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TRIESTE

Memorandum by the Secretary of State
for Foreign Affairs

Attempts during October, November and December to bring about a Five-Power Conference on Trieste having failed, secret tripartite Anglo-American-Yugoslav talks have been taking place in London since early February, with Italian acquiescence, with the object of finding a realistic basis for bringing about an agreed settlement between Italy and Yugoslavia.

2. After some ten weeks of discussion, the Yugoslavs are on the verge of agreeing in principle to a territorial solution approximating, with certain frontier adjustments, to the division of the Free Territory along the zonal boundary, provided they can get satisfaction on a number of "conditions" which they have put forward. If we can reduce these "conditions" to reasonable proportions, the next step will be to embark on similar tripartite talks with the Italians.

3. The Italians will no doubt be disappointed at not getting back some of the Italian villages in Zone B. But as they accepted the Anglo-American "decision" of 8th October, 1953, which prescribed a division of the Free Territory along the zonal boundary, it will be difficult for them to reject the territorial provisions worked out with the Yugoslavs. It may not, however, be easy to get them to accept some of the Yugoslav "conditions" and they themselves are likely to put forward counter-conditions. While therefore the outlook is not unpromising, the extent to which prestige and emotions are engaged on each side makes it unwise to be unduly optimistic about a successful outcome.

4. I do not wish to burden my colleagues at this stage with details of the Yugoslav conditions, but I must invite their attention to one of them. It is that, in return for the abandonment by the Yugoslavs of their claim to the City and Port of Trieste with all its valuable installations, the Italians should finance for the Yugoslavs the construction of a new port in Zone B at San Nicola (on the south side of the Muggia peninsula) and of a new railway line linking it with one of the existing lines in the interior. It is quite certain that the Italians, who will be expected, as one of the other conditions, to settle financial issues outstanding between the two countries at a possible cost to themselves of some \$40 or \$50 millions, would be neither able nor willing to contribute to this venture. On the other hand, the Yugoslavs, who are in serious financial straits, have made it an essential element in any settlement. The Americans have accordingly indicated that they are themselves prepared to find \$20 millions in the current fiscal year, in the form of additional economic aid, towards the construction of the new railway. They have made it clear that it would be helpful in Washington if, as a token of solidarity, Her Majesty's Government could also find a small sum in sterling.

5. Despite our own financial problems, I would ask my colleagues to agree to a small United Kingdom grant to supplement the sum which is being provided by the United States Government. It would of course be contingent on agreement being reached between the Italians and Yugoslavs on a solution of the Trieste problem. My reasons are the following:-

- (i) A settlement of this problem would not only release us from an embarrassing international situation but would, I hope, lead on to a rapprochement between Italy and Yugoslavia and to the development of a co-ordinated defence effort in the Adriatic. It is therefore greatly to our interest to bring about a settlement.
- (ii) Allied Military Government in Zone A has for some eight years now been a joint Anglo-American responsibility, with a certain United Kingdom predominance in that we have always provided the Military Governor. It would look a little shabby for us now to leave the Americans to foot the whole bill. A relatively small contribution would satisfy them.
- (iii) A solution of the Trieste problem would enable us to withdraw our garrison and so effect a considerable annual saving.

6. If my colleagues agree, as I hope they will, to a United Kingdom grant as part of a settlement, if one is reached, the extension for one more year of economic aid to Yugoslavia, due to end in June, 1954, might furnish the most convenient cover. The sum I have in mind is £2 millions.

A.E.

Foreign Office, S.W.1.

12th April, 1954.