, an allotment of 12.0 million dollars for 1949-50 is regarded as essential to provide for immediate needs and future development.

It must be pointed out that were it not for the Italian contribution to the Zone the aid requirements of Trieste would be much larger.

PART II

Chapter I and II. Current Situation and Basic Problems

Trieste¹ is a largely urban area, with a population of about 300,000, whose economy centers around the port. Since the amount of arable land available is very small, 95 percent of the food requirement of the Zone must be imported. Similarly, virtually all the raw materials consumed by Trieste's industries must be imported.

Trieste's potential ability to pay for these imports is related principally to the fact that it has an excellent harbor at the head of the Adriatic and is the natural port for landlocked Austria, Czechoslovakia and Hungary, as well as for the adjacent areas of Italy and Yugoslavia. Trieste, Fiume and Venice are all approximately the same rail distance from some of the main centers of the Danube Basin. However, Trieste has grown in importance over the last century largely because of the relatively easy route from its port to the Danubian region.

Trieste's principal difficulties since the end of the War have been the result of war damage and of international factors which have greatly restricted the flow of goods through the port to and from Eastern European countries, and have generally discouraged business activity and private investment. Before the war, about one-third of the rail traffic to and from the port was with Czechoslovakia, Hungary and Yugoslavia; at present the level is very much less. In addition, the shipping fleet of Trieste suffered great damage during World War II. In 1938 it consisted of 142 vessels; at present, it consists of only 51 vessels.

In the face of these difficulties, Trieste must support, in addition to its own population, a considerable number of refugees, mostly from areas which have passed under Yugoslav control, who are estimated to number about 13,000. Primarily as a result of its reduced port and related activities, Trieste is faced with a major unemployment problem. For example, employment in the shipping industry is now less than 3,000, whereas it approached 14,000 before the war.

¹Used here to denote the United States and United Kingdom Zone of the Free Territory of Trieste.

The official total unemployment estimate is 20,815 (about 20 percent of the labor force), but this does not include those between the ages of 14 and 18, many women who should be employed and the refugee population, which under local law is not permitted to be gainfully occupied. Independent estimates of unemployment are more than twice as high as the official figure.

A. INDUSTRY

Trieste's principal industries are shipping, shipbuilding, ship repairing, and the performance of port services. Fishing is increasing in importance. In addition, Trieste has exploited its geographic position to establish a petroleum refining industry for converting crude oil from overseas into finished products for use in neighboring countries. Similarly a vegetable-oil refining plant for processing imported oilseeds has been established. There is also a steel plant and a marine engineering plant engaged in production for shipbuilding and ship repairing, as well as for export, and other minor industries.

Despite current difficulties, these industries have shown substantial recovery during the past year. The modern, well-equipped docks, warehouses, and port facilities have been largely restored from war damage. Transit freight traffic is, at present, within 18 percent of the 1938 tonnage. The volume of traffic handled during the first 6 months of 1948 was 1.4 million tons or about one-third more than the average for 1947. Much of this increase has represented greater traffic with Austria and Italy, reflecting United States assistance to these countries.

Trieste shipping, historically a most important source of income, totals but 180,000 tons compared to the 1938 fleet of 755,000 tons. During the current fiscal year it is estimated that the merchant marine will carry less than half the cargo handled in 1938, whereas only about 10 percent of the number of passengers will be transported. Although almost 14,000 seafaring and shore employees were engaged in this industry in 1938, less than 3,000 persons are currently employed.

The largest shipyard in Trieste, the Cantieri Riuniti del'Adriatica, has secured orders that should keep the yard working at full capacity for several years. Engines and necessary machinery will be built at the modern S. Andrea Machine Shops. The ship repair industry has been active, and short-term orders have been sufficient to cover the immediate future.

The principal commodity moving through Trieste is petroleum. The Italian-owned SIAP petroleum refinery, which has a capacity of 100,000 metric tons, is operating at about 60 percent of maximum capacity. It obtains its crude oil from South America and its refined products are sold to Italy.

The heavy war damage to the Aquila Refinery has been repaired with aid from the Italian Government and private funds. This plant, employing some 500 people and operating at full capacity, refined 209,000 tons of Middle Eastern crude during the first half of 1948; 91 percent of the refined product went to Italy; 6 percent was exported to Austria, Switzerland, Yugoslavia, and other countries, while 3 percent was used for internal Trieste consumption.

Gaslini, S. A., a plant that extracts and refines vegetable oils, was severely damaged by the war, but is now 95 percent restored. However, during the first 6 months of 1948 it operated at only a fraction of capacity, consuming 7,300 tons of raw products—chiefly peanuts from the United States. Recent Austrian orders for oil-seed processing should enable this plant to run at full capacity of 3,000 metric tons per month, as soon as payment difficulties are straightened out.

The large Italian iron and steel works, ILVA, has a subsidiary in Trieste of the same name. The Trieste plant consists of a blast furnace, a steel mill, and a coke and gas works. The only local raw material for this industry is limestone. During the first 6 months of 1948, this steel mill consumed 89,000 tons of coal imported from Germany and the United States, 100 tons of ferrous minerals from Northern Africa and 8,500 tons of scrap iron, part of which was indigenous, and the remainder imported from Italy. The mill employed 1,356 workers and operated at 90 percent of capacity during the first half of 1948. The total value of production was slightly over 1.5 billion lire. Table 1 shows the production and destination of the principal items produced:

TABLE 1.—*Products of the ILVA plant at Trieste*

Product	Production	Local consumption	Exports to Italy	Exports to other countries
Coke (tons).....	48,000	6,000	12,000	30,000
Gas (million cubic feet).....	18.5	18.5
Steel ingots (tons).....	2,600	2,600
Steel sheets (tons).....	7,500	2,000	5,500

The smaller industries of Trieste include jute and hemp, paint, wooden ship works, food processing, and cigarette paper. In addition, production by family industry of the artisan type is substantial.

B. AGRICULTURAL PRODUCTION AND FOOD SUPPLY

Trieste contains a total land area of 53,000 acres. Only a small proportion is suitable for agricultural production, and, consequently, indigenous output accounts for only about five percent of the total food consumed by the 285,000 persons holding ration cards. The 6,284

farms average about 5 hectares (14 acres). Six thousand persons gain their livelihood exclusively in agriculture and some 11,000 are engaged in it on a part-time basis. Due to favorable weather conditions, the production of grains, vegetables, fruits and nuts, the most important crops of the Zone, was higher in 1948 than it has been for several years. The veterinarian service of Trieste was successful in eradicating hoof-and-mouth disease, and the farmers have purchased considerable new stock.

Food consumption in Trieste now averages approximately 3,000 calories per day per capita. Wheat and wheat products, fats and oils, milk, rice, and sugar are in limited supply and are rationed at the rate of slightly less than 1,700 calories per day of which about 1,500 calories represent imports from the United States. Additional quantities of these products, as well as other foodstuffs such as meat, eggs, fruits, and vegetables, are available on the free market. There is a consumer subsidy on bread, flour, fats and oils, and evaporated milk, which makes it possible to purchase these rationed foodstuffs at relatively low prices. The remainder of the diet, comprising both additional quantities of foods subject to rationing and non-rationed foods, is obtained principally from Italy.

C. FOREIGN TRADE

Since its liberation, Trieste has received continued relief, first from the United States and United Kingdom Military Authorities and later from the United States appropriation for post-UNNRA relief (Public Law 84). Following the initiation of the European Recovery Program, assistance was at first continued on a relief basis because Trieste was not classed originally as a participating area. On October 14, 1948, however, Trieste was admitted to the OEEC. On the following day a bilateral agreement was signed between the Commander of the United States and United Kingdom Zone and the ECA.

The principal imports into Trieste have been foodstuffs and other consumer goods, in addition to coal, crude oil, and industrial raw materials. The principal exports from Trieste are maritime vessels, petroleum products, and vegetable oil and their by-products, and a limited amount of semi-finished and finished iron and steel products. The great bulk of the exports and re-exports go to Italy.

Because of the inclusion of Trieste in the Italian lira area, in accordance with the terms of the Instrument for the Provisional Regime in the Italian Peace Treaty, it is impossible to calculate precisely a separate balance of payments. However, dollar expenditures for the fiscal year 1948-49 are expected to exceed dollar receipts by an estimated 24 million dollars, against which Italy is expected to make

available 6 million dollars. This leaves a deficit of 18 million dollars, upon which ECA allotments have been based.

The Italo-Trieste Mixed Commission (see p. 10) has agreed to proceed on the assumption that payments between Trieste and Italy, including operations through Italy's trade agreements, and after taking into account Italy's contribution of 17 billion lire, would be in balance during the 1948-49 period.

D. LABOR

As already stated, Trieste has a major unemployment problem, though there has been a steady increase in employment during 1948. The potential labor force, in the ages between 14 and 65 is estimated at 137,000, or 20 percent more than in 1938, excluding refugees. Actual employment is estimated at 93,000, distributed as follows:

TABLE 2.—*Employment in the United States-United Kingdom Zone*

Field of activity:	Actual employment
Industry.....	32,076
Commerce.....	12,774
Credit and insurance.....	2,538
Agriculture.....	6,240
Public employment.....	22,161
Maritime.....	3,793
Allied forces.....	5,449
Public works.....	7,843
Total.....	92,874

Productivity of the industrial workers is estimated at 75 to 80 percent of the prewar level. The reduction is due principally to inefficient industrial operation, occasioned by lack of orders and contracts, and materials, and to some overstaffing because of legal bans on dismissals.

Although the normal work week in the Zone is 48 hours, in many industries and commercial houses there has been a reduction to 40 and 44 hours per week to maintain higher employment in slack periods. In general, collective labor contracts closely follow the contracts which are established in Italy. Incentives are usually in the form of piece-work or production bonuses.

Organized labor is divided between the moderate forces of the *Camera del Lavoro* and the *Sindacati Unici*; the latter are Communist-managed, controlled, and directed. Although the Communists control the port workers and the affiliated industries, their strength has recently decreased since they are divided between the followers of the Cominform and the followers of Tito.

E. WAGES AND PRICES

Because of the integration of Trieste in the Italian lira area, wages and prices tend to follow the Italian pattern.

Wage payments in Trieste are supplemented by a cost-of-living bonus and other allowances. One of these is the *Caropane*, which is an indemnity intended to compensate workers partially for the lowering of the consumer subsidies on basic foodstuffs.

In general, wages in Trieste are comparable to those paid in Venice, but they are somewhat lower than those in Milan, Turin, and Genoa. On the other hand, living costs in Trieste are also somewhat lower than in the cities of Northern Italy and real wages are, consequently, at about the same level as in Milan, Turin, and Genoa, and somewhat higher than in Venice.

F. FINANCIAL SITUATION AND POLICY

In accordance with the Italian Peace Treaty, a general financial agreement was reached on March 9, 1948, between the Allied Military Government and the Italian Government, under which Italy agreed to provide the basic internal currency requirements of the Zone, as well as to supply the foreign exchange required by Trieste within limits to be agreed upon. It was also agreed that current earnings of foreign exchange by Trieste would be turned over to the Italian Exchange Control. This agreement of March 9 was implemented by an additional agreement, initiated on July 31 and signed on September 22, 1948.

Under these agreements the Italian Government agreed to supply the lire necessary to finance the budgetary deficit of Trieste up to a limit of 9.9 billion lire for the second half of calendar 1948. The Zone Command will use most of these funds to finance capital investment under the extraordinary budget. At the same time the Zone's price subsidies will be coordinated with those prevailing in Italy.

The Italian Government agreed that the Italian Exchange Control Authority would meet the reasonable foreign exchange requirements of the Zone. The Exchange Control would grant a general license to the Command of the Zone, under which it could draw up to 6 million dollars in dollars or sterling equivalent during the fiscal year 1948-1949 for the purpose of financing certain non-ERP purchases. The Allied Military Government is ensuring that dollars or sterling, made available under this arrangement, are not used where procurement can be made in the Italian market or through Italian trade agreements under equally favorable conditions.

So as to assure the smooth working of the financial agreements, a Mixed Commission was established, including the representatives of

the Italian Republic and the Command of the Zone, which would meet once a month to discuss economic and financial matters of mutual interest, to coordinate the respective ERP programs of Italy and Trieste, and generally to guide operations under the agreement.

On December 31, 1948, the September 22 Agreement was extended for the first 6 months of 1949, with Italy agreeing to finance the budgetary deficit estimated at 6.7 billion lire. For the preceding 6 months, the Italian Government had agreed to provide about 3 billion lire for reconstruction and operating capital for the shipbuilding and ship repair industries. No similar expenditure was included in the budget for the first half of 1949, and this fact accounts for the reduction from the deficit of 9.9 billion lire for the last half of 1948.

In the Trieste budget for the fiscal year 1948-49, governmental ordinary expenses amount to 13.8 billion lire, whereas the total revenue is estimated at 12.8 billion lire. In addition, extraordinary governmental expenses amount to 16.3 billion lire, making a total deficit of 17.3 billion lire.

TABLE 3.—Government budget—Trieste—1948-49.

[In million lire]

Taxes and other ordinary revenues.....	12, 800
Ordinary Expenses: Administrative expenses.....	13, 800
Extraordinary Expenses:	
Social services (including support of refugees).....	2, 600
Subsidies:	
(by Italian Government for shipbuilding).....	3, 400
(by Italian Government for ECA counterpart).....	7, 900
Less recoveries from sales of goods.....	5, 000
Remainder.....	2, 900
Other subsidies.....	300
Investment and reconstruction program.....	7, 100
Total expenses.....	30, 100
Deficit.....	17, 300

This large budgetary deficit presents a difficult problem. Allied Military Government has exerted pressure to bring the ordinary budget into balance and there has been some economy in ordinary government expenditures, including some saving effected through a reorganization of the public utilities. Increases in governmental revenue are difficult to attain in view of unsettled present conditions, and in view of the pending revision of the tax structure.

The reduction of the extraordinary deficit, which is currently over 16 billion lire, is even more difficult. There has been some reduction

in the amount required for food subsidies during 1948. Specifically, as of October 1, 1948, subsidies on bread, fats and oils, and pasta¹ were reduced. The Italian Government agreed to furnish the lire needed to maintain these subsidies at the reduced level until the end of 1949. Subsidies on coal, canned meats, dried beans, and fish were removed entirely and prices rose to the levels prevailing in Italy.

The financing of the investment program and the cost of maintaining the refugee population are likely to continue burdening the government budget for some time to come. It is not likely that the industries of Trieste can absorb the large number of refugees now residing in the Zone. Emigration is a possible solution to this problem, but as yet means have not been found to facilitate it.

On September 9, 1948, ECA agreed to the release of 6.4 billion lire of counterpart funds to be used for a program of industrial reconstruction and rehabilitation of certain key industries in Trieste. On January 7, 1949, an additional billion lire of counterpart funds was released. Of the total of 7.4 billion lire, 4.5 billion is planned for the shipbuilding industry and 2.9 billion for a reconstruction and modernization program of key industries such as oil processing and refining, ship repair, the fishing fleet, and allied industries.

G. POLITICAL BACKGROUND

The Italian Peace Treaty provides that, pending the assumption of office by a Governor, the Free Territory will be administered by the "Allied military commands within their respective zones." Thus the northern part of the Territory, including the City of Trieste, is under joint British-American administration, whereas the southern Zone is under Yugoslav administration.

The Treaty presumed full cooperation between all powers concerned, and particularly between Yugoslavia and Italy, in order that the Territory would become truly free and independent. Since the coming into force of the Treaty, however, the Yugoslavs have virtually completed the incorporation of the Zone under their administration into Yugoslavia. In this situation the Treaty settlement has become unworkable and the United States, Britain, and France have therefore recommended revision of the Treaty to provide for the return of the Free Territory to Italy. Pending the implementation of this proposal, the United States and the United Kingdom Governments are continuing to administer their Zone in accordance with the relevant provisions of the Peace Treaty.

For several years after the liberation of the area Trieste seethed with conflict which was embittered by differences of nationality but was provoked primarily as part of a campaign to establish Communist

¹ Durum wheat products such as spaghetti and macaroni.

domination. The recurrence of prolonged strikes, often politically motivated, hindered any real economic recovery. Continual disturbances and uncertainty about the area's political future were also severe deterrents to investment and even to normal business activity.

The split between the Trieste adherents of the Cominform, on the one hand, and of Tito's Yugoslavia, on the other, has contributed to political quiet by dividing the Communist forces. This split extends to the Communist labor union, the *Sindacati Uniti*, leaving the moderate, non-Communist union, the *Camera del Lavoro*, in a stronger position to represent the interest of the Zone's workers without the injection of political issues.

The initiation of the European Recovery Program in Trieste last fall, the repeated indications of the Three Powers' resolve to stand by their March 20 proposal to return the Free Territory to Italy and the action on the part of Allied Military Government to preserve law and order are bringing about a more favorable environment for recovery. It is now possible to make a beginning on certain necessary budgetary, taxation, and other reforms within the area which, together with an improving economic situation, should facilitate recovery. However, Trieste can achieve only a limited recovery as an independent area as long as a large part of the region with which it formerly carried on its business is cut off from it by political or trade barriers.

Chapter III. Long-Term Program

A. GENERAL OBJECTIVES

The Long-Term Program submitted by Trieste is directed to raising the level of industrial operations toward capacity, completing the reconstruction of industries and harbor installations, and modernizing and expanding those sectors of the economy which can contribute most to the recovery of Trieste as well as to that of Western Europe generally.

1. Merchant Marine

One of the most important elements in the program is the expansion of the merchant marine. Table 4 projects the program for this expansion:

TABLE 4.—*Trieste Merchant Marine*

Year	1938	1948-49	1949-50	1950-51	1951-52	1952-53
Number of vessels.....	142	51	55	66	77	87
Gross tonnage.....	755,314	170,613	193,402	265,202	342,852	403,198
Seafaring and shore employees..	13,642	2,935	3,900	5,040	6,125	7,074
Cargo (tons).....	3,377,213	1,534,270	1,683,256	2,457,505	3,350,646	3,784,546
Number of passengers.....	271,409	29,722	41,654	63,755	91,463	103,455

As indicated above, it is planned to expand the total tonnage of Trieste shipping from the present figure of 180,000 tons to 403,000 tons in 1952-53. It is estimated that net revenue from shipping will total 24 million dollars. A major part of these receipts will be derived from trade with the Levant—the traditional route of the Trieste merchant fleet. By 1952-53 shipping should employ some 7,000 persons as compared with slightly less than 3,000 currently.

2. Port of Trieste

The expansion and modernization of the harbor installations will be completed in 1952-53, when it is hoped that the port of Trieste will be capable of accommodating traffic amounting to 3.8 million tons per year. This would provide foreign currency earnings in excess of 4 million dollars annually. The actual attainment of this target presumes only a modest expansion of East-West trade through the port.

3. Shipbuilding Industry

During the Long-Term Program the enlarged shipbuilding facilities of Trieste will be used for the construction of 46,000 tons of passenger liners for Italy, 32,000 tons of shipping for sale in dollar and sterling areas, and for the planned expansion of Trieste's own merchant marine.

4. Vegetable-Oil Refineries

A program to rehabilitate and modernize the vegetable-oil refinery has been approved. By agreement with the Italian Government, Trieste will receive a share of the oil seeds obtained by Italy for processing, and will re-export the refined oil to Italy.

5. Petroleum Refineries

It is planned to modernize and expand the Aquila Refinery with a view to producing lubricating oils and high-octane gasoline for the Italian market.

6. Iron and Steel

The activation of an additional blast furnace in the ILVA iron and steel works is contemplated. This would permit an annual production of 90,000 tons of pig iron and 30,000 tons of steel.

7. Fishing

A program for the expansion of the Trieste fishing fleet has been undertaken. By 1952-53, it is expected that the tonnage of this fleet will reach 7,200 tons, or three times the prewar figure. Approximately one-half of the catch would be consumed by the population of Trieste, while the remainder would be exported to Italy, Austria, and Switzerland, either as iced or canned fish. It is planned in this connection, to establish canning facilities in the United States-United Kingdom Zone.

8. Agriculture

A limited program for intensifying the utilization of the small agricultural area of the Zone has been adopted. It is anticipated that, by the end of the 4-year recovery program, the volume of agricultural output will be 83 percent above prewar, and that it will employ about 55 percent more labor. A modest increase of the livestock population is planned.

9. Investment

Substantial investment is needed to finance this expansion and modernization program. Table 5 indicates the plan for financing the projects contemplated in the Long-Term Program.

TABLE 5.—*Investment Program by Category*

[In million lire]

Shipbuilding.....	51,000
Petroleum refining.....	4,600
Reconstruction and modernization of various industries.....	9,000
Fisheries and fish canning.....	1,560
Tourist facilities.....	900
Housing.....	2,100
Port and industrial zone development.....	1,900
Rehabilitation of public utilities.....	985
Agricultural development.....	600
Total.....	72,645

The anticipated source of financing for this program is as follows:

TABLE 6.—*Investment Program by Source of Financing*

[In million lire]

ERP counterpart fund.....	26,010
Italian Government.....	16,000
Private investment.....	18,550
AMG earnings.....	4,985
Port earnings.....	300
Institutional savings (Savings banks and postal savings).....	2,200
Combination of Italian Government and private investment.....	4,600
Total.....	72,645

The estimate that 26 million lire of counterpart funds will be available for investment purposes assumes the following schedule of ECA grants to the Zone:

TABLE 7.—*ECA Grants to Trieste as Projected by Program*

Period:	Millions of dollars
April-June 1948.....	4
1948-49.....	18
1949-50.....	12
1950-51.....	10
1951-52.....	6
Total.....	50

(50 million dollars=27 billion lire)

There is, of course, no assurance that ECA grants will follow the levels shown, nor that the entire lire counterpart fund will be released for new investment.

The Long-Term Program would have the following effect in the main fields of production and commercial activity:

TABLE 8.—*Indexes of Activity*

[1933=100].

Category	Calculation basis	Year		
		1948-49	1949-50	1952-53
Industry.....	Physical production.....	65.0	90.0	103.0
Navigation.....	Tonnage carried.....	45.4	49.8	112.1
	Passengers carried.....	11.1	15.5	38.7
Port activity.....	Traffic handled by Port Authority.....	107.4	114.8	127.5

By the end of the 4-year period, it is estimated that employment will be slightly higher than prewar. The number of workers engaged in the fishing and canning industries is expected to be nearly five times as great as in 1938. This would more than compensate for the reduction in the level of maritime employment, which would be little more than one-half as great as in 1938.

B. FOREIGN TRADE

1. Expenditures

The Long-Term Program for Trieste contemplates total expenditures in 1952-53, including payment in lira for imports from Italy, at 179 million dollars equivalent. Of this total, 129 million dollars represents commodities, of which over 60 percent would be purchased in Italy.

About 37 percent of the total commodity purchases would be food, of which about 8 million dollars would be purchased in the Western Hemisphere and about 25 million dollars in Italy. Purchases of clothing would amount to about 10 million dollars. Italy would also be the major source for metals and metal products, equipment and a wide range of miscellaneous items.

The import program includes about 20 million dollars for the purchase of goods in Italy to be re-exported to other countries and of merchandise from other countries for sale in Italy. Trieste expects to make a profit of about 20 percent on these transactions.

Next to commodity imports, the largest expenditure is to cover the foreign expenses of Trieste's shipping.

2. Receipts

Total receipts for 1952-53 are estimated at 175 million dollars in all currencies. Commodity exports would be 92 million dollars, of which about one-quarter would represent the re-export of commodities to and from Italy, previously referred to. No adequate breakdown of exports by types of commodities is available. About 60 percent of the total commodity exports would go to Italy, about 25 percent to other participating countries, and about 9 percent to the Western Hemisphere.

Earnings from shipping are expected to amount to 54 million dollars and earnings from harbor and other transit charges to about 9 million dollars, for a total of 63 million dollars, or 36 percent of Trieste's total foreign exchange earnings. About 63 percent of this income is expected to come from the United Kingdom and other participating countries of the Sterling Area.

The import figures shown in the program do not include crude oil purchased for refining in Trieste, and the export figures show only the net profit on the sale of the refined products to Italy for Italian account. The imports of crude, and the sales of refined products to countries other than Italy are, however, shown in the Italian program.

3. Balance of Payments

On the basis of these estimates Trieste would have a 1952-53 global deficit of 3.7 million dollars which is well within the margin of error for the level of trade. There would, however, be a substantial remaining deficit with the Western Hemisphere amounting to 8.5 million dollars and a deficit with Italy estimated at the equivalent of about 14 million dollars. There would be a surplus with the Sterling Area (including the nonparticipating Sterling Area countries) corresponding to about 10 million dollars and with other participants the equivalent of about 8 million dollars. Part of this surplus with other participants would be with Switzerland, and would thus represent hard-currency earnings.

The program as submitted shows accounts with other non-participating countries virtually in balance. Trade with this area is expected to be at a very low level, amounting to only about 5 percent of total imports and exports. Trade with eastern Europe, in particular, is anticipated at only about 2 million dollars in each direction, representing principally purchases of agricultural products on the import side and performance of port services on the export side.

The balance of payments for 1952-53 is summarized in table 9.

C. CRITIQUE

The Long-Term Program submitted for Trieste by the Allied Military Government reflects an effort to take full advantage of the geographic position of the Zone and of its existing port facilities, its merchant marine and its affiliated industries. These are the necessary bases for development of the Trieste economy.

As pointed out by the Secretary General of the OEEC, the Long-Term program is based upon an optimistic forecast of commercial traffic. The possibilities of the realization of this forecast are uncertain. However, it seems clear that Trieste must plan upon this basis.

TABLE 9.—*Trieste Long-Term Program—Balance of Payments, 1952-53*

[In millions of dollars]

	Western Hemisphere	Non-participating		Participating			
		Sterling	Other	Sterling	Italy	Other	Total
Expenditures:							
Imports, f. o. b.....	18.7	7.0	8.0	1.7	78.9	15.1	128.9
Electricity.....	0	0	0	0	3.7	0	3.7
Expenses of Trieste shipping.....	3.7	0	0	23.5	.2	4.1	31.5
Transport.....	1.4	.1	.2	.8	0	0	2.5
Other invisibles.....	.5	.1	(¹)	.1	11.1	.2	12.0
Total expenditures.....	23.8	7.2	8.2	26.1	93.9	19.4	178.6
Receipts							
Goods purchased in Italy and sold in other countries.....	1.0	.6	2.8	1.6	0	1.6	7.6
Goods purchased abroad and sold in Italy.....	0	0	0	0	16.3	0	16.3
Other exports and receipts.....	7.0	.2	2.2	1.0	39.4	18.6	68.4
Total commodity exports.....	8.0	.8	5.0	2.6	55.7	20.4	92.3
Shipping and transit charges.....	7.1	.5	3.3	39.3	5.8	6.8	62.8
Income from oil refineries.....	0	0	0	0	13.3	0	13.3
Tourism.....	.1	(¹)	.3	.1	1.5	.2	2.2
Other invisibles.....	.1	.1	0	(¹)	4.0	(¹)	4.3
Total receipts.....	15.3	1.4	8.6	42.0	39.3	27.3	174.9
Net deficit.....	-8.5	-5.8			-13.6		-3.7
Net surplus.....			+1.4	+15.9		+7.9	

¹ Less than \$50,000.

It is difficult to see how the merchant marine which will still be about 40 percent from the 1938 tonnage will carry 112 percent of the prewar cargo as planned.

It is possible that the estimated requirements for food imports could be slightly cut, partly because of anticipated expansion of the fishing industry. This would serve to lessen Trieste's requirements for foreign exchange.

The forecast of trade with the Western Hemisphere and with Eastern Europe appears subject to serious question. It seems very doubtful that it will be possible to convert enough of the expected surplus with the Sterling Area and other participating nations into dollars to cover the Western Hemisphere deficit. On the other hand, the forecast of trade with Eastern Europe may be unduly pessimistic. By 1952-53 it is hoped that more active trade with the eastern European countries will be possible. These countries could then be utilized as a source of food imports, which the program contemplates obtaining from the Western Hemisphere. This would represent a much more rational direction of Trieste's foreign trade and one more in conformity with the general objectives of European recovery. Finally, it should be recognized that the program, as submitted, necessarily assumes that Trieste will continue to be a separate political entity. If, in accordance with the proposal which has been advanced by the United States, the United Kingdom and France, Trieste is returned to Italy, its problems would merge into the over-all problems of Italian recovery.

Chapter IV. First and Second Annual Programs

A. PROGRAM FOR 1948-49

Because of the special character of the United States-United Kingdom Zone of Trieste and its inclusion in the Italian customs and foreign exchange area, the preparation of accurate foreign trade statistics presented serious difficulties in the short time allowed. Consequently, it was agreed by the local authorities, OEEC and ECA, that no formal balance of payments would be submitted for the fiscal year 1948-49 but that such statistics would be compiled as accurately as possible for 1949-50.

As reported by the ECA Trieste Mission, dollar import requirements of the Free Territory for fiscal 1948-49 will exceed dollar export revenue by 24 million dollars, of which Italy is providing 6 million dollars. This leaves an uncovered deficit of 18 million dollars. Of this total, 14.6 million dollars represents the deficit with the Western Hemisphere while 3.4 million dollars represents dollar payments to other countries.

Trieste was allotted by ECA 4 million dollars in the second calendar quarter of 1948. The total ECA allotments to Trieste since the beginning of the current fiscal year have been 14.2 million dollars. ECA plans to make available an additional 3.6 million dollars to be covered by the supplemental appropriation. All of this aid is in the form of direct grants.

Over half of these ECA funds are being spent for the procurement of foodstuff by the Food Administrator for Occupied Areas in the Department of the Army. The remainder is for coal, iron and steel, and small quantities of a variety of other industrial products.

It is essential that the import requirements of Trieste for food and essential raw materials be met in full in order to permit the economic rehabilitation of the Territory. The dollar earnings of Trieste are as yet very small. The size of the deficit remaining for the balance of the fiscal year is not great, but unless 3.6 million dollars is made available it would be impossible for Trieste to continue to feed its population and to continue the operation of its port and industries, aside from the necessary progress toward economic recovery.

B. PROGRAM FOR 1949-50

The economy of the United States-United Kingdom Zone of Trieste has shown considerable progress during 1948 and substantial further improvement is anticipated for 1949-50. The achievement of such recovery would go far toward lessening the present acute unemployment problem in the area.

It is expected that, with the help of foreign aid, it will be possible to achieve the following increase in employment:

TABLE 10.—*Trieste—Anticipated development of employment*
[Index numbers: 1938=100]

	Year	
	1948-49	1949-50
Industry.....	79	99
Navigation.....	22	29
Port Activity.....	91	101
Fishery.....	319	427
Agriculture.....	104	112

Total commodity imports into Trieste during 1949-50 are estimated by ECA at 110 million dollars equivalent, of which more than two-thirds would come from Italy. Commodity import requirements from the dollar area would be 18.8 million dollars, which consist of foodstuffs and relatively small quantities of iron and steel, copper, and equipment from the United States.

Total exports from Trieste are estimated at 75 million dollars equivalent of which about 56 million dollars would go to Italy with most of the remainder going to other participating countries. The most important items in these exports would be machinery and equipment (including ships), pig iron, vegetable oils, wines, and a variety of other products. Neither the import nor export estimate includes petroleum, which is imported in crude form into Trieste and there refined. Petroleum figures have been included in the program submitted for Italy.

On the basis of present forecasts, the accounts of Trieste with other participating countries, including the contribution received from Italy, should be approximately in balance. A net commodity deficit of about 20 million dollars is almost covered by the performance of shipping and other port services.

Dollar revenue, however, will remain small. Commodity exports to the dollar area are expected to be only about 2.3 million dollars and the cost of shipping and other services received and rendered should show a balance of about 0.5 million dollars in favor of Trieste. This would leave Trieste with a net dollar deficit on current account of about 16.0 million dollars. Of this total, 4 million dollars would be

supplied by Italy, assuming the Italian-Trieste financial agreement of September 22, 1948, is extended for the next fiscal year. The net remaining dollar deficit is, therefore, 12 million dollars.

A considerable investment program is planned in Trieste during the next 4 years. During fiscal year 1948-49, 7.4 billion lire out of the counterpart fund have been authorized for the shipbuilding industry and for other industrial development; this plan should be well under way by 1949-50. It is anticipated that the expansion of ship-repair facilities will have been completed before the end of 1950 and that the shipyards will have turned out almost 62,000 tons of passenger and cargo tonnage. The fish-canning plant will probably be finished and the fishing fleet enlarged.

The program as presented for 1949-50 shows a reduction of about one-third in the requirements of dollar aid, and is based upon optimistic assumptions with respect to the development of trade. The program seems appropriately directed toward the reconstruction of the economy of Trieste and the development of its services and industries toward the goal of a self-supporting economy. A review of the import and export programs confirms the need for aid in the amount of 12 million dollars. With such aid, particularly if political developments permit a substantial increase in port traffic, and if some of the refugees emigrate, economic progress in Trieste should be encouraging.

PART III
Appendix Tables

TABLE A.—Illustrative Balance of Payments for 1949-50 Trieste Estimate

TABLE B.—Illustrative Balance of Payments for 1949-50 ECA Estimate

**TABLE A.—United States-United Kingdom Zone of the Free Territory of Trieste—
Illustrative Balance of Payments for 1949-50**

[TRIESTE estimate—in millions of dollars]—

	Dollar account			Non-dollar account	Grand total
	United States	Other	Total		
1. Imports.....	13.2	6.3	19.5	92.8	112.3
2. Exports.....	1.1	.5	1.6	73.0	74.6
3. Merchandise balance.....	-12.1	-5.8	-17.9	-19.8	-37.7
4. Invisibles (net).....	¹ +3.3	+1.8	+5.1	² +20.4	+25.5
5. Current account balance.....	-8.8	-4.0	-12.8	+1.6	-12.2
6. Settlements.....					
7. Capital transactions:					
(a) Non-ECA financing.....					
(b) Repayments.....					
(c) Other.....					
8. Net position.....	-8.8	-4.0	-12.8		
9. Estimated requirements for United States aid.....			12.8		
10. Uncovered deficit.....					

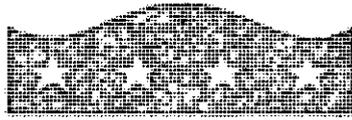
¹ Includes 4 million dollars in receipts from tourism; expenditures by United States troops.

² Includes lira subsidy to Trieste by Italy and 2.4 million dollars equivalent of sterling expenditures by British troops.

**TABLE B.—United States-United Kingdom Zone of the Free Territory of Trieste—
Illustrative Balance of Payments for 1949-50**

[ECA estimate—in millions of dollars]

	Dollar account			Non-dollar account	Grand total
	United States	Other	Total		
1. Imports.....	12.7	6.1	18.8	91.5	110.3
2. Exports.....	1.2	1.1	2.3	71.0	73.3
3. Merchandise balance.....	-11.5	-5.0	-16.5	-20.5	-37.0
4. Invisibles (net).....	-.7	+1.2	+.5	+19.0	+19.5
5. Current account balance.....	-12.2	-3.8	-16.0	-1.5	-17.5
6. Settlements.....		+4.0	+4.0		
7. Capital transactions:					
(a) Non-ECA financing.....					
(b) Repayments.....					
(c) Other.....					
8. Net position.....	-12.2	+.2	-12.0		
9. Estimated requirements for United States aid.....			12.0		



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