

EXEMPTIONS Section 3(b)

- (2)(A) Privacy
- (2)(B) Methods/Sources
- (2)(G) Foreign Relations

OFFICIAL DISPATCH

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DISPATCH NO. MSBA-2046

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TO : Chief, Foreign Branch M DATE: 5 July 1949

FROM : Chief of Mission, EC

SUBJECT: GENERAL - Operational *Special Operational Matters*

sm SPECIFIC - C - Report of Meetings 23 May, 7 and 20 June 1949.

1. We are continuing to see source in Zurich. Source has been unable to contact DI NORA who is apparently in the U.S. on one of his many brief trips, but will try to fix up the apartment as soon as possible. Our present system is as follows: On arrival in Zurich, source books a hotel room and meets for lunch. After lunch, takes source's reports to the for an hour or two's study, then joins source at the hotel. By knowing source's room number beforehand, can go on up without alerting the hotel staff. Occasionally the routine is switched, source coming to hotel. Hotels and restaurants are rotated. Rather than take up source's reports meeting by meeting, we will bring you up to date by subject.

2. On 16 May CIGARINI told source that the Party had instructed him not to proceed with the projected press campaign (MSBA-1838, paragraph 15) on the MESA case and that the matter had been dropped.

CIGARINI's present situation, particularly as it affects IN-
 is far from satisfactory, although also not yet clear.
 saw CIGARINI at the end of May at the former's apartment. He told him he had heard of his heavy losses on the Rome exchange. CIGARINI admitted. then said he was willing to help CIGARINI out with some stock market deals - no fortune, but at least something - but that as a Jew, it would be an eye for an eye etc. That he wanted to get that profitable CP financing back in his hands again, the air having cleared somewhat since he reluctantly told CIGARINI just had time to promise to do what he could, which had visitors and CIGARINI had to go. Since then CIGARINI would that while he is pressing the matter, such that

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have to go through Party headquarters in Rome and there has been no word as yet. CIGARINI's wife has also promised to do what she can. [redacted], of course, is not doing anything about the 60,000 lire [redacted] we authorized unless CIGARINI comes through.

The above has to be taken in context with other developments. On 2 June, source met one Enrico COLLI in Lugano. COLLI, a spaghetti manufacturer from Mendrisio in the Tessin, is a friend of CIGARINI's and an acquaintance of source, who has met him on a couple of occasions at CIGARINI's house. Source asked COLLI about business with CIGARINI and was told that a large sale of spaghetti to the Cooperatives had fallen through, as CIGARINI seemed about to be purged by the Party and the negotiations had been stopped. COLLI had inquired of other Party members and had heard that CIGARINI was under investigation for feathering his nest off Party deals and was temporarily suspended as Economic Manager. Source saw CIGARINI the next day in [redacted] about the export permit for the paintings he was selling (para 1838, paragraph 43) and could get no indication from CIGARINI that anything was wrong. On 14 June, as CIGARINI still had not produced the export permits for the art and source's Swiss customer was becoming impatient, source blew up at CIGARINI, told him he was fed up with the way he did things, had heard that he was on the outs with the Party anyway and would have no more truck with him unless he produced. CIGARINI begged for patience, pleaded that orders had gone out that all Party business deals must be cleared with Rome, but that he had hoped to have limited authority to make certain decisions himself. Here again CIGARINI gave no indication that he was worried about his Party status and, as source says, if there is one thing CIGARINI normally can not do, it is hide his emotions.

The last piece of evidence came from [redacted] via one of [redacted]'s sons who queried his father on CIGARINI. The burden of [redacted]'s reply was that CIGARINI is no good. At the same time, [redacted] reports that CIGARINI's standard of living continues to be high and that they are buying a lot of expensive furniture and that both [redacted] and his wife are extremely well dressed. CIGARINI, however, always talks poor and his formerly lucrative divorce practice has been in some way recently to presumably lose rewarding criminal cases in [redacted] Party members. Source and [redacted] are doing their best to solve this riddle, but we are not there yet. On the evidence at hand it would appear that CIGARINI is indeed in some trouble with the Party and it is certainly clear that he no longer has the independent authority he once had. If the above is true, time will tell whether [redacted] can salvage any advantages from it. In this connection, it has always been source's belief that no matter what difficulties CIGARINI might encounter or what temptations might be put in his way, he would never knowingly betray the Party which had been such a part of him for so long. The above is purely for the record, as we are by no means prepared enough to discuss CIGARINI in these terms and would anyway prefer that he retain his Party status and authority.

At his last meeting with CIGARINI, source was told the communists, in the recent Trieste elections, had polled ten per cent more votes than Party pre-election forecasts estimated.

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7. Main developments in the Romeo ~~NESA~~ saga were fully outlined in [] . NESA explained that the projected shift to Paris was predicated on the probable difficulty NESA would continue to have in Italy and the Party gave orders to cease any attempts to get the expulsion order revoked (MSBA-1836, paragraph 33). Later NESA indicated that his move was largely dependent on ~~ZANOTTA~~ and for that reason asked source if he could obtain an immigration visa for him. Source later told NESA that such visas had to be obtained in the city of domicile (Milan) and that he could do nothing. NESA replied that that was what he was anxious to avoid, as he was not sure ZANOTTA would succeed in Milan. NESA invited source and his wife to spend a night with him and meet some of his Paris pals, but had to postpone it due to the haying, now preoccupying the whole country. NESA left for another brief trip to Paris on 12 June.

8. Re MSBA-1838, paragraphs 35, 36, etc., nothing further has been heard of the Bulgarians.

9. Re WASH-5032, [] and WASH-5120, we hope something can be developed out of this, but are still not sure whether NESA and ZANOTTA will get the necessary permits to make the transfer possible. Presumably the French, while perhaps willing to play it along if the two get to France, are not ready to open the doors and facilitate the visas. NESA told source that if the transfer goes through, he would still be seeing a lot of source and would be back and forth all the time, but that he had to have a French labor permit to cover his financial status there.

10. Re MSB-W-1215 and [] concerning Claudio ~~OTTOLINI~~, Source first met OTTOLINI in 1946 in Genoa when the latter was in some contact with source's cousin, Captain Arthur OLIVER of British Port Security. A casual friendship was kept up and in 1947, source and his wife spent a month with OTTOLINI at Mulinetti, Genoa, at the latter's cottage. Source continued to see him occasionally for lunch or drinks in Milan and he has visited source for weekends in Switzerland. Following our report (MSBA-1838, paragraph 21), source met OTTOLINI on 29 April in Milan, resulting in [] . OTTOLINI asked whether source could pass the contents of MSB-1629 to the U.S. Consul in Genoa. Source replied that Mr. Lester ~~SCHNARR~~ was still a good friend, but he understood him to be retired, though living in Genoa. OTTOLINI asked source to pass the report to SCHNARR when next in Genoa. It was at this time that OTTOLINI stated he understood the AIS man in Genoa was looking for the same information, but he was so well known and the CP keeping such close tabs on him that nobody wanted to contact him. Source said, truthfully, that he knew nothing about that.

11. On 17 May, source saw OTTOLINI again in Milan and the latter asked whether there had been any reaction to his reports. Source replied that he had passed them as requested, but if there was any reaction it would certainly not be through him who was out of the picture entirely.

OTTOLINI remarked that he would give full details on his sources if the U.S. were interested, but source merely replied that this could not concern him and that if the U.S. wanted to contact OTTOLINI, they would presumably do so directly.

12. OTTOLINI then asked source about the coming visit of John LAWLER (LaRoche, Lombard, Odier Bank) to Italy and whether there was any possibility of lining up a job with him in view of his past U.S. business experience (See Attachment A). Source said he could of course put OTTOLINI in touch with LAWLER, but LAWLER would certainly want full details on his past career, etc., particularly in view of his fascist background. (NOTE: The result of this suggestion is Attachment A, a curriculum vitae, translated by source, and various supporting documents. Source believes that while OTTOLINI was in the U.S. before the war, he was probably in the Italian service and suggests FBI files be checked).

13. On 17 June source saw OTTOLINI again in Milan. OTTOLINI said he had recently seen Genoa contacts who were very well informed on CP work among the dock workers, but he had not taken any information as he did not know what to do with it. In reply to OTTOLINI's question, source repeated that he had heard nothing from the Americans and did not expect to. OTTOLINI then said he was in touch with an old friend at present very active in what he called the "Fascist underground in Venice." This friend had brought him some sealed test tubes of chemicals taken from a Yugoslav agent caught by the fascists landing on the Venice coast by night. The agent had also had lists of contacts in the Veneto region on him. As a final gambit, OTTOLINI told source he had some highly interesting information on the Milan Questura. Source evinced normal curiosity and lamented with OTTOLINI that the U.S. service was not more active in these matters. We instructed source to continue the same line and in the event of another OTTOLINI approach, to suggest he might get places faster if he approached the Genoa or Milan Consulates personally. Source remarked that OTTOLINI, at heart always a fascist, is apparently very active again in the movement which OTTOLINI claims to be the only force capable of combatting communism on its own ground.

14. We are also very conscious of the delicacy of source's position vis-a-vis people like OTTOLINI or BENUZZI and invariably examine carefully source's conduct towards them. Source himself always asks for instructions in the event of future meetings and we try to judge the cases individually rather than give overall directions to cover every case. We have felt that with people source knows well (OTTOLINI would fall in this category), source should be ready to do them reasonable favors, but make it quite clear that he is in no position to go further. In the case of SCENARR, the former Genoa Consul, source has been a good friend of his since early 1946 and the fact is probably quite well-known around Genoa. Source's action in going to SCENARR is quite different from, say, his approaching the Milan Consulate where, it is also quite well known, he is not particularly favored. BENUZZI falls in another category and he is not a personal friend of source. Here source has attempted to keep his relationship on a business basis and

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keep intelligence out of it as far as possible. As we are agreed, one of source's main contributions can be to put the finger on potential sources whom he can not properly exploit himself, but whom we can perhaps approach from another direction. We do not necessarily put BENUZZI and OTTOLINI in this category, but the mechanics are there. It is our feeling that if source makes himself too unapproachable to these people, he might miss out in picking up a clue or two which might later prove valuable. Unfortunately, those characters most likely to approach source as a well known former AIS man are intelligence merchants, if they are not provocateurs, and into the former class we would certainly put BENUZZI, if not OTTOLINI. We agree that OTTOLINI and BENUZZI might be Italian provocation attempts, but do not believe their efforts to date have solved the riddle of source's status.

15. Things have been stirred up considerably recently by the arrival on 10 June, of Paul GHALI to spend a week or two with source at Breganzona. GHALI (MSBA-1519) is head of the Chicago Daily News' Western European office in Paris and an old acquaintance of source (See MSBA-1986, Appendix B). GHALI is taking six months' rest after two serious eye operations and will be returning to the U.S. in September for a lecture tour. One of the main objects of GHALI's visit was to invite source to collaborate with him on a book on present day Italy. GHALI's literary agent in the U.S., a Mrs. or (Miss) SAUNDERS who did the CIANO diaries, asked for the book. Source and GHALI set about studying what might be done and source took him around Milan, introducing him to, among other people, CIGARINI, LANFRANCHI and OTTOLINI. CIGARINI gave GHALI a two and a half hour lecture, on 18 June, on the Party, its aims and the god-like personality of STOGLIATTI all very brilliantly done and with no indiscretions. The only point of interest was CIGARINI's partial confirmation of OTTOLINI when he admitted the new fascist underground in cities like Milan was becoming a threat. CIGARINI will take GHALI and source to a Party meeting of young converts whom CIGARINI has the job of whipping into shape for more active participation in Party work.

16. A luncheon was held with LANFRANCHI and GHALI entered into negotiations with the former for the possible obtaining of certain CHURCHILL documents in the Dongo treasure. In Appendix B, we are attaching an English summary of a memorandum LANFRANCHI prepared for GHALI on the subject. In Appendix C we are attaching a similar summary on one NIK or NICOLA whom source recalls vaguely as a partisan contact of his during the war.

18. At this point LANFRANCHI told GHALI about DOLLMANN, that the latter had information of great interest on Nazi elements in South America, the whereabouts of Martin BORMANN etc. GHALI was delighted and a luncheon was arranged for 22 June in Lugano at which the three will meet with DOLLMANN. Thus source will and presumably now has met DOLLMANN. However, as source points out, it was unavoidable and gives him an ideal opportunity to be present as a disinterested spectator at what might prove an interesting meeting.

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19. GHALI, as mentioned in source's debriefing, is apparently a good friend of [] whom he knew in [] After the trip to Milan, GHALI said it was a shame source was not back in the American service and if source had no objection, he would raise the subject with [] when he saw him in Washington in September. Source replied that GHALI could mention it if he wished. GHALI went on to say that from what he had heard around the Embassy in Paris, source was in pretty bad odor, but why should not source's CP connections be put to some use.

20. You will, of course, want to talk with [] about his tactics when he sees GHALI. You may also want to examine a suggestion made by source which seems to us to have some merit, as well as one glaring disadvantage. It was source's idea that GHALI be approached to be put on an official stringer basis for coverage of Northern Italy, at present handled from Rome. With official journalist cover, source would have far better reason for keeping up with some of his contacts, as well as making new ones. However, as source admitted, this could only be done by taking GHALI pretty much into our confidence, because GHALI would not make any such move until the official reasons were explained to him.

21. Source gleaned the following additional bits about GHALI: Recently GHALI has been in trouble with the American service in [] over the Israel-Arab conferences in Lausanne. GHALI obtained and published certain secret documents from the Arabs relating to Israeli infringements of the armistice agreement. GHALI, as can be seen, has something of a penchant for out of the way news features. DULLES, during the war, recognized GHALI's ability and also the danger that he might publish sensitive material and got around the problem by taking him somewhat into his confidence and asking GHALI to report to him. Source remarks that one factor always offers a potential control of GHALI--his fear that as an alien he might lose his job with the News.

22. [] covered the main points in source's recent exchange with LANFRANCHI over DOLLMANN. The more we hear of the business the more we believe ODEUM is behind much of it. At the recent lunch with GHALI, LANFRANCHI took source aside and stated he had received a letter from PARILLI in Paris upbraiding him for urging DOLLMANN to break with him (PARILLI). PARILLI insisted that his AIS contacts were of the very highest, that plans for DOLLMANN were under way in Washington and that he (PARILLI) could cause them a lot of trouble if they did not have the patience to wait until word comes through. LANFRANCHI, however, still does not believe a word of it, although PARILLI continues to insist he is in the confidence of the U.S.-German service.

23. After source's meeting with LANFRANCHI, reported in [], LANFRANCHI saw [] on 25 and 27 May and told him much of the story on DOLLMANN which LANFRANCHI had so far omitted to tell source. Source learned of this from [], told him he would handle it from there on and went up to LANFRANCHI to ask him for the full

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DOLLMANN story so that he (source) would know just what kind of a mess he was getting into. LANFRANCHI responded with the contents of [] and source refused to see DOLLMANN on the grounds that it was nothing he wanted to get mixed up with and that he could not contribute to the solution of the case anyway.

24. In the course of his conversation with LANFRANCHI, source managed to convince him that he was not working for the U.S. or any other service and took LANFRANCHI to task for spreading rumors about him, particularly regarding TITO and the Yugoslavs. LANFRANCHI squirmed a bit and said if only source would confide in him, he would know what to repeat and what to withhold. Later in the conversation, LANFRANCHI referred to "[] as head of the AIS in Italy and that he (LANFRANCHI) knew a lot about him through one of [] Italian contacts. "As a matter of fact," LANFRANCHI went on, "I know now that you had nothing to do with the TITO business and that it was all arranged through [] Source got the impression that LANFRANCHI was not sure what [] he was talking about and began to confuse him by discussing [] father and saying perhaps the Chamber of Commerce had done something with TITO, as U.S.-Yugoslav business seemed to be picking up, but that anyone as well known as [] father would hardly be head of any service. LANFRANCHI seemed to bite for the moment, although he will probably realize there are two [] shortly. Source believes LANFRANCHI's chatter-box tendencies could be a distinct threat, particularly as he is of the opinion that LANFRANCHI picks up a great deal of information, and he proceeded to read LANFRANCHI the riot act. The burden of this was that although he (source) had no idea whether [] or anybody else was head of the AIS in Italy, if [] indeed was engaged in any delicate work of that nature, work which was in the last analysis as much on LANFRANCHI's behalf as the U.S.', LANFRANCHI should have enough public spirit not to go blathering about it to everyone he met. LANFRANCHI seemed somewhat impressed, but plaintively repeated that nobody ever told him what was going on to which source replied that in view of LANFRANCHI's reputation it was no wonder.

25. Source is much impressed with LANFRANCHI as a potential source, but we made it clear that for the moment at least, source could not exploit him. We believe that LANFRANCHI is probably quite well informed on certain matters, though we are in no position to estimate his PCI contacts. Certainly his remarks on [] were not very impressive.

26. A last LANFRANCHI item. LANFRANCHI asked source whether he would introduce him to a CP acquaintance of source's, one ALDROVANDI (PW). Source states that ALDROVANDI, whom he knows slightly, is connected with young EINAUDI, Communist son of the Italian President, in his CP publishing house in Milan, International Publications or a similar title. LANFRANCHI claims from his own Party sources that ALDROVANDI is the key figure in the PCI counter-espionage organization. ALDROVANDI, according to LANFRANCHI, has the safekeeping of the copies of the Dongo documents, the originals of which are in Moscow. Source

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stalled off LANFRANCHI's request and is trying to get further information on ALDROVANDI. Do you have traces? As further inducement for this contact, LANFRANCHI offered to put source and [] in touch with an ex-SS character in possession of \$1,000,000 in gold which he wishes to sell legally in Italy, if an import permit can be arranged. [] thinks this can perhaps be done and the gold sold to the Banca di Roma who should be glad to acquire it.

27. We wanted to take up [] in this pouch, which is now clearly long enough, but will do so separately as soon as possible.