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REPORT ON MISSION CARRIED OUT BETWEEN
15 - 25 FEBRUARY 1976
TO YUGOSLAVIA
ON PROPOSED JOINT INDUSTRIAL BORDER ZONE: ITALY/YUGOSLAVIA

(TS/YUG/76/001)

by

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MAIN CONCLUSION

The Feasibility of the proposal to construct and operate an Industrial Free Zone on the border between Italy and Yugoslavia is not proven.

A final decision on feasibility requires further investigation between April 1976 and the date when the Protocol, (or Statement of Intent) is ratified by the Federal Parliament of both countries.

The main obstacles are:

A. Legal

(i) The "Punti Franchi" regime is too limited to form a basis for operating the proposed zone. It offers only duty free import as an incentive.

(ii) If investors are given a choice of legal systems, most will probably choose Italian law, which allows 100% ownership by a foreign investor and therefore build only in the "Italian Zone". This indicates that special legislation may be necessary for the Zone.

(iii) Common Market regulations may regard products made in the "Yugoslav Zone" as being liable to full EEC tariffs, unless the Zone is internationalized. The Shannon Free Zone existed before Ireland joined the EEC, and was thus accepted as being an Irish institution, by the EEC.

B. Finance

As yet thereare no construction specifications or even geological soil tests on which to base a cost plan.

C. Economic

As proposed, the scheme would result in an increase of exports from Italy to Yugoslavia, from Italian companies in the Zone. The aims of the Zone should be widened to encourage exports to global markets by investors from any country and not limited to Italian, Yugoslav or joint-ventures between the two.

D. LACK OF CONSULTATION WITH THE ITALIAN AUTHORITIES

It was beyond the terms of refernece of this study to approach the Italian Authorities and no official visit was made to Trieste. Some data is necessary from the Authority which administers the "Punti Franchi" regime in Trieste.

RECOMMENDATIONS

Further study is required, if finances are available, to clarify the above points.

This could possibly be the basis of a new request to UNIDO for further technical assistance.

Attendance at the Training Workshops arranged jointly by UNIDO and SFADCO (Shannon Free Airport Development Company), is desirable for Yugoslav officials.

The project is therefore not yet considered to be a feasible one.

1.1 Summary

This report is prepared mainly for the information and guidance of the Yugoslav Authorities, specifically for the Government of the Republic of Slovenia, so that the Summary and Introduction is restricted to a minimum.

In November 1975 a request was received by UNIDO, from UNDP Yugoslavia, resulting in a brief visit being paid by three senior officials from Slovenia to Shannon Free Airport Development Company in January 1976. Their aim was to investigate how a successful export processing zone was managed. During de-briefing in Vienna, Messrs. Cehovin, Jan and Urbas requested UNIDO to provide as soon as possible a UNIDO staff member familiar with the establishment and development of Industrial Free Zones, to visit Slovenia to assess the present position regarding a proposed free zone at a site on the border of Yugoslavia and Italy, near Trieste. Appropriate recommendations were to be made, possibly leading to further technical assistance.

For further details please see the Project Data Sheet - Annex I. The mission took place between 15 - 25 February 1976.

1.2 Introduction

Slovenia is one of six Republics in Yugoslavia, having borders with Austria, Hungary and Italy. With a population of 1,727,000 inhabitants it is the most industrially advanced Republic and there are some 130,000 non Slovenes working in the Republic.

In November 1975, the border in the Trieste area (Zones A and B) was finally resolved, which opened the way to further developing the area, which being Yugoslav territory is the natural hinterland of the port of Trieste.

A protocol was then drawn up between the Governments of Italy and Yugoslavia with a view to establishing a free zone in a 15 square kilometer area on the border.

A main objective of this free zone can be stated to be to rationalise the economic life of the area by linking the cross-border infrastructure for the benefit of the local populations on both sides. The project is mainly geo-political in origin, with a long-term aim of accelerating industrial development making economies of scale in infrastructural costs, and restoring a more rational trade balance.

The existence of a highly successful port development at Koper is a major factor to be considered, as is the fact that there is little unemployment in Slovenia. Unemployment and under-employment in Trieste and the region surrounding it (population 301,800 inhabitants) is believed to be high.

The port of Rijeka in Croatia is also a factor to be considered as, like Koper, it serves traffic from Austria, Czechoslovakia and Hungary as well as Yugoslav traffic, and both rival Trieste.

Airports serving this area are limited to Monfalcone (Italy) near Trieste, Krk (on Krk Island, Yugoslavia) and Pula in the south of Istria (Yugoslavia), which carry mainly tourist traffic. The International airport serving the area is at Kranj near Ljubljana 103 kilometers from the Free Zone Site at Sezana. The development of a new International Airport nearer to Sezana seems to be indicated for long-term planning.

The project itself is one bound up with long-term regional infra-structural and economic planning which will extend the present limited Border Agreements to develop industry and trade in the region in a balanced and rational manner.

It is unique in that it is the first proposal for a joint Industrial Free Zone between two countries, and also between in United Nations' terms a "developed" and a "developing" country with different political systems.

In the first phase industries invited to the Zone will be of Yugoslav or Italian registration only, or joint ventures between the two. A site for an Industrial Estate within the 15 square kilometre Zone has not yet been chosen.

2. <u>Findings</u>

<u>Economic</u>

The balance of trade between Yugoslavia and Common Market countries has become worse since the tariffs on meat products have been increased.

The result has been an increase in Yugoslavia's Export - Import gap, which increased receipts from tourism have not quite covered, leading to a current account deficit of about $1 billion in 1974.

The oil crisis worsened this trend by tripling the cost of imports and remittances from Yugoslav workers abroad have been reduced during the recession.

..... Statistics on this movement are at Annex 2.

2.1 <u>Planning</u>

The Five-Year Plan 1976-1980 reformulates the Government's fundamental economic objectives.

Emphasis is given to developing Yugoslavia's own natural resources, rather than on transforming industries. Attempts will be made to improve national economic planning.

Among the indicators is one affecting electric power, which by 1980 may be a key constraint to development (Thus at the Free Zone it might be preferable if the main energy source came from Italy. In return, since Trieste is short of water, Slovenia could provide <u>all</u> the Zone's water).

The three major development objectives are: growth of social product and generation of employment and reduction of interregional disparity.

The new Federal Constitution adopted in January 1974, and strengthened by new legislation in 1975 establishes, amongst other changes, the frame for more effective national development planning.

"Self-management planning", as it is usually called applies new principles to industrial management. Basically, the enterprise is run by a Workers Council which elects all its senior management.

Each enterprise in the same industrial sector co-ordinates plans horizontally, and machinery exists to reconcile production vertically with suppliers and consumers' organization.

Priority sectors, which will have relevance to plans for free zone industries are:

Energy
Ferrous metallurgy
Some non-ferrous (lead, zinc, copper, aluminium)
Technologically advanced production equipment
Basic chemistry (including petroleum refining)
Inter-Republic transportation
Housing and basic construction material
Agriculture and food processing
Hydro-Technical works

Thus any Italian enterprise prepared to enter a joint-venture in one of the above industries will probably find dinar finance and other Jugoslav inputs very ready to enter negotiation.

Petro-chemical downstream products such as polypropylene and acrylic fibres will have an ample supply of raw materials from the Sermnin petro-chemicals project at Koper.

It is worth noting here that the physical space for such industries is no longer available in the Trieste Industrial Zone, which is surrounded by housing and borders on the sea.

3. <u>Selection of industry for the Zone</u>

It is always difficult to plan industry for a Free Zone, since it is not possible to predict in advance what industries will be attracted.

It is always unwise to publish lists of prohibited industries. Any industry which is undesirable can be rejected by the management during the screening process. No such list should therefore be printed.

Incentives for this zone are very limited in the present protocal, since there is no provision for any relief from Corporate Taxation. This will probably be found necessary to attract investors. The tax relief could be temporary and apply for say 5 years only from a specific date.

Thus if the Zone opens on January 1, 1978 relief could be given on taxes payable for 5 years from the date production begins. The relief could be reduced to 3 years for companies which apply for space later than say 1.1.1980. Details of how this is applied can be studied later, as a sliding scale should be drawn up and a decision taken as to whether to extend relief when no profits are made in early years.

The fact that such tax relief is not provided for in Yugoslav Law is something which has to be examined by lawyers from both sides, with a view to drawing up new legislation applying only in the Zone.

There is a precedent for this, since the "Punti Franchi di Trieste" is a law which now applies in Italy but not in Yugoslavia. Yet it will apply inside the Zone.

Other factors which limit the type of industry in the zone are:

1. Lack of a nearby, all-weather, international airport which means that high value to low weight ratio products such as semi-conductor based electronic components would have to come from Ljubljana or Monfalcone.

2. The general shortage of water. This is not a large limitation since few industries in existing Free Zones are heavy water users.

3. The fact that there is no large pool of unemployed labour, except, possibly in Trieste. If labour is attracted by the Zone to the Sezana area, housing and amenities will have to be provided to Slovene standards at considerable cost.

4. The cost of land clearance. The Karst nature of the area means that site levelling will be expensive since almost the whole area is covered with large rocks and densely wooded. There are large areas of the 15 square kilometres which are clearly not usable at all.

5. A basic condition for investors to meet is that they should export outside Italy and Yugoslavia.

If this is not the general rule (with some exceptions to be jointly agreed) the main tendency will be for Italian firms to set up to export to Yugoslavia, which will defeat the main purpose of the scheme.

Secondly Yugoslav firms will merely wish to use Zone facilities to establish a production unit within a short distance of Italy, to reduce transport costs to the Italian market.

A wider view must be taken of exports not only to EEC countries but to the Far East, Middle East, Japan, USA, Central and South America. Promotional material will therefore have to be aimed at selected industrial sectors in these countries.

6. Labour costs: In some Free Zones labour costs as little as $0.20 per hour, whereas Slovene labour (mean industrial average of skilled and unskilled in 1975) earns $1.72 per hour gross. This restricts the type of industry considerably, as the electronic and garment assembly work attracted to Free Zones with low cost labour will continue to got to low cost labour countries.

This also means that one major incentive does not exist, so that a tax relief incentive becomes even more important.

7. General conclusions on types of industries and incentives: In the early stages there will be great interest in the Zone area as a new development, and no doubt it will be of interest to Italian entrepreneurs in view of the current depressed situation in the Trieste area.

It should not be difficult for the Trieste Authorities to give relief from some local taxes and provide subsidised transport to persuade entrepreneurs to establish in the zone.

However, taking a longer view, when labour costs level up on both sides of the border, and enthusiasm for a new project ceases, the attraction of the site will diminish, unless some real incentives are provided.

The provision of an industrial estate is an expensive incentive, but probably essential, especially if no tax incentives are given. An international source could be approached for a suitable loan for this purpose.

Since the real incentives without tax relief or an industrial estate are few, not many applications for investment can be expected after say the first thre years. This will necessitate expensive promotional advertising and public relations work later. Incentives as foreseen are limited to the duty-free import of machinery (but not raw materials). Since the Zone has no import tariffs not even this is really a concession (an Italian company would not normally pay any tariffs on machinery unless imported from outside Italy).

A close examination of the "Punti Franchi di Trieste" regulations shows that the exemptions are limited to freedom from Italian import duties and taxes (in effect exemption from the Common Market's External Tariff), but only while the goods remain inside the Customs Free area of Trieste.

4. Joint-ventures in Yugoslavia

4.1 Since 1967 it has become legal in Yugoslavia to establish joint-ventures with private companies from capitalist countries.

The main ventures have been in three categories:

(i) Concerns of interest to the Yugoslav economy in the heavy industry field where considerable high technology has been acquired e.g. vehicle building, vehicle equipment including tractors and tyres, chemical processes.

(ii) Production of articles jointly in Yugoslavia, when imports are forbidden for sale mainly in Yugoslavia, with some export concessions, in order to produce sufficient convertible currency to pay for essential imports of machinery, spares, raw materials and production parts not available in Yugoslavia.

(iii) Production, largely food processing, of articles for export from Yugoslavia, where raw materials are in abundant supply at reasonable cost, in Yugoslavia.

Of the 100 joint-ventures in operation by the end of 1974 the pattern was:

Chemical industry	36.4	Tourism	3.55
Electro and non ferrous	14.0	Textiles	2.86
Rubber and Leather	11.0	Other non metal	2.36
Furniture	6.1	Agriculture and food stuffs	1.99
		Not enumerated:	21.74

Most have been signed with Italy, West Germany, USA (14), Switzerland France and Austria. Two with Belgium, Sweden, Liechtenstein (as holding company); one with Czechoslavakia, Denmark, England, G.D.R., Holland, Japan.

Progress has been very slow in 1975, mainly due to world recession.

The Joint Zone, as proposed, will not accelerate the formation of joint ventures unless the provision of services, including rentable factory space, gives a comparative advantage.

Moreover, unless special Legislation applies inside the Zone, most joint-ventures will be formed under Italian Law since this permits companies to be owned 100% by one legal person.

Naturally, Yugoslav enterprises will be formed under Yugoslav Law, and therefore the question will arise, should a 51% Yugoslav, 49% Italian joint venture have to pay Yugoslav import duties and taxes when exporting to Yugoslavia ?

If not, then there opens a large loophole in the Yugoslav tariff barrier.

If yes, then it will hardly be worth-while for a non-Yugoslav company to participate.

The answer to this dilemna seems to be special legislation by which export is the main objective of all Zone enterprise.

4.2 Joint-Venture difficulties

Enumeration of joint-venture problems is not usually found in writing for obvious reasons, but it is appropriate to do this here.

The reluctant attitude towards joint-ventures under Yugoslav law on the part of western corporations is mainly that full control of assets, particularly of patent rights and other intellectual property is thereby lost. In the case of some industries, such as pharmaceuticals, formula disclosure before patents expire may mean the loss of returns on very large investments in research.

Secondly, some companies have a policy of not manufacturing anywhere where control is not 100%. Others insist on a minimum control of 51%.

Thirdly, where a western trademark is used difficulties arise concerning exports, since the trademark is the property of the foreign partner, which only has a 49% share in the joint-venture.

Fourthly, the head of the joint-venture must always be a Yugoslav citizen, and domiciled in Yugoslavia.

Fifthly, net profit of 49% less 35% tax can only be remitted to the foreign partners' domicile, if there is sufficient hard currency retention quota (normally only 20%). In fact, although a special Law permits the joint venture to retain an additional 33.3% of hard currency earnings to enable the foreign partner to remit profit or repatriate capital, this is not always possible in practice, since considerable exports are required to achieve it.

Also, valuation of rights, patents and processes is often a complex matter for the foreign party, particularly since royalty payments are restricted. The result in practice is the"loading" of invoice prices of raw materials or specialised machines (transfer pricing), which can lead to friction.

To sum up, joint-ventures on this basis are complex, and not as attractive as when outright purchase of a distributor or factory is possible, or the establishment of a wholly-owned subsidiary with the right to repatriate profits even if limited. Otherwise it is more profitable, and less effort to place the capital required on long-term deposit in a reliable commercial bank.

Therefore, considerable incentives have to be offered in order to persuade industry with buoyant export markets to establish in a "Free Zone" especially if legal restrictions are to be imposed on management.

The proposed zone will also have some difficulties with foreign exchange control unless special legislation applies to operations within it. Few enterprises given the choice would choose to invest under regulations which restrict convertibility, when there is an opportunity (under Italian Law) to enjoy complete freedom of transfer.

Unless there is special Legislation therefore, all joint-ventures will probably be registered under Italian Law. Special Legislation could provide for export of 99% of all production as one condition of investment, thus providing a large measure of convertible currencies, notwithstanding exports to countries with non convertible currencies.

5. Legal Questions

A. Recommendation: It is the recommendation of this report that special legislation will need to be agreed for the control of companies in the Border Free Zone.

Pragmatic experience of joint ventures in Yugoslavia by non-Comecon countries shows that 80% of such investments have so far been in the form of capitalized know-how rather than direct capital investment. Also the main motivation is to penetrate the markets of Yugoslavia and Comecon. Exports to western countries create unwanted competition and are one of the biggest obstacles to such ventures. Alienation of trade mark rights and difficulty in charging royalties, or remitting them at the customary level in convertible currency are also problems.

Lack of knowledge of the practical factors which motivate an international enterprise on the part of Yugoslav enterprise managers also creates difficulties.

Western managers tend to fear lack of control of assets and profit distribution, whereas Yugoslav managers fear the reputed malpractices in pricing, over-invoicing, transfer irregularities and other devices used by some multinationals.

A Yugoslav lawyer skilled in joint venture practice will be necessary as an adviser to the Joint Management Board of the Zone. He should also speak Italian.

B. BOAL: The basic Organization of Labour is little known outside Yugoslavia, and is included here under the supposition that this report will be translated into Italian.

The BOAL is the resulting subsidiary of a Yugoslav enterprise, which is created when a Western company creates a joint venture with the Yugoslav group of enterprises.

The two partners in a joint venture in Yugoslav Law do not comprise a separate legal entity, but a BOAL, which is one enterprise in the Yugoslav group. A BOAL is a separate entity in that it is not financially responsible to the parent (Yugoslav) unit.

The non Yugoslav partner's relationship to BOAL is basically a contractual one. No shares or stock are issued, and liabilities are limited to their own assets.

In practice BOALs act as independent legal bodies. At present, the guidance of the IICY appears temporarily not to be available, (The International Investment Corporation for Yugoslavia). It is believed that IICY is, or its experienced staff are, transforming into a consultant firm, which will in future charge fees for its services.

Apart from the basic necessity to retain a Yugoslav commercial lawyer, Western companies normally have recourse to their Embassy Commercial Departments, to the Yugoslav Chamber of Economy, Institute of Comparative Law, Belgrade. (The latter produced a book, "Foreign Investments in Yugoslavia - Legal Problems"). This book is valid only to 31 July 1972 and since then joint ventures have produced some new legislation.

C. Publicity:
All Embassies in Yugoslavia and Yugoslav Embassies abroad should be briefed on the Free Zone project as soon as the Protocol with Italy is ratified, particularly from the legal aspect. UNIDO could on request provide technical assistance to provide a suitably condensed review of the legal aspects of investment in Yugoslavia.

The necessity to condense operative law to a brief, simple text has proved absolutely essential as a part of the promotion of Free Zones. Too often the legal provisions are only available in a complex legislative form, or badly translated at great length. Top management of Western Companies are reluctant to pass judgement at second hand by briefing lawyers to examine and condense the applicable laws.

A vital part of the overseas promotion of free zones where investment in industry is the main objective, is to produce a brief guide to investment terms, incentives, tax regulations, financial liabilities, terms of rental of land or of factory buildings and the responsibilities of the foreign partners.

The same booklet is more effective if its later versions are illustrated with photographs of the site, of occupied factories, infra-structure plans, aerial photographs, details of land, air and sea transport facilities, training schemes, housing available and the like. Provision for a loose leaf, easily replacable folder giving details of current wages and social costs enable accountants to calculate in rough, their operating costs in the Free Zone, since they already know their raw material and overhead costs and can estimate transport costs. Accountants with experience of overseas operations are thus able to obtain an advance costing in outline, to compare costs of production in the zone with costs in other overseas sites.

D. Export Incentives: Control over investors in industrial free zones is best effected by insisting on all production being exported. Exceptions can be made for export rejects to a limited amount per year. All imports into the host country should of course pay full import duties and taxes on leaving the zone.

This type of control is far more effective, and easier to administer than any amount of complex legal provisions limiting the investors freedom of operation. All limitations and prohibitions act as disincentives and should be avoided. Illegal or undesirable operations can be prevented simply by not issuing such applicants with licenses. Category D imports are refused entry already - e.g. war materials, dangerous drugs. This is provided for automatically by the process of vetoing project proposals. This, of course, is essential to all such free zone screening methods to ensure that potential investors are financially sound and already have viable existing markets for their products.

E. Tax: To persuade risk capital to invest outside its own national frontiers, it is always essential to offer to free zone investors some form of relief from corporate taxation or to allow accelerated depreciation.

The experience of India in this regard shows that if no tax relief is offered, no new capital is attracted. The resulting joint ventures are merely transfers from existing enterprises within the free zone host's territory. The firms attracted to a zone which has merely customs free privileges are so attracted by the freedom to import new production machinery and raw materials which they do not enjoy in their existing investments in the host country.

The Bataan Export Processing Zone is believed to be the only free zone not offering tax relief. At the end of 1975 Bataan had 38 new enterprises employing 6,000 after only 3 years of operation. This is explained by the wage costs, which are about US$35 per month (Slovenia US$275), and probably by the lack of bargaining power of the labour involved.

In Ireland, the Shannon Free Zone offers tax relief for a limited period, but this same incentive is also offered for investment outside the zone. The length in years of tax relief increases according to how high a priority an area has. An area with high unemployment attracts a long tax holiday.

To sum up some incentives are necessary to interest manufacturers, now offered a wide choice of free zones. Incentives must be lent two or more of the following:

1- Tax relief
2- Low cost labour
3- Duty free imports
4- Industrial estate with efficient services
5- Rapid processing of applications without bureaucratic delays

F. <u>The Common Market</u>: As Italy is an EEC member state, and Yugoslavia is not, companies registered in Yugoslavia will have to pay EEC tariffs on exports from the zone, unless they can prove that more than 50% of the products content has originated in an EEC country, e.g. in Italy.

However, this question should not be raised with the EEC Customs Authorities at this stage. It remains to be decided whether the Border Zone is considered as extra-territorial, or as two zones, one in Italy, one in Yugoslavia. If companies operating on the Yugoslav side of the border are joint ventures with 49% Italian ownership, using up to 50% Italian materials, or with 50% operating costs settled in Lira it would seems that there is a good case to invoice the goods as "Made in Itlay".

This question is a delicate one, and is better not ventilated at this stage. It is likely that if not raised especially with the EEC Customs Administration in Brussels, such exports will not be of much volume as to cause enquiry. The precedent for this is Ireland.

G. <u>Name of Zone</u>: A neutral name should be used, such as "Industrial Zone of Trieste". A name such as "Free Border Zone Italy-Yugoslavia" will only attract enquiries and investigations.

H. <u>Export Markets</u>: The present objectives seem to be aimed at exporting to Italy, to Yugoslavia or to the Common Market.

However, plans should be made to encourage exports to other markets outside Europe, particularly to the traditional markets of Free Zone users, e.g. USA and Japan. To do this it is necessary to attract those firms who have invested in existing Free Zones i.e. electronics and garments. Mainly such firms bring their export markets with them.

6. Comments on Italian Free Trade Zones

1. Punti Franchi: The "Punti Franchi" regimes of Venice and Trieste permit goods of foreign origin to be imported into the zones without payment of Italian Customs duties and remain free of such duties while held in the zone or if subsequently trans-shipped or re-exported. This is almost entirely for trading, commercial purposes and not for manufacturing.

Italian Customs duties become payable if foreign goods are used or consumed in the zone. This covers capital goods, building materials, office supplies.

Goods of Italian origin or foreign goods on which duties have been paid may be brought into the zone. Such goods are regarded as exports unless action is taken to maintain their nationality.

Retail sales are prohibited. Speial controls apply to quite a long list of articles including goods subject to the Italian State Monopolies, e.g. tobacco, salt. Also to saccharin, and saccharin products, jewelery, clothing, alkaloids and their salts, synthetic medical preparations and patent medicines and portable items or merchandise easily concealed.

Industrial plants can be established under the overall supervision of the Ministero delle Finanze, Direzione Generale delle Dogane, Viale America, Rome.

In effect, the above allows postponement of Customs Duties which are the CXT (Common External Tariff) rate of the EEC, and from 1.1.1977 the EFTA countries will be also exempt from the tariff on industrial goods. Preferential tariffs are applied to imports from Greece, Malta, Turkey, Israel, practically all African states and all developing countries.

Since 2 March 1971, a refund of duties provided for foreign merchandise entered for consumption in Italy, which is subsequently re-aported.

This also applies to "temporary imports", under Presidential Decree No. 1133 of 30 December 1969, but this requires Customs licencing, and requires in some cases from non-EEC countries certain conditions. The importer must give a security in the form of a guarantee from an "acceptable" bank or insurance company in the amount of the applicable duties or taxes.

In short, the "Punti Franchi" regime depends for its duty freedom on export of all merchandise brought in. It does not allow the general freedom from customs duties given by all Export Processing Zones, since goods "consumed" in the zone are dutiable. The administration of the scheme in not simple and would entail much customs supervision, e.g. on unloading at Trieste or, e.g.cressing the border by road from Koper.

A new Presidential Decree would be needed to exempt from customs duties all goods destined for the proposed Border Zone at Sežana-Barovića.

Such a decree should also exempt such goods from tax on value added, where the goods are subsequently exported. "Punti Franchi" regulations would require any exports from the Zone of Yugoslav origin to pay the CXT tariff when entering EEC countries including Italy.

A product which contained a majority of content of Italian origin, including presumably, labor costs paid in Lira (even to non-Italian labor) would not be liable to CXT tariff on entering the EEC countries.

If however, an Italian Presidential Decree regarded the whole border zone as Italian territory, the products exported from there might be regarded as of EEC origin.

It is probable that the EEC Customs Administration will not enquire too closely into the origin of exports from the Border Zone, since the total exports will be only a very small percentage of total EEC imports. Therefore it would not be wise to make too many enquiries from the EEC Customs Administration in Brussels, as to the status of exports from the Zone. The main problem will be the attitude of the Italian Customs Authorities to such exports, and this should be clarified as soon as possible. Providing Zone exports are regarded by the Italian Customs as Duty Free, when entering Italy, the EEC Customs are not likely to investigate. If however, the Italian Customs impose strict conditions on the proportion of non-EEC content then the EEC Customs will follow this. It is therefore most important to negociate this point at an early stage.

There is a precedent for a Free Zone within the EEC, in the Shannon Free Zone in Ireland, exports from which are regarded as "made in Ireland". This of course is a Zone entirely within one country, being an EEC Member.

EEC Free Zone Regime: The EEC recognises three kinds of Free Zone, but the Shannon Zone does not conform to any of the three, since it is more than a Duty Free zone. This has not lead to any difficulties over tariffs.

The three types of zone are:

1- Inward Processing Zones
2- Outward Processing Zones
3- Free Trade Zones

The first refers to zones where goods are manipulated before paying EEC tariffs, e.g. sorting coffee or cocoa beans. Duty is paid only when the finally processed and packed goods enter the EEC.

The second refers to cases where EEC materials are exported for processing outside the EEC and then re-imported to the EEC. Duty is paid on the added value outside the EEC only.

The third is a list of registered Free Trade Zones such as Trieste, Hamburg Freihafen, parts of Antwerp Port, etc., where the EEC Customs permit processing, storage and manipulation of goods, i.e. they recognise and permit the "Punti Franchi di Trieste" operation.

None of these three refer to the sort of Industrial Free Zone (Export Processing Zone) where the main emphasis is on manufacturing for export under a Duty Free and Corporation Profits Tax Free Regime as at Shannon.

7. Notes on Free-Zone Incentives

1. Industrial Incentives in Trieste: Under Italian Law, new manufacturing Industry established in the Trieste Region already enjoys considerable incentives, including:

A- Construction of Industrial Plant

1- Freedom from Customs duties and import taxes on all material/ machines for new industrial enterprises.

2- Freedom from Turnover Tax

3- Reduction in Registration, Land and Building Fees

4- Reduction on fees for registration of construction work

B- For Manufacturing Processes

1- Freedom form Income taxes for 10 years from beginning operations

2- Freedom from Land and Building tax - same period

3- Prolongation of Customs free status

4- Freedom from Customs supervision fees for 15 Years from starting operations.

Reduced railway tariffs are also applied. Credits for production purposes of up to 2 million Lire of up to 5 years are available.

NOTE A special investigation in Trieste is required to establish whether these incent   will apply fully to the whole Border Zone, or only to those industries established on Italian Territory.

These incentives DO NOT APPLY TO THE PUNTI FRANCHI. Therefore; withouth new legislation, they will not apply in the Border Zone.

2. The U.S. Tariff Number 806 and 807: Several Free Zones take advantage of the fact that under United States laws, goods of US origin when re-imported to the USA, having been processed outside.it, pay US import duty   the value added only. This has been challenged in the US Courts and upheld on the grounds that US overseas investments are very extensive, and those which re-import to the USA are insignificant. Further the re-imports come from developing countries mainly whereas the main US overseas investments are in developed countries in Europe, Canada etc.

The electronics industry makes extensive use of 806 and 807 to export components, mainly semi-conductor parts for assembly in Free Zones in Asia and Central America, into computer parts, semi-finished consumer, industrial and military electronic products.

The labour intensive assembly work is therefore done at much lower than USA labour rates. Thus the US electronic industry is the main investor in Export Processing Zones, as is the Japanese electronic industry. Clothing is the second largest Free Zone industry. (It should be noted that special controls are applied to the clothing industry uder the Punti Franchi regime).

3. The US Foreign Trade Zones: UNIDO can supply information and contracts with the Federal Authority controlling the eleven US Foreign Trade Zones, six of which have manufacturing facilities. Those in Puerto Rico (1) and Hawaii (2), are active in import of foreign materials for processing and export (duty free) to the USA, The system is therefore worth study.

4. Italian Government policy on Foreign Investment: This is in general liberal, except in shipping, aviation insurance and credit institutions. Some tax exemptions are available in "economically depressed" areas including Trieste.

Tax concessions and investment Incentives extend to a refund of the IGE (Imposte Generale sull'Entrata) tax on exports, rebate of customs duties and duty free treatment of materials for the manufacture in bond of export products. In addition an accelerated rate of depreciation is provided for as an investment incentive. (The normal depreciation period may be reduced by 2/5th during a 4-year period, beginning with the year new equipment was purchased). These incentives have been increased in certain areas (including Trieste) by over 20%.

In the Trieste area some tax exemptions are also granted particularly to "small industries", defined as one whose fixed assets do not exceed Lira 2 billion (US$3.2 million as at 1968). Other incentives also apply, but in general corporation (profits) tax is excluded.

5. Recommendation: To sum up, the precedent exists for considerable incentives to new industry in the Trieste area, and it is recommended that special incentives for the Border Free Zone be negotiated to include DINAR investments.

Note A special subsidy of 10 milliard Lira has been allocated to Trieste under the "Blue Plan" for port development.

8. Shipping and Infrastructure

1. The Port of Trieste: All the major wharfs of Trieste Harbour, moles I - VII unload into the Free Zone where goods are stored or processed mainly for re-export. Duty is not paid until the goods enter Italy from the Customs Free Zones.

One part of the Industrial Area is also under the Customs Duty Free regime, where manufacturers produce goods for export.

Basically however, the Punti Franchi di Trieste is a commercial operation, not industrial.

2. Trieste and the Suez Canal: Before the canal was built, Adriatic ports where of little industrial importance but Trieste and other Mediterranean ports became of much more interest to European Industry after the canal opened in 1869. A new boom has now begun at such ports as Genoa, Koper, Naples, Rijeka and Trieste since the Suez Canal re-opened in 1974. The petroleum price increases have produced a huge demand for shipments of European goods to the Middle East. From Koper or Trieste the route is 2,000 miles shorter to Gulf ports than from northern European ports.

Roll-on/roll-off terminal in Europe mean that 40 foot containers can be loaded or unloaded without cranes. Shipping congestion with delays up to 6/7 weeks are caused at African and Middle East ports without roll-on/roll-off or adequate cranes.

3. Shipping Boom: The growth of demand for manufactures from Europe caused by the increased oil prices is leading to increased activity at Trieste, Koper and Rijeka, as well as in all Adriatic ports.

The Suez Canal now being open, traffic previously sent to northern European ports e.g. by Austria, Switzerland, Czechoslovakia, Hungary is now sent south by road/rail to Koper, Rijeka and Trieste, but also to Genoa and other ports.

In 1974, dry cargo moved was: Koper 2 million tons, Rijeka 6 million tons, Trieste 5.2 million tons. Of Trieste's total of 34 million tons, 91.5% was Middle East petroleum of which 34.6% from Libya.

4. Distances to Border Zone:

Road: A major factor is that from Trieste to the Border Zone is only 16 km. by road. From Koper to the Zone is 46 km. Rijeka Zone 62 km.

Rail: The time taken by rail from Koper to Sezana is 60 minutes. From Sezana to Koper 50 minutes. Daily capacity at Sezana is 1,200 - 1,500 wagons both ways. Capacity is being enlarged 1976-79 from 18 to 32 side shunting tracks.

5. Containers: In Trieste 1 container - 40 foot - can be handled every 3 minutes.
In Koper 3 container ships to USA per month - YUGOLINIA
4 " " to other ports per month - SEALAND - (50/60 containers)
3 " " to Israel - ZEMLINE
Straddle left crane for containers not yet obtained.

Due to the height of some railway wagons (e.g. Italian), 40 foot containers cannot all safely pass through some Yugoslav tunnels. Work will be needed on deepening such tunnels.

6. <u>Airports:</u> Ljubljana Airport to Sezana 103 km.
Monfalcone Airport (Italy) to Sezana 30 km.
Krk Airport to Sezana 70 km.

Most export processing zones find that between 30-80% of the exported goods, and very often a large percentage of imports move by air, and not by road/rail/sea.

This is partly because the savings made in labour costs, plus freedom from taxes and duties, allow a higher percentage of cost to be allocated to freight. The higher cost of air freight is reduced by the quicker turnover, which reduces inventory and therefore reduces overhead and capital employed.

Air freight is used by many free zone exporters for two other reasons. First, up to 70% of products handled are high value to weight ratio items, such as semi-conductor components, which are processed and assembled in large quantities. Secondly, many free zones are used for garment assembly, often for fashion trades where speedy delivery is essential.

<u>Airport Flight Frequencies - WINTER</u>

Ljubljana	- Paris twice weekly	both	directions	
	- London three "	"	"	
	- Frankfurt daily	"	"	(+ cargo 2 weekly)
	- Amsterdam two "	"	"	
	- Zurich three "	"	"	
	- Tunis one "	"	"	
	- Tripoli one "	"	"	
	- Malta one "	"	"	
Monfalcone	- Ronchi dei Legionari - Trieste Airport			
	- Milan two daily -	both	directions	
	- Rome three " -	"	"	
	- Vienna two " -	"	"	
Krk	- Rijeka Airport			
	- Internal Flights			
	- Amsterdam one weekly			
	- Warsaw two weekly			

<u>New Airport</u>

Tourist operators support a new <u>international</u> airport sited probably near Koper to supplement flights to Krk and Pula. The Border Zone would provide such an airport with winter traffic both cargo and passenger.

9. Recommendations on Zone working conditions, exports and port usage

The present position is that the Italian GDP per head is three times that of Yugoslavia, whereas the population of Italy is two and a half times in number, consuming four times more per head than Yugoslavia. These figures relate of course to the whole of Yugoslavia and not to Slovenia, where living costs are higher than average for Yugoslavia.

From Annex IV it can be seen that wage costs in Slovenia and Trieste are virtually the same. Thus, there is no advantage to an Italian employer to hire Slovene labour, except that the absence of strikes in the Yugoslav service industries might well attract industry to the Border Zone. This advantage cannot very well be promoted as an incentive however, since there is now considerably more real unemployment in Trieste than in Slovenia. Some unemployed in the Trieste area are ethnically Slovenes, who would take employment in the Zone. (The population of Sezana in 1945 was 33,000, in 1975 23,000. This indicates that an increase of about 15,000 will take place from 1977-82.

Legally it would be complicated to have a mixed labour force, since different regulations apply to Italian and to Yugoslav labour. This is another reason for having separate legislation to cover working conditions in the Zone.

Italian imports and exports are more than six times those of Yugoslavia, suggesting that Italian industry would have the effect of increasing the volume of both in Slovenia. Some legal provision would have to be made to ensure that exports did exceed i mports, and as suggested above in paragraph 5, the Free Zone regulations should insist on all investors exporting at least 95% of production to countries other than Yugoslavia.

Koper, Rijeka, Trieste

From Annex IV it can be seen that the relative volumes of traffic are:

Koper	1.4	million	tons	1974
Rijeka	12.6	"	"	
Trieste	34,0	"	"	

Extracting petroleum product figures alters this ratio to

Koper	1.4	million	tons
Rijeka	6.1	"	"
Trieste	5.2	"	"

The port of Koper is therefore the most vulnerable, and although its traffic is increasing, some provision should be made to protect Koper from loss of trade to Trieste when the Border Zone opens. From the port of Trieste to Sezana is only 16 kms, whereas from Koper it is 46 kms.

Some provision should therefore be added to the Protocol to encourage the equal use of Trieste and Koper providing normal market forces operate. Meetings between the port authorities should take place regularly at least once per quarter to avoid friction. Although the Port Authorities cannot force commercial firms to use one port rather than the other, meetings to cooperate can avoid abuses such as attempts to abuses such as attempts to divert product shipments destined for EEC countries through EEC (Italian) ports. (This has already happened in the orange trade.)

10. Construction Costs:

Costs at Sezana are comperatively high, as follows:

standard I - office per m^2	ND	8.000
standard II - office per m^2	ND	3.000
external parking place p.m^2	ND	600

The costs of building materials and construction costs is thought to be higher in Italy. In order to keep costs as low as possible it is recommended that a joint construction team (Italy/Yugoslavia) be considered to build the industrial estate.

Materials could be obtained from the cheapest source e.g., road asphalt could be obtained from the nearby Trieste refinery, timber and stone would be cheaper from Slovene sources. To arrive at the lowest costs a joint effort is obviously desirable.

10. Technical Assistance from UNIDO

This report reveals the possible advantages of a UNIDO team of experts to assist the sub-committee which will be appointed to work on zone development problems.

The areas where specialised assistance could be provided are:

1. International Law 15 m/m

A separate legislation for the Zone could regulate labour conditions, provide incentives to investors of tax exemption, regulate export provisions and investment conditions thus permitting more easily joint ventures. These will take place as the Italian and Yugoslav laws now exist, under totally different conditions, and most investors would now favour the Italian law, which permits 100% ownership.

An expert in International Law would be needed to work with both Italian and Yugoslav Zone Committees for at least 12 months after the Protocol is ratified. Some work on additional changes to the Protocol could be done before ratification since the Protocol provides for such amendments, by Article 11. Therefore a split mission is indicated of three months before and 12 months after ratification.

2. Industrial Estate Planner 24 m/m

A civil engineer with specialised experience of industrial estates/free zones could begin work as soon as possible (before Protocol ratification) to assist in the coordination of infrastructure planning on both sides of the border. He would also plan the first stage, and subsequent phases of an industrial estate, complete with services. This would produce a detailed plan of requirements and the cost in convertible and non-convertible funds, of the work involved.

UNIDO could provide such a planner for a period of at least two years. Efforts could be made to obtain if possible an expert speaking both languages involved.

3. Industrial Economist - Export Industry 24 m/m

An expert with knowledge of the Yugoslav self-management system and of industrial development project planning for export industry would be able to collect data from both Italian and Yugoslav sources with the objective of producing guidelines for the Border zone.

He would then examine the critical areas of Yugoslavia's economy to assist in drawing up a schedule of desirable joint ventures in order to increase Yugoslav exports. He would assist the Publicity expert (see below) to pinpoint target areas for promotional activities. He would analyse local resources e.g. the petro-chemical industry in the Trieste, Koper and Rijeka area to suggest joint projects and avoid duplication, over-capacity and uneconomic competition.

This expert could also start work before the Protocol is ratified and work for two years.

4. Industrial Publicity Expert 6m/m

An expert in Free Zone publicity and Industrial Development Promotion would, after ratification of the Protocol, assist the Joint Zone Board to draw up costed plans for effective and economic promotion for the Zone in selected overseas countries.

He would work with the Legal expert to coordinate a plan between the Italian and Yugoslav authorities. Recommended duration is two split missions of three months each.

5. Project Manager 24 m/m

Should funds permit, a Project Manager for a period of two years would give the project cohesion as he would be able to coordinate the functions of the experts as a team throughout the period.

Thus he would begin with two experts, in Industrial Estate Planning and the Industrial Economist, before the Protocol is ratified, together with the Legal expert for three months.

After ratificiation, the team would consist of the same legal expert for 12 months, the Industrial Economist for a further year, the Industrial Estate expert for one year and the Publicity expert.

6. Training Expert 12 m/m

An expert in training might be considered for one year at a later date, when the Zone begins operation, to assist the Joint Zone Board to initiate training systems for zone workers and supervisors. He would train a counterpart to take over his functions as soon as possible.

7. Training of Zone Administrative Staff

Management of such a Free Zone is a more complex procedure than managing a simple industrial estate, and training in this field is difficult to obtain. UNIDO has supported since 1973 training courses conducted by SFADCO, Ireland run for four weeks in May and October annually at the Shannon Free Zone.

It is recommended that senior managers who should be fluent in English (used in all free zones) begin their work by attending this course as UNIDO fellows.

8. Study Tours

UNIDO has agreements with some operating Free Zones to accept candidates on fellowships of two months duration to see at first hand how Free Zones are developed, managed, administered and promoted.

Draft Project Finance Plan

Costs would be over four years approximately:

	m/m	$
Project Manager	24	96,000
International Lawyer	15	60,000
Industrial Estate Planner	24	96,000 *
Industrial Economist	24	96,000
Publicity Expert	6	24,000
Training expert	12	48,000
Fellowships		
Training courses	6	24,000
Study Tours	3	12,000
		$456,000

Annual cost $114,000

Civil Engineering Planning

General infrastructurel planning; the drawing up of a Master Plan for the Border Zone and surrounding region, can, we feel, be done by a joint Italy/Yugoslav planning team.

Some short term international assistance could be supplied to assist this team on request.

Consulting Engineering Firm

The majority, but not all, of the above technical assistance could be obtained from a consulting firm through open international competitive tender. Training aspects could not be though handled.

Aspects of legal matters, estate planning, economics and publicity could be handled by a consulting engineering firm at an estimated cost of approximately $ 300.000 . Such a company would have to carry out a study during the period of about 4 months and then produce its main report. The company would have to return at intervals during the next two years to complete the work.

A resident project co-ordinator would give continuity to this technical assistance.

11. Cash Flow Forecast-Model

Below is given a model of a cash flow forecast for an industrial estate, based on:

- a loan of US $6 million
- a payback period of only 12 years.

This is to simplify the figuring only, as 20 years is normal.

- The income figures pre-suppose a high rate of supply of estate services such as charges for vehicle storage, rail/road cargo handling, fees for trailer and container parking.

- It is assumed that wage costs of customs and railway personnel will not be a charge to the Zone management.

- The figures are in general merely indicative since no decisions are yet made on income sources or costs of land development, buildings and administration.

- Costs of promotion are not included since a separate budget is always required, tied into overseas representation through embassies, consulates, airway offices and export promotion offices abroad.

CASH FLOW

Income	Total US $000 Brought Forward	Year 1	2	3	4	5	6	7	8	9	10	11	12	13
Balance			488	1,018	412	155	607	408	446	422	506	948	488	1,086
Loans and Grants	6,000	2,000	2,000	1,000	500	500	-	-	-	-	-	-	-	-
Industrial Land Sales	700	-	-	-	300	300	-	-	100	-	-	-	-	-
Commercial Land Sales	1,400	-	-	-	200	200	300	400	200	100	-	-	-	-
Estate Services	3,200	-	-	-	100	150	200	250	300	400	450	450	450	450
Factory Rents	8,800	-	-	150	250	500	600	700	800	1,000	1,200	1,200	1,200	1,200
Maintenance Levy	880	-	-	15	25	50	60	70	80	100	120	120	120	120
Total	20,980	2,000	2,488	2,163	1,787	1,855	1,767	1,828	1,926	2,022	2,276	2,718	2,358	2,896
Expenditure														
Survey and Design	150	150	-	-	-	-	-	-	-	-	-	-	-	-
Land Purchase	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Land Fill	500	200	100	100	100	-	-	-	-	-	-	-	-	-
Roads and Drains	550	250	100	100	100	-	-	-	-	-	-	-	-	-
Bridges	50	-	50	-	-	-	-	-	-	-	-	-	-	-
Water Supply and Treatment	500	200	100	100	100	-	-	-	-	-	-	-	-	-
Electric Supply	700	100	150	250	200	-	-	-	-	-	-	-	-	-
Standard Factories	4,100	200	500	600	500	500	500	400	400	300	200	-	-	-
Administration Block	400	100	200	100	-	-	-	-	-	-	-	-	-	-
Maintenance	1,350	-	-	50	50	100	100	120	130	140	150	160	170	180
Operating Costs	1,210	-	-	60	70	80	90	100	110	120	130	140	150	160
Sub-total	9,510	1,200	1,200	1,360	1,120	680	690	620	640	560	480	300	320	340
10% Contingency	943	112	120	136	112	68	69	62	64	56	48	30	32	34
Sub-total	10,453	1,312	1,320	1,496	1,232	748	759	682	704	616	528	330	352	374
Interest	1,150	25	50	75	100	100	100	100	100	100	100	100	100	100
Loan Repayment	6,000	180	100	200	300	400	500	600	700	800	700	800	720	-
TOTAL	17,603	1,517	1,470	1,771	1,632	1,248	1,359	1,382	1,504	1,516	1,328	1,230	1,172	474
BALANCE		488	1,018	412	155	607	408	446	422	506	948	488	1,086	2,[illegible]

Typical Development Density of Industrial Zone Site

Factories	20%
Service Buildings -	
Workshops	3%
Offices	
Canteens	
Administrative Office	1%
Warehousing	3%
Total Buildings	27%
Roads and Parking Areas	35%
Open Space	38%
	100%

ANNEX I

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

UNITED NATIONS DEVELOPMENT PROGRAMME

UNIDO Trust Fund

Project Data Sheet

Request of the Government of Yugoslavia

1. <u>Reference Data:</u>

Country:	Yugoslavia
Project Title:	Pre-feasibility study of Industrial Free Zone in Sezana, Slovenia
Project Number:	TS/YUG/76/001
Origin and Date of Request:	
Purpose of the Project:	A follow-up to project TS/YUG/75/006 to carry out a pre-feasibility study on the organisation of an export manufacturing industrial free zone on the Italian-Yugoslavian border.

2. <u>Background information:</u>

The Government of Yugoslavia has recently signed an agreement with Italy to establish jointly an export manufacturing zone near Trieste/Sezana. A technical meeting to discuss the objectives, the form, scope of activities and other aspects of technical and economic problems is expected to be held in January/February 1976. The Government of Yugoslavia which places a high priority on the development of this joint project therefore wishes to have UNIDO's assistance in carrying out a pre-feasibility study.

The project will be an ideal example of international industrial co-operation between a developing and a developed country as well as between two countries with a different socio-economic background.

A team of three officials from the Slovenian Republic of Yugoslavia completed a study tour to Shannon Free Airport Development Company in January 1976, where they obtained data and guidance on planning the industrial free zone.

This was further discussed at briefing and de-briefing meetings in Vienna, at which it was agreed to proceed with the next stage, which is to establish feasibility.

3. <u>Description of the Project:</u>

As the next, pre-feasibility stage, a consultant specialising in industrial free zone development will, having prepared a suitable questionnaire, visit Slovenia to obtain all available data regarding the zone planned; technical, economic and financial.

a) provide by gap analysis the Slovenian Authorities with a preliminary plan showing what data is required for a full feasibility study indicating the subsequent action needed;

Annex II

BALANCE OF TRADE ITALY - YUGOSLAVIA

1) . EXCHANGE OF GOODS Slovenia - Italy In 10^6 dinars

	Exports from Slovenia	Imports from Italy	Balance
1974	1,854.0	4,330.7	- 2,476.0
1975	1,478.2	3,743.0	- 2,265.0
Index 75/74	79.7	86.4	

2) A. BORDER AGREEMENTS In '000 Lira

From Slovenia	Jan. - Dec. 1973	Jan. - Dec 1974	Jan. - Dec. 1975	Index
Exports	6,491,187	5,999,779	11,480,432	191.3
Imports from Italy	9,647,863	10,964,164	12,059,173	110.0
Total	16,139,050	16,963,943	23,539,605	138.8

Note: The trade is deliberately balanced in the border area between Slovenia and the Trieste area to allow as far as possible "free trade", regardless of currency problems.

B. THE ALPE - ADRIA AGREEMENT

Liras 1,250 million in each direction

3) TRADE - DINARS MILLIONS - ITALY - YUGOSLAVIA

				Jan. - June	
IMPORTS	1971	1972	1973	1973	1974
FROM ITALY	6,738	6,780	9,022	3,869	6,771
EXPORTS TO ITALY	3,843	5.237	7,926	3,566	4,493

Notes: (1) Italy is Yugoslavia's largest export market, having overtaken USSR in 1973

(2) The Federal Republic of Germany is Yugoslavia's major supplier, followed by Italy

(3) Inflation reached 30.4% between Oct.1973 and Oct. 1974

4. TRADE WITH MAIN EEC COUNTRIES

				Jan. - June	
	1971	1972	1973	1973	1974
IMPORTS	22,754	22,402	29,842	13,518	20,667
EXPORTS	10,351	12,800	16,182	7,559	8,861

ANNEX III

INTERNATIONAL COMPARISON

Italy - Yugoslavia

			Italy	Yugoslavia
opulation	Mid 1973	Thousands	54,888	20,960
t average annual increase	1963-1973	%	0.70	0.95
ployment: Total civilian	1973	Thousands	18,310	8,009(197
Agriculture		% of total	17.4	49.5
Industry			44.0	50.5
Other			38.6	
roduction GDP per head	1973	US$ current	2,510	792(197
DP by ctor Agriculture	1973	% of total	8.8	16.6 (GDP at factor cost 1972)
Industry			41.2	46.6
Other			50.0	36.8
DP Annual volume growth	1973	%	6.4	-
	1968 to 1973		4.3	-
dications of living standards				
Private consumption per head......	1973	US$	1,620	425 (1972)
Public expenditure on education ..	1970	% of GNP	4.3	4.3 (1965
Passenger cars per 1,000 inhabitants	1971	Number	209	42
Television sets " " "	1972		202	113
Telephones " " "	1972		206	44
Doctors " " "	1971		1.83	1.06
oss Fixed Investment total	1968-72 Average	% of GDP	19.8	-
Machinery + Equipment			8.4	-
Residential Construction			5.9	-
Other Construction			5.5	-
ages/Prices Hourly Earnings (Industry)	Annual increase 1967-72	%	11.2(Ind.)	16.1 monthly manufc
Consumer Prices			3.9	11.3
GDP Deflator			5.0	-
oreign Trade - Imports (goods+services)	1972	$ million	23,600	3,820
		% of GDP	20.1	23.2
Exports		$ million	24,040	3,486
		% of GDP	20.4	21.2
BALANCE OF PAYMENTS				
Current Balance	1968-72 average	% of GDP	2.1	-
Official Reserves End 1973: % of imports of goods on 1973 including reserve portion in the IMF and Special Drawing Rights.........		%	23.1	32.9
Change	Sept 1974- Sept 1973	million SDRS	-1,420	-262

(Source OECD January 1976)

ANNEX IV PORT COMPARISON : KOPER, RIJEKA, TRIESTE

Koper Figures from Koper Port Administration

Dry Cargo Traffic TONS

	Domestic	Transit	Total
1958	52,569	1,356	53,021
1968	657,387	318,542	975,929
1974	874,136	565,397	1,439,583
1975	690,935	817,822	1,508,757

Trieste
Chamber of Commerce figures
TONS

	Commercial	Transit
1973	38,108,106	35,410,362
1974	33,963,807	32,066,904

Figures from Trieste Chamber of Commerce

			1973		1974
Koper	1973	Loaded	772,316	1974	836,275
		Unloaded	232,085		232,441
		Transit	922,696		933,755
		Total	1,927,097		2,002,471
Rijeka	1973	Total	10,382,942	1974	12,672,785
of which, mineral oil			5,527,853		6,560,000

Trieste

1973	Unloaded	35,582,361		1974	31,438,577	
	of which, oil......	32,954,182	92.6%		28,755,389	91.5%
	Loaded	2,525,745			2,525,230	
	Total	38,108,106			33,963,807	

Origin of Imports: Trieste

1. Libya 2. Iraq 3. Saudi Arabia 4. Nigeria 5. Iran 6. Algeria 7. USSR

Unloaded from:	1973%	1974%
Libya	39.8	34.6
Iraq	13.0	20.0
Saudi Arabia	10.5	7.7
Nigeria	4.4	7.5
Iran	5.8	5.5
Algeria	5.6	4.8
USSR	4.1	4.0
Italian ports	5.0	3.1
Syria	1.3	1.4
Others	10.5	10.5
Total	100.0	100.0

Loaded	1973%	1974%
National ports	28.9	30.7
Israel	6.4	6.5
Libya	1.7	2.7
Lebanon	2.3	2.6
Greece	3.0	2.5
Syria	2.0	2.5
Saudi Arabia	1.7	2.4
Turkey	0.5	1.8
Iran	1.9	1.5
Others	51.6	46.8
Total	100.0	100.0

Arrivals from:	1973	1974
Internal	32.8	36.3
Austria	35.8	33.4
FRG	11.4	9.6
Yugoslavia	6.7	5.6
Switzerland	5.2	5.0
France	1.5	2.6
Romania	1.9	2.0
Hungary	1.1	1.5
Czechoslovakia	1.4	1.0
Others	2.6	3.0
Total	100.0	100.0

Shipments to:	1973	1974
Internal	30.7	27.3
Austria	25.4	25.0
Yugoslavia	19.4	15.5
FRG	13.1	12.4
Czechoslovakia	2.4	9.3
Switzerland	4.8	4.3
Hungary	0.5	2.7
France	1.8	1.1
Romania	0.6	1.0
Others	1.3	1.4
Total	100.0	100.0

LABOUR COSTS - COMPARISON

1974	Trieste	Average wage per hour	Average wage cost per hour
		Lira 968,33	Lira 1,406,02
		Dinars 19.60	Dinars 28.46
		Dinars per month: 3,136	per month: 4,553.60 US$257 per month
1975	Slovenia	Mean average wage of skilled/unskilled per month	
		N.Din. 3,293	N.Din.4,677 = US$264 per month

Note:

The Italian figures are for 1974, and therefore they are probably by end 1975 at the Yugoslav level, or above it.

The above shows that wages in the Trieste area are very much the same on both sides of the border. This is partly due to the Border Agreements, balancing trade, and to excess labour in Trieste.

ANNEX VI

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13. Paper of 5 May 1975 by Professor Dr. Mirko Buno, Harvard University

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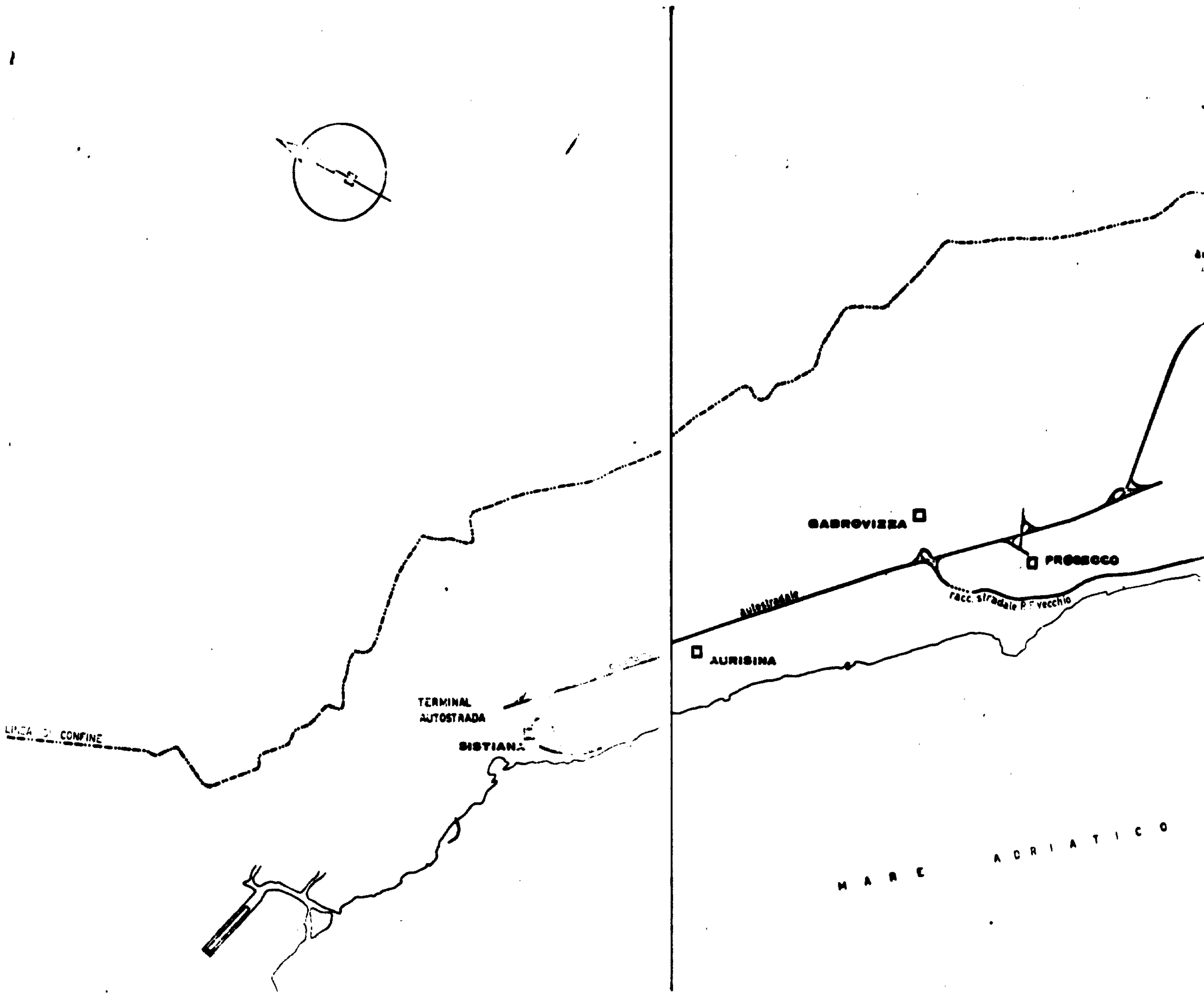
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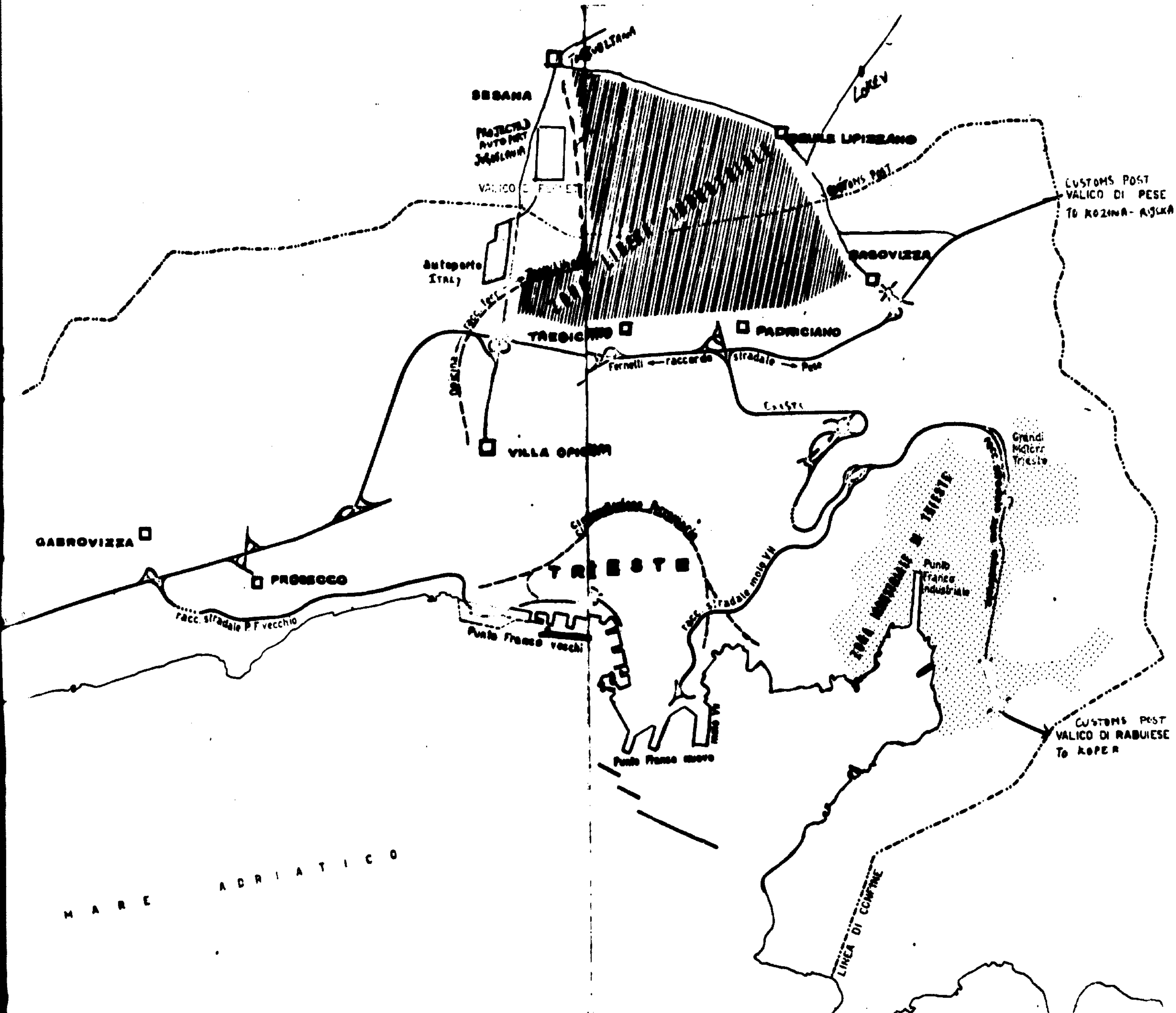

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